



TRASTA KOMERCBANKA

**JSC "TRASTA KOMERCBANKA"  
STATEMENT OF CORPORATE GOVERNANCE  
FOR THE PERIOD ENDED  
31 DECEMBER 2008**

Riga, 2008

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## I. INTRODUCTION

The Joint-Stock Company TRASTA KOMERCBANKA (hereinafter the Bank) Statement on Corporate Governance (hereinafter the Statement) for the year 2008 is prepared in accordance with the Principles of Corporate Governance and Recommendation for the Implementation Thereof issued by the joint-stock company Riga Stock Exchange.

In the Statement the joint-stock company TRASTA KOMERCBANKA disclosed information on the principles given in the recommendations that the Bank complies with in its business activities as well as provides explanation on the events when the Bank does not comply with the principles given in the recommendations.

## II. PRINCIPLES OF GOOD CORPORATE GOVERNANCE

### A. MEETING OF SHAREHOLDERS

Shareholders exercise their right to participate in the management of the Issuer at meetings of shareholders. In accordance with the regulatory enactments, the Issuer shall call a regular meeting at least once a year. Extraordinary meetings of shareholders shall be called as required.

#### 1. Ensuring Shareholders' Rights and Participation at Meetings of Shareholders

**The Issuers shall ensure equal treatment towards all shareholders – holders of one category of shares. All shareholders shall have equal rights to participate in the management of the Issuer – to participate at meetings of shareholders and receive information required for shareholders in order to make decisions.**

- 1.1. It is important to ensure that all the holders of shares of one category also have equal rights, including the right to receive a share of the Issuer's profit as dividends or in another way in proportion to the number of the shares owned by them if such right is provided for by the shares owned by them.

*The Bank follows this principle. The Bank has shares of one category. Dividends are distributed proportionally.*

- 1.2. The Issuer shall prepare a policy for profit distribution. In the preparation of the policy, it is recommended to take into account only the provision of immediate benefit for the Issuer's shareholders by paying dividends to them, also the expediency of profit reinvesting, thereby increasing the value of the Issuer in the future. It is recommended to discuss the policy of profit distribution at a meeting of shareholders so that as many shareholders as possible have the possibility to acquaint themselves with it and express their opinion on it. The information on the policy of profit distribution of the Issuer shall be included in the Report and published on the Issuer's website on the Internet.

*The Bank partially follows this principle. The policy for the profit distribution is not prepared as a separate document in the Bank. The Board submits a proposal on paying the dividends. The Council reviews it and submits to the Meeting of Shareholders that makes the final decision. The requirements of this principle and the Commercial Law regarding review of the use of the profit of the last business year at a meeting of shareholders are complied with.*

- 1.3. In order to protect interest of the Issuer's shareholders to a sufficient extent, not only the Issuers but also any other person who in compliance with the procedure stipulated in regulatory enactments calls, announces and organises a meeting of shareholders is asked to comply with all the issues referred to in these Recommendations as regards calling meetings of shareholders and provision of shareholders with the required information.

*The Bank follows this principle.*

14. Shareholders of the Issuers shall be provided with the possibility to receive all the required information on the Issuer regularly and in due time, as well as to participate at meetings and vote on agenda issues. The Issuers shall carry out all the possible activities so that as many shareholders as possible participate at meetings, therefore, the time and place of a meeting should not restrict the attendance of a meeting by shareholders. Therefore, it should not be admissible to change the time and place of the announced meeting of shareholders shortly before the meeting, which thus would hinder or even make it impossible for shareholders to attend the meeting.

*The Bank follows this principle. The Bank informs all shareholders regarding calling a meeting by sending a notification to each shareholder in compliance with the time-limits and procedure set forth in the Commercial Law. The bank ensures the possibility for the shareholders to acquaint themselves with the meeting agenda issues, as well as ensures the possibility to submit proposals on additional issues to be considered at a meeting within the time-limit set forth in the Commercial Law.*

15. The Issuers shall inform shareholders on calling a meeting of shareholders by publishing a notice in accordance with the procedure and the time-limits set forth in regulatory enactments. The Issuers are asked to announce the meeting of shareholders immediately after the decision on calling the meeting of shareholders is taken, in particular, this condition applies to extraordinary meetings of shareholders. The information on calling a meeting of shareholders shall be also published on the Issuer's website on the Internet, where it should be provided in at least one foreign language. English is advised as the said foreign language so that the website could be also used by foreign investors. When publishing the information on calling a meeting of shareholder the initiator of calling the meeting shall be specified as well.

*The Bank partially follows this principle. The Bank calls a meeting of shareholders in accordance with the procedure and within the time-limits set forth in the Commercial Law but since the Bank's shares are not admitted to the regulated market the information on calling a meeting of shareholders is not being published on the Bank's website. The Bank is going to consider the possibility to publish the said information on the website.*

16. The Issuer shall ensure that comprehensive information related to the procedure and time of the meeting, the voting on the decisions to be adopted, as well as information on the agenda and draft decisions on which it is planned to vote at the meeting is available to the shareholders before the meeting in due time. The Issuers shall also inform the shareholders whom they can address to receive answers to any questions on the meeting of shareholders and the agenda issues and ensure that the required additional information is provided to the shareholders.

*The Bank follows this principle.*

17. The Issuer shall ensure that at least 14 (fourteen) days prior to a meeting the shareholders have the possibility to acquaint themselves with the draft decisions on the issues to be considered at the meeting, including those that have already been submitted additionally after the announcement on calling a meeting. The Issuer shall ensure the possibility to get acquainted with the complete text of draft decisions, especially if they apply to voting on amendments to the Articles of Association of the Issuer, election of the Issuer's officials, determination of their remuneration, division of the Issuer's profit and other issues.

*The Bank follows this principle.*

- 1.8. In no way may the Issuer restrict the right of shareholders to propose representatives of the shareholders for the Council elections and the candidates to the Council and other offices shall be proposed in due time so that the information on the said persons would be available to the shareholders at least 14 (fourteen) days prior to the meeting of shareholders to the extent as set forth in Article 1.9 of this Section.

*The Bank follows this principle. Since there were no Council elections in the Bank in 2008, it was unnecessary to apply this principle.*

- 1.9. Special attention shall be paid so that the shareholders have the possibility to acquaint themselves with the information on candidates to the Council, whose approval is planned at a meeting, at least 14 (fourteen) days prior to the meeting of shareholders. When publishing the information on the candidates to the Council a short professional biography of these persons shall be provided as well. Since the nomination of candidates to the Council shall be carried out very carefully, it is preferable for the Issuer to disclose the said information as soon as possible.

*The Bank follows this principle. Since there were no Council elections in the Bank in 2008, it was unnecessary to apply this principle.*

- 1.10. The Issuer may not restrict the right of shareholders to consult among themselves during a meeting of shareholders should it be required for the adoption of any decision ascertainment of any issue.

