

Statement on Information Disclosure

The Statement is published taking into account the provisions of the Financial and Capital Market Commission "Regulations on the Information Disclosure and Transparency of Institution" (in force from 31/12/2010)

The Regulations prescribe the procedure for disclosure of information on risks inherent to a bank and investment firm, risk management goals, methods and policies, as well as requirements for own funds and internal capital adequacy, and the procedure of disclosure of remuneration policy and practice.

The Bank complies with the provisions of the Regulations at individual and consolidated group level.

CONSOLIDATION GROUP

JSC „TRASTA KOMERCBANKA“ is the Group Holding Company which applies unified requirements for information disclosure at consolidation level. Risk management of the Bank's Subsidiaries is fully integrated in the risk management process of the Bank.

The commercial companies consolidated by full consolidation, and are subject to consolidated supervision:

- SIA TKB Līzings
- SIA TKB Nekustāmie īpašumi.
- „Heckbert C7 Holdings“, which is classified as held for sale and its subsidiary "Ferrous Kereskedelmi KFT".

Consolidation principles

The Bank has consolidated its subsidiaries in the consolidated financial statements in accordance with International Accounting Standard 27. Subsidiaries are the companies controlled by the Bank. The control is applied if the Bank has direct or indirect influence over the company's financial and activities policy.

The consolidation is based on control over the subsidiaries' activities, which results from the majority of rights to vote in the subsidiaries, except for the subsidiary which is classified as held for sale and is disclosed according to IFRS 5.

When preparing the consolidated financial statements, their items were evaluated in accordance with the uniform accounting policies, which are used by the Group consistently from year to year in conformity with the International Financial Reporting Standards as adopted by European Union and the Financial and Capital Market Commission regulations on preparation of Bank's financial statements. If any of the accounting policies used by the subsidiaries differ from those applied by the Bank, the financial statements of the subsidiaries are adjusted for consolidation purposes. The financial statements of the subsidiaries were included in the Group's consolidated financial statements applying the method of full consolidation.

Minority interest is the interest in subsidiaries which is not held, directly or indirectly, by the Bank. Minority interest at the balance sheet date represents the minority shareholders' portion of the fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary at the acquisition date and the minorities' portion of movements in equity since the date of the consolidation. Minority interest is presented within equity.

Detailed information about the subsidiaries is presented in the Bank's financial statements for 2010.

RISK CONTROL AND MANAGEMENT

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.

General principles

In order to manage Bank's exposures the Bank identifies on a regular basis the risks inherent to its activities. The Bank regularly assesses the risks that may affect its operation and performance results. For each important exposure the Bank has elaborated appropriate policies and control procedures. For the purpose of management and control of Bank's risks the Bank has approved the Risk Management Policy, Capital Adequacy Assessment Policy, Liquidity Management Policy, Foreign Currency Risk Management Policy, State Risk Management Policy, Lending Policy, Investment Policy, Reputation Risk Management Policy, Compliance Function Risk Management Policy, Policy on Prevention of Money Laundering and Terrorist Financing and other policies, which the Bank Board and Council have approved. These policies are developed according to the Bank's Strategic Plan 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 risk transactions 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 the 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 the internal documents which set out the 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 fulfil 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, i.e. 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.

The AML Compliance Committee works on a regular basis in order to improve the internal control system for prevention of money laundering and terrorist financing according to the developed and approved plans.

The Compliance Function Committee is a unit established in the Bank which is responsible for identification, assessment and management of compliance risk. Compliance risk is the risk of the Bank to suffer losses or to become subject to legal liabilities or to sanctions, or the risk to deteriorate the Bank's reputation due to non-compliance or breach of compliance laws, regulations and standards by the Bank.

The Risk Assessment Working Group of Experts – within the scope of the internal capital adequacy assessment process it identifies substantial risks and the risks that will be part of internal capital adequacy assessment, calculates the required amount of capital / minimum internal capital adequacy to cover the risks.

