



TRASTA KOMERCBANKA

**JSC "TRASTA KOMERCBANKA"
CORPORATE GOVERNANCE REPORT
FOR THE PERIOD ENDED
ON 31 DECEMBER 2010**

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Table of contents

I INTRODUCTION	3
II PRINCIPLES OF GOOD CORPORATE GOVERNANCE	4
A. MEETING OF SHAREHOLDERS	4
1. Ensuring Shareholders' Rights and Participation at Meetings of Shareholders	4
2. Participation of Members and Member Candidates of the Issuer's Management Institutions at Meetings of Shareholders	7
B. BOARD	8
3. Obligations and Responsibility of the Board	8
4. Composition of the Board of Directors and Requirements for the Members of the Board	9
5. Identification of Conflicts of Interest in the Work of Members of the Board	10
C. COUNCIL	11
6. Obligations and Responsibility of the Council	11
7. Composition of the Council and Requirements for the Members of the Council	12
8. Identification of Conflicts of Interest in the Work of Members of the Council	13
D. DISCLOSURE OF INFORMATION	14
9. Transparency of the Issuer's Work	14
10. Investor Relations	15
E. INTERNAL CONTROL AND RISK MANAGEMENT	17
11. Principles of Internal and External Monitoring of the Issuer	17
12. Inspection Committee of the Issuer	18
F. REMUNERATION POLICY	19
13. Remuneration Policy of the Issuer	19
14. Disclosure of Remuneration Policy	21
G. INFORMATION ON MAIN PRINCIPLES OF THE INTERNAL CONTROL SYSTEM OF THE BANK AND THE GOUP	23
H. OTHER INFORMATION	23
I. REPORT ON REMUNERATION	24

I. INTRODUCTION

The Joint-Stock Company TRASTA KOMERCBANKA (hereinafter the Bank) Corporate Governance Report (hereinafter the Report) for the year 2009 is prepared in accordance with the Principles of Corporate Governance and Recommendation for their Implementation issued by the joint-stock company Riga Stock Exchange.

In the report 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 Issuer shall be included in the Report where the information on the policy of profit distribution is available.

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 examines it and submits to the Meeting of Shareholders that makes the final decision. The requirements of this principle and the Commercial Law regarding examination 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 examined 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, 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 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.

- 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.

- 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. The Bank calls a meeting of shareholders in accordance with the procedure set forth in the 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. 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 preparation and approval of the annual report of the Bank attends meetings of shareholders of the Bank, however, participation of the auditor at a meeting of shareholders is not ensured. 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 based on interests of all shareholders and avoiding occurrence of any possible interest conflicts.

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

3.2. The powers of the Board shall be stipulated in the Regulations 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 are stipulated in the Regulations of the Board. These Regulations are available at the Bank.

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 applicable internal procedures (e.g., taking into account the personnel policy of the Issuer, remuneration policy, etc.);
- 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 proper 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 Commercial 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: 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.

- 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 partially follows this recommendation.

5. 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.

- 5.1. 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.
- 5.2. 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.
- 5.3. 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 principles stated in paragraphs 5.1. - 5.3. 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 Regulations 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.

6. 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.

6.1. The functions of the Council shall be set forth in the Regulations 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 Regulations the Council. These Regulations are available from the Bank.

6.2. 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 minutes of Council meetings.

The Bank follows this principle.

6.3. 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.

6.4. 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 Regulations of the Council provides for an obligation to take active participation at meetings of the Council, however, a member of the Council is not obliged to provide explanations when he or she fails to attend the

meeting of the Council.

7. 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.

7.1. 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/equities 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 Regulations of the Council. Complete information is not published on the Bank's website.

7.2. 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.

7.3. 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.

7.4. 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.

7.5. 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.

7.6. 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.

- 7.7. 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.
- 7.8. 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 stated in paragraphs 7.5. – 7.8. They fulfil the tasks of the Council and meet the requirements set forth in the Regulations of the Council.

8. 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.

- 8.1. It shall be the obligation of every member of 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.
- 8.2. 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.
- 8.3. 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 the principles stated in paragraphs 8.1. - 8.3. By the Bank Regulations 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.

9. 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.

9.1. 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.

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

The Bank follows this recommendation.

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

9.4. 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.

10. 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.

Taking into account that Bank's shares are not offered on the regulated market, the Bank does not apply the principles provided for in section 10.

10.1. 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.