*The Bank follows this principle.*

- 1.11. In order provide shareholders with comprehensive information on the procedure of the meeting of shareholders, the Issuer shall prepare the regulations on the procedure of a meeting of shareholders, in which the procedure for holding a meeting of shareholders and the procedure for solving any organizational issues related to the meeting (for example, registration of shareholders to the meeting, the procedure for the adoption of decisions on the issues to be examined at the meeting, the Issuer's actions when any of the issues on the agenda is not examined, when it is impossible to take a decision, etc.). The procedures adopted by the Issuer as regards participation in voting shall be easy to implement.

*The Bank partially follows this principle. Meetings of shareholders are called and held in accordance with the provisions of Commercial Law.*

- 1.12. The Issuer shall ensure that during a meeting of shareholders the shareholders have the possibility to query the candidates to the offices to be elected at the meeting of shareholders and other attending representatives of the Issuer. The Issuer is entitled to set reasonable restrictions on questions, for example, excluding the possibility that one shareholder uses up the total time provided for putting questions and setting a time-limit for speeches.

*The Bank follows this principle.*

- 1.13. Since, by announcing a sustained break in a meeting, the right of shareholders to freely dispose of their shares is hindered for an undetermined time period, it is not advised to announce a break during a shareholders' meeting. The conditions upon which it is possible to announce a break shall be also stipulated in the regulations on the procedure of a meeting of shareholders. A break of a meeting may be as a lunch break, short breaks (no more than 30 (thirty) minutes), etc.

*The Bank follows this principle. There were no breaks during general meetings of the Bank that were held in 2008.*

- 1.14. When recording the process and contents of discussions on the agenda issues to be considered at the meeting in the minutes of the meeting of shareholders, the chairperson of the meeting shall ensure that, in case it is required by any participant of the meeting, particular debates are reflected in the minutes or that shareholder proposals or questions are appended to the minutes in a written form.

*The Bank follows this principle.*

## **2. Participation of Members and Member Candidates of the Issuer's Management Institutions at Meetings of Shareholders**

**Meetings of shareholders shall be attended by members of the Board of the Issuer, the auditor, and as many as possible members of the Council.**

- 2.1. The attendance of members of the Issuer's management bodies and the auditor at a meeting is required in order to ensure exchange of information between the Issuer's shareholders and members of the management bodies as well as ensure the right of shareholders to receive answers to their questions from competent persons. The attendance of the Issuer's auditor shall not be mandatory at a meeting of shareholders when issues related to the finances of the Issuer are not considered. By using the right to ask questions shareholders have the possibility to obtain more specific information on the circumstances that could affect the evaluation of the financial statements and the financial situation of the Issuer.

*The Bank partially follows this principle! The Chairman of the Board of the Bank who is responsible for the preparation and approval of the annual report of the Bank attend meetings of shareholders of the Bank. When necessary, bank experts are invited in order to ensure the possibility to receive answers of competent persons.*

- 2.2. Meetings of shareholders shall be attended by the Issuer's official candidates whose election is planned at the meeting. This shall particularly apply to members of the Council. If a candidate to the Council or an auditor position cannot attend the meeting of shareholders due to an important reason, non-attendance of a respective persona at a meeting of shareholders shall be admissible. In this event all the material information on the candidate shall be disclosed prior to the meeting.

*The Bank follows this principle.*

- 2.3. During a meeting of shareholders the participants of the meeting shall have the possibility to obtain information on the officials or candidates to the offices who have not arrived at the meeting and the reasons for their absence. The reasons for the absence of officials of the Issuer from the meeting of shareholders shall be recorded in the minutes of the meeting of shareholders.

*The Bank follows this principle.*

## B. BOARD

The Board is the executive institution of the Issuer, which manages and represents the Issuer in its everyday business, therefore the Issuer shall ensure that the Board is effective, capable to take decisions and profit-oriented, by clearly defining obligations and responsibilities thereof.

### 3. Obligations and Responsibility of the Board

**The Issuers shall clearly and unequivocally determine the obligations and authorities of the Board and responsibilities of the members thereof, thus ensuring successful work of the Board and an increase in the Issuer's value.**

- 3.1. The obligation of the Board is to manage the business of the Issuer, which also includes the responsibility for the realization of the objectives and strategies set by the Issuer and the responsibility for the results achieved. The Board shall be responsible for the said to the Council and the Meeting of Shareholders. When fulfilling its obligations the Board shall take decisions irrespective of their personal interests or interests of the shareholders that control the Issuer and be guided by interests of all the shareholders, taking into account the common interests of the Issuer and related companies thereto (or affiliates).

*The Bank follows this principle. Obligations and responsibility of the Board of the Bank are set forth in the effective Bylaws of the Board.*

- 3.2. The powers of the Board shall be stipulated in the Bylaws of the Board or an equivalent document that is to be published on the website of the Issuer on the Internet. This document shall be also available at the Issuer's office.

*The Bank partially follows this principle. Powers of the Board of Director are stipulated in the Bylaws of the Board. These Bylaws are available at the Bank. The Bylaws of the Board are not published on the website of the Bank. The Bank considers the possibility to publish the Bylaws of the Board on its website.*

- 3.3. The Board shall be also responsible for the compliance with all the binding regulatory enactments, risk management, as well as the financial activity of the Issuer.

*The Bank follows this principle.*

- 3.4. The Board shall perform certain tasks, including:

- 1) evaluation and advancement of the fulfilment of corporate strategy, set work plans, risk monitoring procedures, annual budget and business plans, ensuring monitoring over the compliance with the plans and planned results;
- 2) recruitment of managing employees of the Issuer, determination of their remuneration and monitoring of their work and their replacement, when necessary, in compliance with the personnel policy of the Issuer.
- 3) submission of reports in due time and in high-quality, ensuring conduct of an internal audit as well, and control over the disclosure of information.

*The Bank follows this principle.*

- 3.5. In the annual report the Board shall certify that the internal risk monitoring procedures are effective and that the risk management and internal monitoring have been carried out in compliance with the said monitoring procedures throughout the year.

*The Bank follows this principle.*



- 3.6. It is preferable that the Board submits decisions that determine the objectives of the Issuer and the strategies for the achievement thereof (participation in other companies, acquisition or alienation of property, expansion of business by opening representation offices or affiliates or expanding the business field, etc.) to the Council of the Insurer for approval.

*The Bank partially follows this principle.*

#### **4. Composition of the Board and Requirements for the Members of the Board**

**The composition of the Board approved by the Issuer shall be such so that the Board is able to ensure critical and independent enough attitude in decision evaluation and taking.**

- 4.1. When forming the Board it shall be ensured that every member of the Board has corresponding education and work experience. The Issuer shall prepare a summary of the requirements for every member of the Board, which shall include the skills, education, previous work experience and other selection criteria required for each member of the Board.