The main purpose of *the Internal Audit Division* is to provide independent and objective evaluation of effectiveness of the internal control system of the Bank and its monitoring in order to assist the Council and the Board and subdivisions of the Bank to perform their functions with greater efficiency. The Internal Audit Division performs its work in accordance with the activities plan approved by the Council. On every audit performed by the Internal Audit Division it prepares a report to the Bank management of its findings and deficiencies in the internal control system, policies and procedures, and inadequately identified or managed risks and it provides recommendations for remedial actions.

During the reporting period the Bank performed the identification of substantial risks and internal capital adequacy assessment. The identified substantial risks have not changed compared to the previous period.

Bank's activities are subject to the following risks:

- [credit risk](#);
- [market risk](#);
- [liquidity risk](#);
- [country risk](#);
- [operational risk](#);

- [concentration risk;](#)
- [reputation risk;](#)
- [money laundering and terrorism financing risk;](#)
- [strategy and business risks.](#)

OWN FUNDS

The Bank's capital adequacy requirements are determined and supervised by the FCMC. According to the capital adequacy requirements set by the FCMC, banks should maintain capital adequacy according to the risk - weighted assets above the set minimum level. As of 31 December 2010, the minimum level was 8%.

The table incorporates information about the compliance with regulatory minimum capital adequacy requirements and own funds elements as of 31 December 2010 (in thousands of lats):

	GROUP	2010 BANK
OWN FUNDS	28 192	28 878
<i>Tier 1 capital</i>	<i>27 950</i>	<i>28 636</i>
Adequate equity	7 160	7 160
<i>Paid up capital</i>	<i>7 049</i>	<i>7 049</i>
<i>Share issue premium</i>	<i>111</i>	<i>111</i>
Adequate reserves	21 150	21 836
<i>Reserve capital and other reserves, revaluation reserves and retained profit and losses of previous years</i>	<i>25 770</i>	<i>26 209</i>
<i>Minority interest</i>	<i>-</i>	<i>-</i>
<i>Audited profit of the current year of operation or audited (losses) of the current year of operation</i>	<i>(4 614)</i>	<i>(4 367)</i>
<i>Revaluation reserve for other available for sale financial assets</i>	<i>(6)</i>	<i>(6)</i>
Other elements reducing Tier 1 capital (-)	(360)	(360)
<i>Intangible assets</i>	<i>(360)</i>	<i>(360)</i>
<i>Tier 2 capital</i>	<i>3 404</i>	<i>3 404</i>
2 group of Tier two capital	3 404	3 404
<i>Subordinated capital</i>	<i>3 404</i>	<i>3 404</i>
Deductions from Tier 1 and Tier 2 capital	(3 162)	(3 162)
Deductions from Tier 1 and Tier 2 capital prescribed by the legislation ¹	<i>(3 162)</i>	<i>(3 162)</i>

SUMMARY OF CAPITAL REQUIREMENT CALCULATIONS	16 345	15 996
<i>Total of capital requirements for credit risk, counterparty credit risk, dilution risk and free deliveries risk according to standardized approach</i>	<i>12 212</i>	<i>12 385</i>
<i>Public authorities</i>	<i>48</i>	<i>48</i>
<i>Institutions</i>	<i>1 262</i>	<i>1 262</i>
<i>Commercial companies</i>	<i>6 547</i>	<i>6 753</i>
<i>Secured by real property</i>	<i>50</i>	<i>50</i>
<i>Delayed exposures</i>	<i>1 753</i>	<i>1 735</i>
<i>Other items</i>	<i>2 552</i>	<i>2 537</i>
<i>Capital requirements for position, foreign exchange and commodities risks according to standardized approach</i>	<i>377</i>	<i>320</i>
<i>Traded debt instruments</i>	<i>98</i>	<i>98</i>
<i>Equity instruments</i>	<i>153</i>	<i>153</i>
<i>Foreign currency</i>	<i>126</i>	<i>69</i>
<i>Capital requirements for operational risk according to basic indicator approach</i>	<i>3 756</i>	<i>3 291</i>
CAPITAL REQUIREMENTS COVERED BY OWN FUNDS (SUPPLUS (+) OR SHORTFALL (-))	11 847	12 882
CAPITAL ADEQUACY RATIO (%)	13,80	14,44

¹ According to the assessment of the Financial and Capital Market Commission, the Bank has to make additional provisions in the amount of 3 452 thousand lats (in 2009: 3 357 thousand lats) in the reporting year.