10.2. The Issuer shall ensure that all investors have equal and easy access to material information concerning the Issuer, including data on Issuer's financial standing, and the structure and administration scheme of its property. The Issuer shall provide information in a clear and understandable manner disclosing both positive and negative information concerning the Issuer, thus ensuring that investors have comprehensive and complete information about the Issuer which they can thoroughly evaluate prior to making a decision.

10.3. If several channels are used for information flow, the IR strategy of the Issuer should be built on both the opportunities offered by technologies (web site on the Internet) and relations with the mass media and links with financial market participants. Considering the development level and availability of modern technologies, the Internet is used in IR of any modern company. This type of media for most investors, particularly foreign, has become one of the most important means of communication.

10.4. 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.
- 3) 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.;
- 4) 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;

5) 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.

10.5. The Issuer must 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, description of the industry, core types of activity;
- 2) Report of the Issuer (Comply or Explain) on the implementation of the principles of corporate governance;
- 3) number of issued and paid-up financial instruments specifying how many of them are included in a regulated market;
- 4) information on organization of meetings of shareholders, draft decisions to be considered, decisions taken – at least for the last reporting year;
- 5) Articles of Association of the Issuer;
- 6) Regulations of the Issuer's Board, Council or another equivalent document that regulates its work, as well as the Issuer's remuneration policy (or reference where such is available) and the regulations on organization of a meeting of shareholders, should such be adopted;
- 7) information on working results of the Issuer's Inspection Committee
- 8) 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).
- 9) shareholders of the Issuer who own at least 5% of the Issuer's shares and information on changes of shareholders;
- 10) 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;
- 11) 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 CONTROL AND RISK MANAGEMENT

The purpose of internal control 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.

11. Principles of Internal and External Control 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).

11.1. 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 Control System implemented and operating in the Bank. Supervisory functions of the Internal Control System are performed by the Internal Audit Division, in its turn the Council of the institution supervises so that the Board of the institution ensures establishment of the internal control system and efficient operation thereof.

11.2. 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 Control System documents for risk management, for example, the Internal Control System document: Risk Management Policy.

11.3. 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.

11.4. 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.

11.5. 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.

11.6. 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.

12. Inspection Committee of the Issuer

The Inspection Committee is formed by resolution of the Issuer shareholders' meeting. Principles of its operations and the scope of responsibility are established in accordance with requirements of respective legal provisions.

12.1. The functions and responsibility of the Inspection Committee shall be set out in the Regulations of the Committee or another document of similar status.

The Bank follows this principle.

12.2. To ensure efficient functioning of the Inspection Committee, it is recommended that it consists of at least three members who are knowledgeable enough in accounting and preparation of financial statements, since one of the principal areas of activities of the Inspection Committee covers issues related to Issuer's financial reports and control.

The Bank follows this principle partially. The Inspection Committee of the Bank consists of two members.

12.3. All members of the Inspection Committee should have access to the accounting methods used by the Issuer. The board shall inform the Inspection Committee of the methods used for evaluation of those important or unusual transactions where different assessment methods are applied, and shall ensure that the Inspection Committee has access to all the information specified in the legal provisions.

The Bank follows this principle.

12.4. The Issuer shall make sure that the Inspection Committee can receive from Issuer's officers, board members and other employees any information which is requisite for the work of the Committee. The Inspection Committee shall also have the right to conduct an independent investigation in order to identify, within the framework of its competence, any violations in Issuer's activities.

The Bank follows this principle.

12.5. The Inspection Committee shall make decisions within the framework of its competence; it shall report to the shareholders' meeting about its activities.

The Bank follows this principle.

F. REMUNERATION POLICY

13. 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 shall work out a remuneration policy which defines general principles and criteria according to which members of the Board and Council are granted their remuneration.

13.1. The Issuer shall develop a remuneration policy, in which the main principles for determination of remuneration, possible remuneration schemes and other essential issues related thereto are determined. When elaborating a remuneration policy it should be ensured that the remuneration of board and council members is commensurate with remunerations of other officers and employees of the Issuer.

The Bank follows this recommendation. The Bank Board has elaborated The Remuneration Policy, The Labour Payment Regulations and Bonus System Regulations which are approved by the Bank Council.