*The Bank follows this principle. Requirements for the chairman of the Board and members of the Board are also stipulated in the Credit Institutional Law and they are binding on the Bank. The said requirements apply to the education, competence, reputation, professional experience, etc. of the chairman of the Board and members of the Board.*

- 4.2. The following information on each member of the Board of the Issuer shall be published on the Issuer's website on the Internet: name, surname, year of birth, education, period of time for which a member of the Board is elected, position, description of the professional experience of the last three years, number shares of the Issuer or its subsidiaries/parent companies owned by the member of the Board, information on positions in other capital companies.

*The Bank partially follows this principle. The Bank considers the possibility to publish complete information referred to in this Article on the website of the Bank.*

- 4.3. In order to successfully fulfil the obligations, timely and accurate information on the activity of the Issuer shall be available to members of the Board. The Board shall have the possibility to give objective evaluation on the activity of the Issuer. Members of the Board shall have enough time for the performance of their duties.

*The Bank follows this principle.*

- 4.4. It is not recommended to elect one and the same member of the Board for more than four successive terms. The Issuer shall evaluate whether in this way its development will be facilitated and it will be possible to avoid a situation where greater power is concentrated in hands of one or several persons due to their long-term work for the Issuer. However, should such election be permitted it is recommended to consider the necessity to change the field of work of a relevant member of the Board at the Issuer.

*The Bank follows this recommendation.*

## 5. Remuneration of Members of the Board

**For every member of the Board a fair and commensurate remuneration shall be determined and the principles for the determination of remuneration shall be clear and transparent.**

5.1. The remuneration for the members of the Board shall be clearly defined and transparent. The Council of the Issuer shall revise the remuneration of a regular basis in accordance with the remuneration policy of the Issuer.

*The Bank follows this principle based on the Bylaws of the Board. The Council determines remuneration of members of the Board.*

5.2. When determining remuneration to the members of the Board and foreseeing the variable part in the remuneration structure, it is recommended to peg it to the previously determined long-term and short-term objectives. Pegging the variable part of remuneration only to short-term results will not facilitate the interest of the members of the Board in the long-term growth of the Issuer and improvement of results. It is recommended that the amount of remuneration and the structure thereof depends on the operating results of the company, share price and other events related to the Issuer.

*The Bank follows this recommendation. Based on the decision of the Council the member of the Board awarding fund is approved by the Council taking into consideration the contribution of the members of the Board to the achievement of results.*

5.3. In determining the remuneration of members of the Board the Council of the Issuer shall comply with the remuneration policy adopted by the Issuer. By evaluating the work of members of the Board the Council shall take into account duties of each member of the Board, economic standing of the Issuer and other indicators that are considered important in evaluating the work of a member of the Board.

*The Bank follows this principle.*

5.4. If a member of the Board receives share options that give the member the right to obtain shares of the Issuer as remuneration, the Issuer shall comply with the conditions for granting options as prescribed by regulations of the Stock Exchange.

*The Bank does not follow this principle since no Bank share options were granted as remuneration in 2008.*

5.5. When disclosing information on the total amount of remuneration paid to members of the Board of the Issuer, the Issuer, if possible, shall be asked to disclose the information on previous reporting years as well, should such information not have been disclosed previously. Disclosing information about previous years is especially important so that investors could be able to evaluate the remuneration policy applied to the members of the Board in the long-term and the linking of the development indicators of the Issuer with the changes in the remuneration systems.

*Information on the remuneration paid to the members of the Board is included in the financial statements of the Bank for the year 2008, which is published on the website of the Bank.*

## 6. Identification of Conflicts of Interest in the Work of Members of the Board

Every member of the Board shall avoid any conflicts of interest in his or her work and be immune to any external influences, wishing to assume responsibility for the decisions taken and comply with the general principles of ethics in taking any decisions related to the activity of the Issuer.

- 6.1. It shall be the obligation of every member of the Board to avert any, even only insubstantial, conflicts of interest in his or her work. When taking decisions, members of the Board shall be guided by the interests of the Issuer and shall not use any cooperation offers proposed to the Issuer for personal gain.
- 6.2. Upon the occurrence of any conflict of interest or even the merest possibility thereof, a member of the Board shall immediately notify other members of the Board. A member of the Board shall inform of any transaction or agreement the Issuer is planning to conclude with a person who has close relationship or is connected with the member of the Board, as well as of any conflicts of interest occurred during the validity period of the signed agreements. For the purpose of these Recommendations the following persons shall be considered the persons with close relations with a member of the Board: a spouse, relative or brother-in-law of a member of the Board, including relationship up to the second degree or affinity of the first degree, or persons with whom the member of the Board has had a common household for at least one year. For the purposes of these Recommendations the persons connected with a member of the Board shall be considered legal persons, where the member of the Board or a person closely related thereto is a member of the Board or the Council, performs the duties of an auditor or holds another managing office, in which he or she could possibly determine or affect the business strategy of the respective legal entity.
- 6.3. It is not advised for a member of the Board to participate in taking the decision that could cause any conflicts of interest.

*The Bank follows these principles. The Bank has elaborated the Corporate Values, Professional Behaviour and Ethics Standards and Conflict of Interest Management Policy that regulates ethics and conflict of interest issues. The said issues are also regulated by the Bank Bylaws of the Board.*

## C. COUNCIL

In accordance with regulatory enactments a Council is a supervisory institution of the Issuer that represents interests of shareholders between meetings and, in the events set forth in regulatory enactments and Articles of Association of the Issuer, supervises the work of the Board.

### 7. Obligations and Responsibility of the Council

**The objective of the Council of the Issuer is to act in the interests of all the shareholders ensuring the increase in the Issuer's value. The Issuer shall clearly determine the obligations of the Council and the responsibility of members of the Council, as well as ensure that individual members of the Council or a group thereof do not have a dominating role in decision making.**

- 7.1. The functions of the Council shall be set forth in the Bylaws of the Council or an equivalent document that regulates work of the Council and it shall be published on the Issuer's website on the Internet. This document shall be also available at the Issuer's office.

*The Bank partially follows this principle. The functions of the Council are set forth in the Bylaws of the Council. These Bylaws are available from the Bank. The Bank considers the possibility to publish the Bylaws of the Council on its website.*

- 7.2. In the Council report attached to the annual report of the Issuer the Council shall provide general information on its activities during the respective reporting year, information on the compliance with the principles of corporate governance in the business of the Issuer, as well as any other information as regarded necessary thereby.

*The Bank follows this principle. The financial statements for the year 2008 include the Management Report. The Council and the Meeting of Shareholders approve the Bank's Council report.*

- 7.3. The supervision carried out by the Council over the work of the Board shall include supervision over the achievement of the objectives set by the Issuer, the corporate strategy and risk management, the process of financial accounting, proposals of the Board on the use of the profit of the Issuer and the business performance of the Issuer in compliance with the requirements of regulatory enactments. The Council should discuss every of the said issues and express its opinion at least annually, complying with frequency of calling Council meetings set forth in regulatory enactments, and the results of discussions shall be reflected in the report of the Council.