CAPITAL ADEQUACY ASSESSMENT PROCESS

For the purpose of capital adequacy assessment and in accordance with its capital adequacy maintenance strategy the Bank has defined the definition of 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 the regulatory minimum capital requirements, set in the amount of 8% of the total of their risk-weighted exposure amounts, 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*.

The goal of the internal capital adequacy assessment process is to ensure that the Bank's capital is sufficient in terms of amount, elements and specific weight to cover contingent and inherent risks of Bank's current and planned activities.

Within the framework of the internal capital adequacy assessment the Bank:

- ✓ evaluates whether the calculated regulatory minimum capital requirements for credit risk, operational risk and market risk are adequate and comply with the Bank's activities;
- ✓ assesses the risks for which the regulatory minimum capital requirements are not set and calculates the amount of capital that is necessary to cover the substantial risks;
- ✓ determines the reserve of capital;
- ✓ determines the amount of internal capital that is necessary to cover overall risks;
- ✓ determines the internal early alert indicator of the necessary capital, which, if reached, requires the measures plan for capital adequacy maintenance to be applied.

In addition to the obligatory regulatory minimum capital requirements for covering of credit risk, market risk and operational risk, the Bank maintains additional reserves to cover the following substantial risks:

- ✓ concentration risks (loan portfolio concentration, claims on credit institutions concentration, incl. by countries);
- ✓ money laundering and terrorism financing risks (AML);
- ✓ reputation risk,
- ✓ strategy and business risks.

According to the results of the capital adequacy assessment process, the capital required for covering of risks is as follows:

Risks	Required capital (thousand of lats)
Credit risk	13 545
Market risk	845
Operational risk	3 482
Concentration risk	1 571
Money laundering and terrorism financing risk	1 919
Other risks	869
Total:	22 231

Upon assessment of the internal capital adequacy for 2010, the Bank has determined the internal capital adequacy level not less than 11,04% (in 2010: 10%).

The analysis of the actual figure of Bank's capital in the reporting year is provided in the table below:

	<u>2010</u>	<u>2009</u>
	%	%
31 December	14,44	15,08
Average for the period	15,50	16,55
Highest level	16,84	17,52

Lowest level

14,50

14,83

The Bank performs assessment of the internal capital adequacy on a regular basis, but at least once a year. If within the period between two capital adequacy assessments the Bank's activities or conditions affecting the Bank's activities have significantly changed (for example, Bank's business lines or types of activities or external environment affecting activities of the Bank have significantly changed, the Bank has introduced new risk management or risk measurement models or methods, etc.) and, consequently, the results of the capital adequacy assessment process may materially vary (including Bank's assessment of the necessary amount of capital to cover risks, capital reserve, the total amount of necessary capital and available amount of capital, capital adequacy objectives, capital adequacy assessment findings, program of measures for ensuring of capital adequacy and other decisions adopted during the capital adequacy assessment process), the Bank promptly, but not later than within one month, revises its capital adequacy assessment results and, if necessary, performs a new capital adequacy assessment.

Capital planning at the Bank takes place during the budget preparation process. In the budget preparation process the Bank develops the capital increment plan whose sources are as follows:

- ✓ increase of the 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 developed the Internal Capital Adequacy Maintenance Plan which incorporates detailed contingency measures to be taken in case of emergency (if a threat occurs for the capital adequacy ratio to fall under the established capital adequacy early alert indicator). 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).

The Bank management ensures daily supervision of the capital adequacy. The relevant subdivisions regularly provide information to the ALCO Committee and the Board on compliance with the internal capital adequacy level and minimum regulatory requirements, as well as capital adequacy scenario analysis. The Board at least once a year submits a report to the Council on the state of capital.