13.2. Without prejudice to the administrative body which is in charge of the determination of remuneration, role and functions of the Board and Council, the elaboration of a draft remuneration policy shall be assigned to the Issuer's Board, which during the preparation of a draft policy shall consult with the Council of the Issuer. In order to prevent any conflicts of interest and to monitor work of the Board related to the remuneration policy, the Issuer should appoint an employee responsible for the development of the remuneration policy. Such employee should have sufficient experience and knowledge in the determination of remuneration.

The Bank follows this recommendation. The Bank Council has approved Remuneration Policy.

13.3. If the remuneration policy, in the part determining the structure of remuneration, contemplates also a variable component of remuneration which is paid by Issuer's shares or share options, the variable component should be linked to previously set short-term and long-term goals. If the variable component is linked to short-term results only, it will not promote interest in long-term growth of the company and improvement of performance. The size and structure of remuneration should depend on overall performance of the company, price of shares and other factors related to the Issuer.

The Bank does not apply this recommendation, since no Bank's shares or share options were granted as remuneration in 2010.

13.4. When determining a variable component of remuneration, such variable should have a ceiling set on the condition that the variable component is commensurate with the fixed part of remuneration in order the pre-paid variable of remuneration could be detained, if necessary.

The Bank is implementing this recommendation in its Remuneration Policy.

13.5. If Issuer's shares or share options, or any other rights to acquire Issuer's shares are intended to serve as a variable component of remuneration, it would be desirable to set a minimum period during which they can not be used.

This principle does not apply to the Bank, since the Bank does not utilize compensation schemes

which would use Bank's shares for payment of remuneration.

13.6. The remuneration policy should incorporate provisions stating that the Issuer has the right to require refunding of a variable component of remuneration granted based on performance criteria if the data used for calculation of criteria turns to be apparently wrong. The condition specified in this paragraph should be included in employment agreements which the Issuer makes with officers.

The Bank does not apply this principle

13.7. Such remuneration schemes which foreseen Issuer's shares as compensation, may, in theory, cause losses to Issuer's shareholders because the share price may fall due to a new share issue. Therefore, before developing and approval of any kind of remuneration schemes, it is necessary to evaluate contingent gains or losses.

This principle does not apply to the Bank, since the Bank does not utilize compensation schemes which would use Bank's shares for payment of remuneration.

13.8. If the remuneration policy contemplates also a variable component of remuneration which is paid by Issuer's shares or share options, it should be specified how the Issuer plans to ensure the necessary amount of shares to be granted in accordance with the approved remuneration scheme - 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 the Bank does not utilize compensation schemes which would use Bank's shares for payment of remuneration.

13.9. When developing a remuneration policy and contemplating the awarding of such share options that allow acquiring of Issuer's shares, it shall be necessary to comply with the Stock Exchange rules regulating the awarding of share options.

This principle does not apply to the Bank, since the Bank does not utilize compensation schemes which would use Bank's shares for payment of remuneration.

13.10. When determining the principles according to which remuneration is granted to Board and Council members, general principles must be also foreseen which will be applied to payment of any compensation or other consideration, if any such is planned to apply, in cases where agreements signed with the mentioned officials are terminated (employment termination payments). If employment is terminated due to inadequate performance, no employment termination payments should be granted.

The Bank follows this recommendation. The Bank Board has elaborated the Labour Payment Regulations and Bonus System Regulations which are approved by the Council.

13.11. It is recommended that a commensurate ceiling should be set for employment termination payments. To consider a payment as commensurate, it should not be greater than the fixed part of remuneration for a period of two calendar years.

The Bank is implementing this recommendation in its internal procedures.

14. Disclosure of Remuneration Policy

An intelligible and comprehensive report about the remuneration policy applied to the members of Issuer's administration should be presented to shareholders. Publication of such information provides an opportunity for current and potential shareholders to evaluate thoroughly Issuer's approach to remuneration. For this purpose, the competent body of the Issuer should prepare and publish Remuneration Disclosure.

14.1. The Issuer shall be obliged to publish a comprehensive report about the remuneration policy applied to the members of Issuer's administration, i.e. Remuneration Disclosure. This Disclosure may be executed as a separate document or it may be included in the statement of corporate governance as a separate section. The Remuneration Disclosure shall also be posted on the Issuer's home page on the Internet.

Bank follows this recommendation. The Remuneration Policy is incorporated in the Corporate Governance Report.