*The Bank follows this principle.*

- 7.4. The Council and each member thereof shall be responsible for having all the information required for the fulfilment of their duties, that is to be obtained from members of the Board and internal auditors or, if necessary, from employees of the Issuer or external consultants. In order to ensure exchange of information, the Chairman of the Council shall regularly contact the Issuer's Board, including the Chairman of the Board, and discuss all the most important issues related to the Issuer's business and development strategy, business activities and risk management.

*The Bank follows this principle.*

- 7.5. When determining the functions of the Council, it should be stipulated that every member of the Council is obliged to provide explanations to the Issuer when he or she cannot attend Council meetings. It is preferable to disclose information on the members of the Council who failed to attend more than half of the Council meetings during the reporting year also specifying the reasons for non-attendance.

*The Bank partially follows this recommendation. The effective Bank Bylaws of the Council provides for an obligation to take active participation at meetings of the Council, however, a member of the Council are not obliged to provide explanations when he or she fails to attend the meeting of the Council.*

- 7.6. The supervision carried out by the Council over the Board shall be of major significance in the fields where there is a great possibility that conflicts of interest might occur: appointment of members of the Board, determination of the remuneration of members of the Board and audit of the Issuer. In order to facilitate more effective work by the Council and the division of the duties among the members of the Council, the Council may establish separate commissions (audit, nomination (appointment), remuneration and other commissions).

- 7.7. Prior to making a decision on establishing a commission, the Council should evaluate possible benefits and planned expenses of the commissions, if such are planned. The Council itself shall determine the structure and the number of commissions required for the optimisation of its work. The Council shall inform the shareholders of the Issuer about the establishment of commissions, include it in the Report and publish information on the Issuer's website on the Internet.

- 7.8. If a decision is taken to establish one or more commissions, the work of the committees may be financed only within the Council budget approved by the Meeting of Shareholders. Assignment of particular tasks to commissions may in no way be considered as the assignment of the functions of the Council. Commissions of the Council shall not substitute the Council and the decisions thereof shall be considered as recommendations. The establishment of commissions shall not release the Council of the Issuer from the responsibility for the decisions taken. The task of commissions shall be to prepare proposals for taking Council decisions, while the final decisions shall be taken by the Council itself.

*The Bank partially follows these principles. There were no conflicts of interest in the Bank; therefore there was no need to establish commissions.*

## 8. Composition of the Council and Requirements for the Members of the Council

**The structure of the Council determined by the Issuer shall be transparent and understandable, and it shall ensure critical and independent enough attitude in decision evaluation and taking.**

8.1. The Issuer shall require every member of the Council as well as candidate to the Council whose election is planned at a meeting of shareholders to submit the following information to the Issuer: name, surname, year of birth, education, period of time for which a member of the Council is elected, description of the professional experience of the last three years, number shares of the Issuer or its subsidiaries/parent companies owned by the member of the Board, information on positions in other capital companies. The said information shall be also published on the Issuer's website on the Internet, in addition to the said, specifying the period of time for which a member of the Council is elected, its position, including additional positions and obligations, if such exist.

*The Bank partially follows this recommendation. The Bank requires information on each member of the Council and candidate to the Council. Requiring the said information by the bank is also prescribed by the Credit Institution Law and the Commercial Law, as well as the Bank Bylaws of the Council. Complete information is not being published on the Bank's website.*

8.2. When determining the requirements for members of the Council as regards the number of additional positions admissible, attention shall be paid to the fact that a member of the Council shall have enough time to perform his or her duties in order to successfully fulfil the duties and act in the interests of the Issuer to the full extent.

*The Bank follows this recommendation.*

8.3. When forming the Issuer's Council, the qualification of the members of the Council should be taken into consideration, and it shall be periodically evaluated. The Council should be formed from the members with the varying knowledge, opinions and experience, which is required for the Council to successfully fulfil the duties thereof.

*The Bank follows this recommendation.*

8.4. In his or her work every member of the Council shall be immune to any external influences and wishing to undertake responsibility for the decisions taken and comply with the general principles of ethics in taking any decisions related to the activity of the Issue.

*The Bank follows these recommendations. The Bank has elaborated the Corporate Values, Professional Behaviour and Ethics Standards and Conflict of Interest Management Policy.*

8.5. It is impossible to make a list of all the circumstances that might threaten the independence of members of the Council or that could be used when evaluating the compatibility of a certain person to the status of an independent member of the Council. Therefore, when assessing the independence of members of the Council the Issuer shall be guided by the independence criteria of the members of the Council specified in the Annex.

8.6. It is preferable that at least half of the members of the Council are independent in accordance with the independence criteria of the members of the Council specified in the Annex. If the number of members of the Council is odd the number of independent members of the Council may be one person less than the number persons who do not meet the independence criteria specified in the Annex.

- 8.7. A person who meets the independence criteria of a member of the Council specified in the Annex shall be considered independent. If a member of the Council does not meet some of the independence criteria specified in the Annex and the Issuer still considers such member of the Council independent, it shall provide a detailed explanation of its opinion on the permitted derogations.
- 8.8. The compatibility of a person to the independence criteria specified in the Annex shall be already evaluated when a respective candidate to the Council is nominated for the election to the Council. The Issuer shall specify the members of the Council who are considered independent in the Report annually.

*The members of the Council representing the Council of the Bank have corresponding education and work experience. They fulfil the tasks of the Council and meet the requirements set forth in the Bylaws of the Council.*

## **9. Remuneration of Members of the Council**

**When determining the remuneration for the members of the Council the principle of proportionality shall be complied with and the principles for the determination of remuneration shall be clear and transparent.**

- 9.1. Should remuneration be paid to a member of the Council for the performance of the duties thereof it shall be stipulated in the Issuer's remuneration policy.

*The Bank ensures compliance with this principle. The Meeting of Shareholders of the Bank has determined the remuneration for members of the Council.*

- 9.2. When examining the report of the Council, it is recommended to evaluate the work of the Council at a regular meeting of shareholders as well. Shareholders shall evaluate the work of the Council based on the report of the Council and other information provided by the Council available to the shareholders and that allows evaluating the quality and usefulness of the tasks performed by the Council. Should the evaluation of work of the Council be carried out it shall include the evaluation of the composition of the Council, work organization and the ability to act as a united whole, as well as the evaluation of the competence of every member of the Council. The effectiveness of the work of every member and commission, if such are established, of the Council shall be evaluated as well. When deciding on the remuneration of members of the Council shareholders shall take into account the evaluation carried out.

*The Bank follows this principle.*

- 9.3. The total amount of the remuneration of members of the Council shall be disclosed by the Issuer in the Report. The Issuer is obliged to disclose the total amount of the remuneration paid to the members of the Council, as well as to specify separately the amount of the wage paid to the members of the Council and the variable part of the remuneration, should such be granted. The variable part of the remuneration denotes any payments other than wage paid to a member of the Council, for example: remuneration that is paid depending on the financial results of the Issuer (premiums), share options that give the right to the Issuer's shares, participation in pension plans, etc.