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REMUNERATION POLICY AND PRACTICE

Observing the principle of protection of personal data of individuals, TRASTA KOMERCBANKA, AS hereby presents information on the policy and practice of remuneration of its employees.

The Bank has created a remuneration system of the following structure:

- ✓ The Council determines and approves core principles of the Remuneration Policy and oversees its implementation, determines remuneration of members of the Board, staff of

the Internal Audit Division, as well as remuneration of positions where remuneration is equal to or is greater than the lowest remuneration fixed for any of the members of the Board. The Council reviews core principles of the Remuneration Policy on a regular basis, at least once a year, so as to ensure their adequacy to the current business of the Bank and its development strategy, and also to incorporate changes in external factors.

- ✓ The Board is responsible for compliance with the core principles of the Remuneration Policy determined by the Council of the Bank and for development of a respective remuneration system and related documents.
- ✓ Based on the determined core principles of the Remuneration Policy, the Personnel Committee develops Personnel Policy, organizational chart, and the system of job remuneration and bonuses, and handles other issues related to remuneration of the personnel.
- ✓ In its day-to-day activities, the Personnel Division follows assignments of the Council, the Board, and the Personnel Committee, as well as determined core principles and any updates thereof. If necessary, it suggests modifications to the Remuneration Policy and other documents related to personnel and their remuneration.

The Remuneration Policy of the Bank conforms to the strategy of the Bank and its values, it is simple and dynamic; its objective is to determine core principles of remuneration of Bank's employees which are based on the strategy of the Bank and performance results and which are in line with the nature of Bank's business and its risk profile.

The core principles determine different elements of the remuneration system that regulate the procedure for fixing remuneration, determining types of remuneration, providing performance appraisals and paying remuneration. The remuneration system created in the Bank is designed to motivate its personnel and promote professional growth of employees, provide employees' performance appraisals, and offer adequate remuneration for the work performed with quality.

The Bank has established the following types of remuneration: base salary that is fixed by determining a competitive monthly salary rate (unchanging part of remuneration) for each employee based on his/her position; remuneration variable part consisting of bonuses payable to all employees depending on results of the Bank's performance and individual contribution of every employee, and bonuses awarded for certain accomplishments according to developed methodologies; allowances and benefits.

The Bank has defined a group of positions influencing the risk profile, and professional activities of people occupying these positions have a material impact on the risk profile of the organization. The Board of the Bank approves the list of positions having impact/not having impact on the risk profile and any changes thereto.

When defining the variable part of employees' remuneration, the Bank accepts the following factors as the basis: professional skills, communication skills, orientation towards enhancement of efficiency of the work process and finding solutions of problems, management competence, business objectives, and representation of the Bank.

Each employee's professional performance is assessed at least twice a year, taking into account results of the previous year.

The unchanging part of remuneration in the Bank is quite large, which gives the Bank an opportunity to implement flexible remuneration policy regarding the variable part of remuneration.

The Bank has also established a ceiling for a payable variable part, so that the Bank can use the possibility not to pay the variable part of remuneration, for example, in case of worsening of the Bank's financial condition and its solvency, based on the considerations of necessity to ensure long-term capital adequacy. In the event of fixing a substantial variable part of remuneration of not less than 40 percent (in the event of fixing especially high variable part of remuneration of not less than 60 percent), its payment is deferred for a period of at least three years, depending on the risk position or level of responsibility, and during this period the performance results taken as a basis for determining the variable part of remuneration may be evaluated.

In 2010, the Bank paid the variable part of remuneration in the monetary form only.

In 2010, other benefits in non-monetary form were not paid.

In 2010, there was no unpaid residual of variable part of remuneration.

Bank's summed up information on remuneration by position groups in 2010

(LVL thousand)

Year 2010	Unchanging part of remuneration		Variable part of remuneration	
	Sum	number	Sum	number
Board	397	5	0	0
Risk profile positions whose variable part of remuneration is calculated based on performance results	110	6	32	6
Other staff	3 708	222	0	0