14.2. The Remuneration Disclosure should contain at least the following information:

- 1) information on how the remuneration policy was applied to the members of Issuer's board and council during the previous fiscal year, especially indicating essential modifications of the Issuer's remuneration policy as compared to the previous accounting period;
- 2) the ratio of the pay fixed and varied components established for separate categories of officers, including information about the time period, during which the person cannot fully use awarded share options or other type of remuneration;
- 3) sufficient information showing how the amount of remuneration is linked to performance results. To consider information as sufficient, it is recommended to include in the report:
 - explanation of how the chosen performance criteria, upon which the variable component of remuneration is awarded, promote long-term interests of the Issuer;
 - explanation of methods used to determine whether the performance criteria are complied with;
- 4) information on the Issuer's policy in regard to conditions of agreements that are signed with the members of Issuer's administration (terms of the agreements entered into, resignation notice submission period prior to termination of the agreement, and listing of measures that are executed in the event of termination of the agreement);
- 5) information on major parameters and substantiation of the applicable bonus system, and awarding of any other material benefits;
- 6) description of any applicable pension programs or early retirement schemes;
- 7) an overview of the remuneration and other material benefits paid to every person who during a respective accounting year held the office of the member of the board or council, including in the overview at least that information which is mentioned in paragraphs 14.5, 14.6 and 14.7 of this section.

The information is included in the section "Report on Remuneration".

- 14.3. To avoid duplication of information, the Issuer does not have to mention in the Remuneration Disclosure information required in subparagraphs 1-7 of paragraph 14.2 of this section, if it has already been mentioned in the Issuer's remuneration policy. In this case, a reference to the remuneration policy should be given in the Remuneration Disclosure with an indication as to where the Issuer's remuneration policy is available.
- 14.4. If the Issuer considers that publication of the information mentioned in paragraph 14.2 as recommended herein may reveal commercially sensitive information, which as a result may impair the Issuer's strategic position, the Issuer is allowed not to disclose this information upon providing respective explanation.
- 14.5. The following information shall be disclosed in regard to remuneration and/or other income of every member of the council and the board:
- 1) the total amount of remuneration (salaries) for performance of the duties paid out or payable over the accounting year;
 - 2) remuneration and benefits received from any Issuer's affiliated company. The term "affiliated company" used in this paragraph corresponds to the definition of an affiliated company given in Article 1 of the Financial Instruments Market Law;
 - 3) remuneration that is paid in the form of dividends or bonuses, with justification of awarding said payments;
 - 4) payments for the work performed in addition to one's direct duties;
 - 5) compensation and other payments that are due to or that have been received by a council member or a board member who left his/her position during the accounting year;
 - 6) the total value of any material benefits received as remuneration which are not listed in subparagraphs 1) to 5) of this paragraph.

The Bank complies with the recommendations stated in paragraphs 14.3 - 14.5. The Remuneration report is available in the section "Report on Remuneration"

- 14.6. The following information shall be disclosed in regard to shares and/or share options, or other remuneration schemes which contemplate acquisition of Issuer's shares:
- 1) the number and conditions of shares or share options that give the right to the holder to obtain Issuer's shares and that have been awarded to a member of the administration of the Issuer during the accounting year;
 - 2) the number of used share options giving the right to acquire Issuer's shares, which have been used during the accounting year, with an indication, for each such option, of the number of acquired shares and the share's price, or the value of the administration member's portion in the remuneration scheme involving shares as of the end of the accounting year;
 - 3) the number of unused share options giving the right to acquire Issuer's shares as of the end of the accounting year, the share price set in the agreement, option exercise date, and main conditions of said option;
 - 4) information on modifications made during the accounting year in provisions of agreements in regard to awarded options giving the right to acquire Issuer's shares (e.g., changes to

option conditions, or changed option term, etc.)

14.7. The following information shall be disclosed in regard to reserves or payments into private pension fund plans:

- 1) the total sum of payments made by the Issuer for the benefit of a person into the pension plan or plans and conditions of pension capital disbursement;
- 2) participation in the respective pension plan determined for a certain person, including conditions of termination of said participation.

14.8. The remuneration schemes contemplating payment of remuneration by way of awarding Issuer's shares or share options, or otherwise providing the right to acquire the Issuer's shares shall be approved by decision of a general shareholders' meeting. When deciding on approval of the remuneration scheme, the shareholders' meeting does not make decisions about the application of the scheme to certain persons.

The Bank does not apply this recommendation, since in 2010 no Bank shares or share options, or any other rights to obtain Bank's shares were granted as remuneration.