*The Bank ensures compliance with this principle. The remuneration paid to the members of the Council of the Bank is presented in the financial statements for the year 2008.*

- 9.4. When determining remuneration to the members of the Council and foreseeing the variable part in the remuneration structure, it is usually pegged to the previously set short-term and long-term objectives.

*The Bank follows this principle.*

- 9.5. When disclosing information on the total amount of remuneration paid to members of the Council of the Issuer, the Issuer, if possible, shall be asked to disclose the information on previous reporting years as well, should such information be not disclosed previously. Disclosing information about previous years is important so that investors could be able to evaluate the remuneration policy applied to the members of the Council in the long-term and the linking of the development indicators of the Issuer with the changes in the remuneration systems.

*The Bank ensures compliance with this principle. The information on the total amount of the remuneration paid to the members of the Council during the current and previous reporting year is provided the annual report of the Bank for the year 2008.*

#### **10. Identification of Conflicts of Interest in the Work of Members of the Council**

**In his or her work every member of the Council shall avoid any conflicts of interest and be immune to any external influences. When taking any decisions related to the activity of the Issuer a member of the Council shall comply with the general principles of ethics and undertake responsibility for the decisions taken.**

- 10.1. It shall be the obligation of every member of the Council to avert any, even only insubstantial, conflicts of interest in his or her work. When taking decisions, members of the Council shall be guided by the interests of the Issuer and shall not use the cooperation offers proposed to the Issuer for personal gain.

- 10.2. Upon the occurrence of any conflict of interest or even only upon the possibility thereof, a member of the Council shall immediately notify other members of the Council. A member of the Council shall inform of any transaction or agreement the Issuer is planning to conclude with a person who has close relationship or is connected with the member of the Council, as well as of any conflicts of interest occurred during the validity period of the signed agreements. For the purpose of these Recommendations the following persons shall be considered the persons with close relations with a member of the Council: a spouse, relative or brother-in-law of a member of the Council, including relationship up to the second degree or affinity of the first degree, or persons with whom the member of the Council has had a common household for at least one year. For the purposes of these Recommendations the persons connected with a member of the Council shall be considered legal persons, where the member of the Council or a person closely related thereto is a member of the Board or the Council, performs the duties of an auditor or holds another managing office, in which he or she could possibly determine or affect the business strategy of the respective legal entity.

- 10.3. A member of the Council who is in a possible conflict of interest situation should not participate in taking decisions that might be a cause of a conflict of interest.

*The Bank follows this principle. By the Bank Bylaws of the Council the obligation to refrain from the activities that cause or may cause a conflict between the interests of the members of the Council of the Bank and the Bank is imposed on a member of the Council.*



## D. DISCLOSURE OF INFORMATION

Good practice of corporate governance for an Issuer whose shares are included in the market regulated by the Stock Exchange means that the information disclosed by the Issuer shall give a view of the economic activity of the Issuer and financial results thereof. This facilitates a justified determination of the price of financial instruments in public circulation as well as confidence in the financial and capital markets. Disclosure of information is closely related to investor relations (hereinafter – the IR) that can be defined as the process of developing Issuer’s relations with its potential and existing investors and other parties interested in the business of the Issuer.

### 11. Transparency of the Issuer's Work

**The information disclosed by the Issuers shall be provided in due time and allowing the shareholders to evaluate the management of the Issuer, to get a view of the business and financial results of a company, as well as to take justified decisions as regards the shares owned by them.**

11.1. The structure of corporate governance shall be formed in order to ensure timely and complete information on all the substantial issues that concern the Issuer, including its financial situation, operating results, and the structure of owners.

*The Bank follows this recommendation.*

11.2. The information to be disclosed shall be verified, accurate, unequivocal and prepared in accordance with the high-quality standards.

*The Bank follows this recommendation.*

11.3. The Issuers should appoint a person who would be entitled to contact the press and other mass media on behalf on the Issuer, thus ensuring uniform distribution of information and avoiding publication of contradictory and untruthful information, and who could be contacted upon necessity by the Stock Exchange and investors.

*The Bank follows this recommendation. Public Relations Division is entitled to contact the press and other mass media on behalf of the Bank.*

11.4. The Issuers shall ensure the preparation and publication of the financial statements and annual reports of the Issuer in due time and in compliance with the set requirements. The procedure for the preparation of reports should be stipulated by internal procedures of the Issuer.

*The Bank follows this principle.*

## 12. Investor Relations

Considering that shares of the Issuer are offered on a regulated market, such field of activity of the Issuer as investor relations (hereinafter – the IR), the development and maintenance thereof is equally important, paying special attention so that all the investors have access to equal, timely and sufficient information.

*Since the Bank's shares are not admitted to the regulated market, Bank does not follow the principles set in Chapter 12.*

- 12.1. The main objectives of the IR are the provision of accurate and truthful information on the activity of the Issuer to the participants of the financial market, as well as ensuring a feedback, i.e. receiving references from the existing and potential investors and other persons. When implementing the IR process, it shall be kept in mind that the target group consists not only of institutional investors and financial market analysts. A greater emphasis shall be put on individual investors and information of other interested parties: employees, creditors and business partners shall become more important.
- 12.2. A number of channels shall be used for the flow of IR information. The IR strategy of the Issuer shall be created using both the possibilities provided by technologies (website on the Internet) and relations with mass media, and the relations with participants of the financial market. Considering the development stage and availability of modern technologies the Internet is used in the IR of every modern company. This type of media has become one of the most important means of communications for the majority of investors, especially foreign.
- 12.3. The basic principles that should be followed by the Issuers when preparing the IR section of its website:
  - 1) the IR section of the website shall be perceived not only as a place for storing information or facts but also as one of the primary means of communication via which it is possible to inform the existing and potential shareholders;
  - 2) all the visitors of the IR section of the website shall have the possibility to conveniently obtain all the information published there. Information on a website shall be published in all foreign languages in which the Issuer normally publishes information so that in no way would foreign investors be discriminated; however, taking into consideration that information shall be disclosed at least in Latvian and English.
  - 4) it is recommended to consider a solution that would allow the existing and potential investors to maintain relations with the Issuer by using the IR section of the website – submit questions and receive answers thereto, subscribe for the latest information, express their opinions, etc.;
  - 5) the information published on a website shall be regularly updated and the news as regards the Issuer and its activity shall be published in due time. It shall not be admissible that outdated information that could mislead investors is published on the website;
  - 6) after the website is created the creators are advised to evaluate the IR section of the website from the point of view of a user – whether the relevant information can be easily found, whether the published information provides answers to the most important questions, etc.

- 12.4. The Issuer shall ensure that at least the following information is provided in the IR section of its website:
- 1) general information on the Issuer - history of its establishment and business, registration data;
  - 2) description of the industry, core types of activity;
  - 3) Report of the Issuer (Comply or Explain) on the implementation of the principles of corporate governance;
  - 4) number of issued and paid-up financial instruments specifying how many of them are included in a regulated market;
  - 5) information on organization of meetings of shareholders, draft decisions to be considered, decisions taken – at least for the last reporting year;
  - 6) Articles of Association of the Issuer;
  - 7) Issuer’s Bylaws of the Board or another equivalent document that regulates its work, as well as the Issuer’s remuneration policy and the regulations on the procedure of a meeting of shareholders, should such be adopted;
  - 8) description of the work tasks of the Council commissions, should such be established, as well as information on the work performed by the commissions;
  - 9) information on present members (on each one individually) of the Issuer’s Council and the Board: work experience, education, number of the Issuer’s shares owned by the member (at the beginning of the year, the information shall be updated as required but at least annually), positions in other undertakings, as well as the terms of authorities of members of the Board and the Council);
  - 10) shareholders of the Issuer who own at least 5% of the Issuer’s shares and information on changes of shareholders;
  - 11) financial statements and annual report of the Issuer prepared in accordance with the procedure set forth in regulatory enactments and Regulations of the Stock Exchange;
  - 12) any other information to be disclosed by the Issuer, for example, information on any substantial events, Issuer’s press releases, archived information on financial statements and annual reports of the Issuer for the previous periods, etc.

## E. INTERNAL MONITORING AND RISK MANAGEMENT

The purpose of internal monitoring and risk management is to ensure effective and successful work of the Issuer, the truthfulness of the provided information and conformity thereof to the respective regulatory enactments and business principles. Internal monitoring helps the Board to identify weak points in the administration of the Issuer and potential risks, as well as facilitates effective fulfilment of the Council obligation – to supervise the work of the Board.

### 13. Principles of Internal and External Monitoring of the Issuer

**In order to ensure successful work of the Issuer it is necessary to plan regular monitoring thereof and set the procedure for the conduct of internal and external monitoring (audit).**

13.1. In order to ensure successful work, the Issuer shall conduct regular monitoring of its work – including defining the procedure of internal monitoring.

*The Bank follows this recommendation. There is Internal Monitoring System implemented and operating in the Bank. Supervisory functions of the Internal Monitoring System are performed by the internal audit of the institutions, in its turn the Council of the institution supervises so that the Board of the institution ensures establishment of the internal monitoring system and efficient operation thereof.*

13.2. The objective of risk management is to ensure identification and monitoring of the risks related to the commercial activity of the Issuer. In order to ensure effective risk management, it is necessary to define the basic principles of risk management. It is recommended to describe the most important potential and existing risks related to the activity of the Issuer.

*The Bank follows this recommendation. The Bank has prepared the chain of Internal Monitoring System documents for risk management, for example, the Internal Monitoring System document: Risk Management Policy.*

13.3. Access to the information necessary for the performance of the auditor duties and possibility to participate at meetings of the Council and the Board when the financial results and other issues are considered shall be ensured to the auditor.

*The Bank follows this recommendation. The Internal Audit Division performs functions of an auditor in the Bank.*

13.4. An auditor shall be independent in his or her work and the task thereof shall be to provide the Issuer with independent and objective auditing and advisory services in order to facilitate the efficiency of the Issuer's work and to provide support to the management of the Issuer in achieving the objectives set, by offering systematic approach for the assessment and improvement of risk management and monitoring processes.

*The Bank follows this recommendation. The Internal Audit Division performs functions of an auditor in the Bank.*

13.5. It is recommended to conduct an independent internal monitoring at least annually in order to assess the work of the Issuer, including its conformity with the procedures approved by the Issuer.

*The Bank follows this recommendation. The Internal Audit Division performs functions of an auditor in the Bank.*

13.6. When approving an auditor, it is recommended that the term of office of one auditor does not coincide with the term of office of the Board.

*The Bank follows this recommendation. The Internal Audit Division performs functions of an auditor in the Bank.*

## F. REMUNERATION POLICY

### 14. Remuneration Policy of the Issuer

**The policy of remuneration of members of the Board and the Council – type, structure and amount of remuneration – is one of the fields where the involved persons have a potentially greater risk to get into a conflict of interest situation. To avoid it, the Issuer should determine a clear remuneration policy.**

14.1. The Issuer is called to develop a remuneration policy, in which the main principles for the determination of remuneration, possible remuneration schemes and other essential issues related thereto are determined. The elaboration of the remuneration policy shall be assigned to the Issuer's Council, which during the preparation of a draft policy shall consult with the Board of the Issuer. The remuneration policy or the most significant parts thereof shall be published like any other essential information related to the activity of the Issuer.

*The Bank complies with this recommendation. The Bank Board has worked out the Regulation on Remuneration System and the Regulation on Incentives, which have been approved by the Bank Council.*

14.2. Schemes of variable remuneration that include Issuer's shares or share options as remuneration as well as any essential amendments to such schemes should be examined at meetings of shareholders as well, adopting respective decisions, when necessary. Considering the aforementioned, shareholders should be provided with all the required information prior to a meeting.

*The Bank does not follow this recommendation, since no Bank share options were granted as remuneration in 2008.*

14.3. Remuneration schemes that include Issuer's shares as remuneration may theoretically cause losses to the Issuer's shareholders because due to a new issue of shares the share price might decrease. Therefore, prior to the preparation and approval of any type of such remuneration scheme it is necessary to assess the possible benefits or losses.

*This principle does not apply to the Bank, since no remuneration scheme that include the Bank's shares as remuneration are foreseen in the Bank.*

14.4. When preparing the remuneration policy, the Issuer is obliged to disclose information on how the Issuer plans to ensure the amount of shares to be granted in accordance with the approved remuneration schemes – whether it is planned to obtain them by buying on a regulated market or by issuing new shares.

*This principle does not apply to the Bank, since no remuneration scheme that include the Bank's shares as remuneration are foreseen in the Bank.*

## G. INFORMATION ABOUT THE MAIN ELEMENTS OF THE INTERNAL CONTROL SYSTEM OF THE BANK AND THE GROUP

### 1. General principles.

As the amount of transactions at the Group's level was insignificant, the Bank performs management of the relevant risks individually, except credit risk which is managed at the Group's level. The same procedures that are described below are used for risk management at the Group's level.

In order to manage risks and comply with regulations concerning performance indicators of the Bank activities - capital adequacy, liquidity, foreign currency positions and risk control and administration of Bank transactions, there are certain policies approved by the Bank. These include Risk Management Policy and other policies, Capital Adequacy Assessment Policy, Liquidity Management Policy, Foreign Currency Risk Management Policy, State Risk Management Policy, Lending Policy, Trading Portfolio Policy other others, which the Bank Council and Board have been approved. These policies are developed according to the Strategic Plan of the Bank and they are regularly updated taking account of the development of the market and Bank activities.