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

Information on the risks inherent to Bank activities, purposes, methods and policies of risk management, as well as requirements for own funds and internal capital adequacy is available in the consolidated financial statements of the Bank for 2010.

H. OTHER INFORMATION

1. The persons that have acquired directly or indirectly qualifying holding in the share capital of the Bank:

Shareholder	Country	Shareholding %	Shareholding in LVL
I.Buimisters	Latvia	37.633%	Ls 2 652 600
SIA „C & R Invest”	Latvia	13.700%	Ls 965 650
S.Tarasenoks*	Latvia	12.718%	Ls 896 450
C.E.G.Treherne	Great Britain	9.310%	Ls 656 250
GCK Holdings Netherlands B.V.	Netherlands	6.946%	Ls 489 600
Rikam S.A.H.	Luxembourg	6.845%	Ls 482 500
Figon Co Limited	Cyprus	3.191%	Ls 224 950

* Since Sergejs Tarasenoks has passed away, his shares are included in the succession mass.

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

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

3. Restrictions on voting rights in cases where the maximum amount of voting rights, irrespective of the number of voting shares held, as well as the rights of shareholders to a profit share, which is not related to their proportional shareholding, and other similar restrictions.

Such restrictions on voting rights or on profit share are not foreseen in the Bank.

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

According to the Commercial Law and the Bank's Articles of Association, the term of powers of Board members is 3 years. Appointment of Board members is approved by the Council. A board member must comply with the criteria stated in the Commercial Law and the Credit Institutions Law. Changes to the Board management are subject to approval of the Council. Board members are entitled to leave their post according to the procedure prescribed in the Commercial Law. According to requirements of the Commercial Law, the Articles of Association of the Bank may be amended by general meeting of shareholders of the Bank.

5. Powers of Board members, including the right to issue or repurchase shares.

The Board is the executive body of the Bank, whose task is to perform the operational management of Bank's operations. The Board manages and represents the Bank. According to the amendments made in 2009 to the Article of Association and complying with the requirements of the Commercial Law, the Board shall be authorized to increase the Bank's share capital up to 30% of the share capital of the Bank as on the date when the Articles of Association enter into force. This authorization shall remain in force for five years following the date of entry into force of the Articles of Association. By increasing the share capital under the above described procedure, the amendments to the Articles of Association are made by the Council. In 2009, the Board did not exercise its right.

I. REPORT ON REMUNERATION.

The Report on Remuneration should contain at least the following:

- 1) information on how the remuneration policy was applied to the members of Issuer's board and council during the previous fiscal year, especially indicating essential modifications of the Issuer's remuneration policy as compared to the previous accounting period.

Board members received their remunerations as monthly salaries, which were approved by Bank Council.

Council members received their remunerations as monthly salaries, which were approved at the shareholders meeting.

- 2) the ratio of the pay fixed and varied components established for separate categories of officers, including information about the time period, during which the person cannot fully use awarded share options or other type of remuneration.

The volume of bonus pool is determined by Bank Council when approving the next year's budget (percentage against the budget figures). The bonus pool of the Bank depends on the fulfillment level of particular goals. The recommended minimum level of the fulfillment of particular goals is 90%.

- 3) sufficient information showing how the amount of remuneration is linked to performance results.

Upon allocation of bonuses:

1. *if the goal is achieved for 90%, the percentage of the amount allocated for bonuses shall be lesser than the percental amount allocated in case of complete fulfillment of the goal,*
2. *if the goal is achieved, the amount of funds allocated for bonuses shall correspond to the planned volume,*
3. *if the goal is overachieved, a larger percental amount can be allocated for bonus payment.*

The decision concerning bonus allocation can be taken twice a year– in December according to final performance results and in July for half year results.

- 4) information on the Issuer's policy in regard to conditions of agreements that are signed with the members of Issuer's administration (terms of the agreements entered into, resignation notice submission period prior to termination of the agreement, and listing of measures that are executed in the event of termination of the agreement).

Board members shall be elected by Council decision for a period of three years. Each Board member shall sign a standard Employment Contract. Termination of such contracts shall comply with the legislation of LR.

Council members shall be elected by shareholders decision taken at a meeting for a period of three years.

In 2010, the Bank did not approve any special rules for termination of contracts.

- 5) information on major parameters and substantiation of the applicable bonus system, and awarding of any other material benefits.

The decision concerning bonus allocation can be taken twice a year– in December according to final performance results and in July for half year results.