These policies define the principles according to which the Bank defines:

- general guidelines which govern the Bank in its activities in order to minimise all kinds of risks which may result in losses;
- classification of risk transactions and other risks to which the Bank is exposed in its operating activities;
- general day-to-day control and administration of risks of the Bank.

The main purpose of the Risk Management Policy of the Bank is to describe and determine an aggregate of means with help of which the Bank would be able to ultimately minimise any probability of incurring losses in situations where the funds deposited by the Bank or the funds that are due to the Bank are not paid on time and in the full amount, or the Bank incurs losses of another kind.

The Risk Management Policy of the Bank is implemented by the Bank Council, Board, Asset-Liability Assessment Committee (hereinafter – ALCO), Loan Committee, Loan Assessment Committee and respective Bank subdivisions controlling risk transactions.

*The Council* provides general management of the Bank ensuring achievement of goals and targets set in the Articles of Association. To exercise control over the risk management system of the Bank, the Council approves internal risk management policies, ensures compliance with such policies, their efficiency analysis and improvement.

*The Board* provides day-to-day management of the Bank ensuring compliance with internal documents which set out risk management procedures and requirements, distribution of powers and responsibilities among subdivisions and elaboration, approval and submission of risk management reports. The Board ensures identification and management of operational risks.

*ALCO Committee* determines the asset-liability structure of the Bank, sets and monitors parameters controlling balance and off-balance sheet positions - limits for positions of assets and liabilities; where necessary, it sets the volume of special provisions for doubtful loans, save for the portfolio of commercial loans where reserves are set by the Loan Committee; ensures the Bank's ability to fulfill its current financial liabilities, takes charge of long-term liquidity of the Bank by forming a balanced asset-liability term-structure; takes care of ensuring the Bank contingent activities with financial resources; analyses, assesses and controls risks of the Bank on a regular basis; elaborates and revises regularly limits restricting risks of the Bank; keeps track of compliance with these limits; determines assets/liabilities portfolios of the Bank (commercial loans, interbank loans, securities and others) and their limits; determines administrators of portfolios and guidelines of administration; defines and conducts correspondent banking policy of the Bank; at least once a quarter provides assessment of correspondent banks and state of correspondent accounts.

*Loan Committee* is in charge of elaboration of the Bank Lending Policy; formation of the loan portfolio and its management within the framework of the Lending Policy; considers loan applications and guarantee requests; takes decisions on lending terms and conditions and interest rates of loans to be granted; on a regular basis (at least once a month) inspects the quality of loan portfolio.

*Loan Assessment Committee* develops certain procedures in order to timely identify impairment of loan quality, ie. main criteria for assessment and classification; revises procedures in place on a regular basis and, where necessary, amend the same regularly but no less than once a quarter, provides assessment of loan quality of the Bank and classification according to the respective risk degree and based on the assessment and classification criteria.

## 2. Capital Adequacy Assessment Process

For the purpose of capital adequacy assessment and in accordance with its capital adequacy maintenance strategy the Bank has defined that capital is an aggregate of elements of capital, reserves and liabilities which are freely available to the Bank to cover contingent, yet not identified, losses related to risks of ordinary activities. To assess capital adequacy the Bank applies the "First Pillar+" approach using as a basis regulatory minimum capital requirements and including the following risks and assessment methods:

- for credit risk capital requirements – *standardised approach*;
- for market risk capital requirements - *standardised approach*;
- for operational risk capital requirements – *key figure approach*.

To ensure capital adequacy the Bank provides for the following capital increment sources:

- increase of capital through share issue;
- attraction of subordinated capital;
- formation of operation development reserves from profit of the Bank;
- retained earnings from the previous year;
- audited profit of the current year (by permission of the Financial and Capital Market Commission).

The Bank has prepared a contingency plan to maintain its capital adequacy in case of threat for the capital adequacy ratio to fall under the established standard. In addition to the above described capital increasing sources, the plan foresees:

- improvement of asset quality;
- asset restructuring for the purpose of minimising the share of risk group assets;
- application of Tier 3 capital elements (by permission of the Financial and Capital Market Commission).

### 3. Credit Risk

*Credit risks* – is a risk of incurring losses if a borrower (debtor of the Bank) may not fulfill or refuse to fulfill its liabilities to the Bank according to the terms and conditions of the agreement.

The Bank provides assessment of its loan quality on a regular basis which allows timely identification of contingent losses and operational risks if the loan quality impairs. The loans granted by the Bank and its subsidiaries are regularly supervised and assessed in order to minimise the amount of maximum losses that the Bank and its subsidiaries may incur in transactions with domestic and foreign customers.

The Bank Lending Policy specifies general guidelines according to which the Bank provides lending services. It defines the general procedure for issue of loans and guarantees and loan repayment; the procedure for control and supervision of risk transactions; classification of credit portfolio and procedure for implementation of security measures in case of potential losses.

Creating its Loan Portfolio, the Bank controls concentration of risks and complies with the restrictions of maximum volume. In order to minimise exposure to credit risks and prevent concentration of credit means the Bank manages diversification of its loan portfolio by countries, industries and loan types, and set limits for transactions per one customer or counterparty.

In order to meet the limits set by the Bank State Risk Management Policy, the Bank provides daily and monthly reviews of these limits. The limits for transaction partners and types of transactions are determined by evaluating state risks and risks of transaction partners.

### 4. Liquidity risk

*Liquidity risk* – a risk that the Bank may not be able on a daily basis and/or in the future to fulfill timely obligations in regard to legally sound claims without suffering substantial losses, and may not surmount unplanned changes in Bank resources and/or market conditions due to insufficient volume of liquid assets.

The Bank Liquidity Risk Management Policy specifies general guidelines according to which the Bank determines its asset-liability structure and their quality, internal limits for liquidity net positions of asset-liability term-structure and liquidity net positions in lats, dollars and euros separately; procedure and frequency for assessment of term-structure; internal limits for maximum amount of deposits which can be attracted from one customer (mutually related customer groups); measures in case of non-compliance with the internal limits and contingency plan to surmount a crisis.



The Bank monitors its liquidity in both short and long-term positions, bearing in mind the regulations on liquidity requirements for credit institutions set by FCMC. The Bank maintains a high level of internal liquidity (liquidity reserve) on a daily basis by attracting additional resources from outside in order to remove any doubts as to liquidity of the Bank on the part of its customers and the market and to prevent any excess losses. To ensure sufficient liquidity, the Bank provides regular assessment and control of asset-liability term-structure. The Bank maintains liquid assets in the amount which is sufficient to fulfill its liabilities but not less than 30% of the total amount of its current liabilities (liquidity ratio).

## 5. Market risk

*Market risk* – is a risk to incur losses due to revaluation of balance sheet and off-balance sheet items which is related to changes of market prices of financial instruments, including derivatives, caused by fluctuation of currency rates and interest rates.

Currency risk is a risk to incur losses due to revaluation of balance and off-balance sheet items denominated in foreign currency when currency exchange rates change. The Bank Currency Risk Management Policy specifies general guidelines which govern the Bank in formation of its currency asset-liability structure; in general daily control and management of currency risks of the Bank and in defining its safeguard mechanism against contingent currency risks.

To ensure control of currency risks the Bank defines limits for the currency risk to which it can be exposed and keeps track whether its assets are in a balanced position in relation to liabilities in the respective currencies (ie., the Bank maintains as minimal as possible its currency positions and the total currency position). To control its currency exposure the Bank determines restrictions for positions of each foreign currency and of the total open position and their relation against the equity capital and various types of limits. As a result the Bank ensures that it complies with the required standards. According to the Law on Credit Institutions the total open position in foreign currencies cannot exceed 20% of equity capital.

Interest rate risk is a risk that market changes of interest rates may affect financial standing of the Bank. The day-to-day activity of the Bank is related to interest rate exposure which is affected by maturity dates of the assets, liabilities and off-balance sheet items that are related to interest income and expenses and interest rate revision dates. The Bank Interest Rate Risk Management Policy defines the interest rate risk measurement methodology which covers the main sources of interest rate exposures and allows assessing the impact of interest rate exposure on earnings of the Bank and its economic value; internal limits of interest rate risk and measures to be taken in case of noncompliance with these limits; procedure for stress testing and its frequency, including assumptions of possible development scenarios and conditions in which the Bank may incur substantial losses due to interest rate exposure (if the losses thereof exceeds 20% of equity capital), and assumptions and feasible plan of actions.

The Bank provides thorough assessment of these risks. Their long-term assessment includes preparation of annual budgets but short-term assessment is provided through regular asset-liability diversification and revision of interest rates. To measure the exposure to interest rate risk the Bank applies spread analysis method. This method sets the net position of interest rate risk as a spread between assets, liabilities and off-balance sheet items which are interest rate sensitive according to their remaining maturities.

As a part of implementation of the Trade Portfolio Policy, the Bank values assets in the trading portfolio on a daily basis. Thus, it allows increased efficiency for the short-term investments of the Bank.

## 6. Operational risk

*Operational risk* – a risk is a possibility to incur losses due to irrelevant or incomplete fulfillment of internal processes, human actions or system functioning or due to the influence of external circumstances, including legal risk, except for strategic or reputation risks. The Operational Risk Management Policy sets operational risk management objectives; definition of operational risk that is intended for internal use and that corresponds to the application and experience of the Bank; the key processes and priorities of the operational risk management; approach that is to be applied to identification, assessment, supervision and control of operational risks, and methods of operational risk mitigation and basic principles for provision of continuity of operations, which include methods chosen by the Bank to handle emergency situations .

The Bank provides regular supervision of identified inherent operational risks in regard to all its major products, types of activities, processes and systems in order to discover and eliminate on time any discrepancies regarding the Operational Risk Management Policy and procedures and, therefore, considerably minimise the frequency of possible occurrence of operational losses and their size.

The Bank applies the following methods to operational risk mitigation:

- investments into respective data processing and information security technologies;
- investments into training of personnel;
- outsourcing in situations where service providers have more experience or higher potential in management of operational risks related to certain activities of the Bank;
- insurance (if necessary), making sure that its use for operational risk mitigation does not create other types of risk (legal risk or business partner risk);
- elaboration of a plan for provision of continuity of operations.

## 7. Internal Control System for Prevention of Laundering of Proceeds Derived From Crime and Financing of Terrorism.

On 13 August 2008, the new Law on the Prevention of Laundering the Proceeds from Criminal Activity (Money Laundering) and Terrorist Financing (hereinafter - the Law) entered into force replacing the law of 1998 "On the Prevention of Laundering the Proceeds Derived from Criminal Activity". The new Law incorporates legislative provisions that arise from Directive 2005/60EC of the European Parliament and Council as from 26 October 2006 and Directive 2006/70EC of the European Commission as from 01 August 2006. In accordance with the Law the Financial and Capital Market Commission on 27 August 2008 issued the Regulations for Enhanced Customer Due Diligence (hereinafter – the Regulations).

The new Law provides for unprecedented duties and responsibility for most of natural and legal persons of Latvia regarding the prevention of laundering the proceeds from criminal activity and terrorist financing. The scope of subjects of the Law has been considerably increased.

The new Law and the Regulations introduce the principle of a "risk-based approach" to the prevention of laundering the proceeds derived from crime and terrorist financing, which states the necessity to maintain an ongoing assessment of the money laundering and terrorist financing risks and based on such assessment to perform enhanced due diligence of customers.

Taking into account the new requirements, "TRASTA KOMERCBANKA", JSC has reviewed and upgraded all the documents of the internal control system for the prevention of laundering the proceeds from criminal activity and terrorist financing, as well as it works actively updating the files of its present customers in order to comply with the latest requirements.

The Bank has approved a plan of measures for 2009 aimed at improving the internal control system for the prevention of laundering the proceeds from criminal activity and terrorist financing. The main focus is to be made on the introduction of a new computerised customer monitoring system.

## H. OTHER INFORMATION

1. Persons, who have directly or indirectly acquired qualifying holding in the Bank's share capital:

Shareholder	Country	Shareholding %	shareholding, LVL
I.Buimisters	Latvia	37.1%	2 351 000,-
S.Tarasenoks*	Latvia	14.15%	896 000,-
SIA „C & R Invest”	Latvia	13.58%	861 000,-
C.E.G.Treherne	GB	9.18%	582 000,-
GCK Holdings Netherlands B.V.	Netherlands	6.8%	431 000,-
Rikam S.A.H.	Luxembourg	6.79%	430 000,-
Figon Co Limited	Cyprus	3.16%	201 000,-

\*Due to demise of Sergey Tarasenok his shares have been included in the succession mass.

2. Shareholders that have special control rights and description of such rights.

*None of the shareholders has such special control rights at the Bank.*

3. Restrictions of voting rights in cases when the maximum amount of voting rights is fixed irrespective of the amount of voting shares held, as well as restrictions of rights of shareholders to a profit share which is not connected with the proportional fraction of shares held by shareholders and other similar restrictions.

*The Bank has not stated any restrictions of voting rights or restrictions on profit share.*

4. The rules governing the election of board members, changes in the composition of board members and amendments to the Articles of Association:

*According to the Commercial Law and Articles of Association of the Bank the term of appointment of board members is 3 years. Any appointment of a board member is approved by the council. A board member must comply with the criteria stated in the Commercial Law and Credit Institution Law. Any change in the composition of the board is subject to approval of the council. A board member has the right to leave his/her office in accordance with the procedure prescribed by the Commercial Law. According to the provisions of the Commercial Law the Articles of Association of the Bank may be amended by shareholder meeting of the Bank.*

5. Powers of board members, including the power to issues and repurchase shares.

*The board is the executive body of the Bank, whose duty is to deal with the day-to-day management of the Bank. The board manages and represents the Bank. In 2008, the board members of the Bank did not have the power to issue or repurchase Bank's shares.*

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