Annual bonuses shall be paid based on decision of the Council. The Bank Board shall be entitled to take a decision concerning allocation of half year bonuses the amount of which shall not exceed 1/3 of the annual bonus amount set by Bank Council.

The annual bonus amount paid to the Bank Board shall be determined by decision of the Bank Council. The Board shall be authorize to take decisions on payment of half-year bonuses, but in the amount that does not exceed 1/3 of the annual bonus amount set by Bank Council.

- 6) description of any applicable pension programs or early retirement schemes;

The Bank does not apply such schemes.

- 7) an overview of the remuneration and other material benefits paid to every person who during a respective accounting year held the office of the member of the board or council, including in the overview at least that information which is mentioned in paragraphs 14.5, 14.6 and 14.7 of this section.

14.5. The following information shall be disclosed in regard to remuneration and/or other income of every member

of the council and the board:

- 1) the total amount of remuneration (salaries) for performance of the duties paid out or payable over the accounting year;

The remuneration of Council members in 2010 amounted to LVL 213 190, which consisted of:

- LVL 213 190 for salaries,
- No bonus payments were made;
- no other payments were made.

The remuneration of Board members in 2010 amounted to LVL 346 947, which consisted of:

- LVL 346 947 for salaries,
- no bonus payments were made;
- no other payments were made.

- 2) remuneration and benefits received from any Issuer's affiliated company. The term "affiliated company" used in this paragraph corresponds to the definition of an affiliated company given in Article 1 of the Financial Instruments Market Law;

The remuneration to Council members in 2010 was not paid.

The remuneration of Board members in 2010 amounted to LVL 19 168,11, which consisted of:

- LVL 19 168,11 for salaries,
- no bonus payments were made;
- no other payments were made.

- 3) remuneration that is paid in the form of dividends or bonuses, with justification of awarding said payments;

Such payments were not made in 2010.

- 4) payments for the work performed in addition to one's direct duties;

Such payments were not made in 2010.

- 5) compensation and other payments that are due to or that have been received by a council member or a board member who left his/her position during the accounting year;

Such payments were not made in 2010.

- 6) the total value of any material benefits received as remuneration which are not listed in subparagraphs 1) to 5) of this paragraph.

Such payments were not made in 2010.

Having regard of the stipulation under Paragraph 14.4 (If the Issuer considers that publication of the information mentioned in paragraph 14.2 as recommended herein may reveal commercially sensitive information, which as a result may impair the Issuer's strategic position, the Issuer is allowed not to disclose this information upon providing respective explanation) more detailed information is not provided since the Bank considers it as commercially sensitive information, which can be used by competitors.

14.6. *The following information shall be disclosed in regard to shares and/or share options, or other remuneration schemes which contemplate acquisition of Issuer's shares:*

- 1) *the number and conditions of shares or share options that give the right to the holder to obtain Issuer's shares and that have been awarded to a member of the administration of the Issuer during the accounting year;*
- 2) *the number of used share options giving the right to acquire Issuer's shares, which have been used during the accounting year, with an indication, for each such option, of the number of acquired shares and the share's price, or the value of the administration member's portion in the remuneration scheme involving shares as of the end of the accounting year;*
- 3) *the number of unused share options giving the right to acquire Issuer's shares as of the end of the accounting year, the share price set in the agreement, option exercise date, and main conditions of said option;*
- 4) *information on modifications made during the accounting year in provisions of agreements in regard to awarded options giving the right to acquire Issuer's shares (e.g., changes to option conditions, or changed option term, etc.)*

The Bank does not apply this principle, since Bank's shares or share options are not granted as remuneration.

14.7. *The following information shall be disclosed in regard to reserves or payments into private pension fund plans:*

- 2) *the total sum of payments made by the Issuer for the benefit of a person into the pension plan or plans and conditions of pension capital disbursement;*
- 3) *participation in the respective pension plan determined for a certain person, including conditions of termination of said participation.*

The Bank does not apply this principle since such payments are not foreseen in the Bank.

14.8. *The remuneration schemes contemplating payment of remuneration by way of awarding Issuer's shares or share options, or otherwise providing the right to acquire the Issuer's shares shall be approved by decision of a general shareholders' meeting. When deciding on approval of the remuneration scheme, the shareholders' meeting does not make decisions about the application of the scheme to certain persons.*

The Bank does not follow this principle, since Bank's share options are not granted as remuneration.

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