



AS „PAREX BANKA”

**REPORT ON CORPORATE GOVERNANCE
FINANCIAL YEAR 2009**

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I Introduction

The Report of Joint-stock company "Parex banka" (hereinafter – Parex banka or the Bank or the Issuer) on corporate governance in financial year 2009 (hereinafter – the Report) was prepared in accordance with Law on the Financial Instruments Market and requirements of JSC "NASDAQ OMX Riga" (hereinafter also – the Exchange) regulations "On Listing and Trading of Financial Instruments on the Markets Regulated by the Exchange" and prepared based on the "observe and report" principle.

The Report was prepared based on "Principles of Corporate Governance and Recommendations on Their Implementation" published by JSC "NASDAQ OMX Riga" in 2008 and available on the web page of the Exchange www.nasdaqomxbaltic.com, in response to articles of Law on the Financial Instruments Market, concerning issuers whose debt securities are quoted in the Exchange.

In 2009, JSC "Parex banka" has complied with principles of corporate governance incorporated in "Principles of Corporate Governance and Recommendations on Their Implementation" of the Exchange, as evidenced in the Report in accordance with Legal acts of Republic of Latvia and within scope of Bank's Management Board and Council.

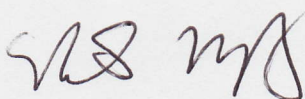
As at 31 December 2009, the JSC "Parex banka" registered and paid-in share capital was 230,027,295 lats. In accordance with the Bank's Statute, the share capital is split in 201,383,439 registered shares with voting rights and 28,643,856 registered shares without voting rights. The nominal value of each share is 1 lat, and they were fully paid in. On 31 December 2009, the Bank did not own any of its shares. In 2009 and 2008 no dividends were declared or disbursed.

On 31 December 2009, the Bank had 61 shareholders. The respective shareholdings as at 31 December 2009 were as follows:

	31.12.2009		
	Paid in share capital (LVL 000's)	% of total paid in share capital	% of total voting rights
SJSC "Privatisation Agency" (qualifying holding)	168,921	73.44	71.74
European Bank for Reconstruction and Development (qualifying holding)	51,444	22.36	25.55
Other	9,662	4.20	2.71
Total	230,027	100.00	100.00

In accordance with requirements of Article 56 of Law on the Financial Instruments Markets, this Report is publicly available on premises of JSC "Parex Banka" in Republikas square 2a, Riga and in electronic form – on the web page of JSC "Parex banka" www.parex.lv in section "Par banku".

Chairman of the Management Board of JSC "Parex banka"



Nils Melngailis

10 May 2010

II Principles of good corporate governance

SHAREHOLDERS' MEETING

Shareholders realize their rights to participate in the management of the Issuer at shareholders' meetings. In compliance with legal acts the Issuers shall call the annual shareholders' meeting as minimum once a year. Extraordinary shareholders' meetings shall be called as required.

1. Ensuring shareholders' rights and participation at shareholders' meetings

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

- 1.1. It shall be important to ensure that all the holders of shares of one category have also equal rights, including the right to receive a share of the Issuer's profit as dividends.

JSC "Parex banka" complies with this principle of corporate governance. No limitations on voting rights of shareholders and no maximum capacity of voting rights have been defined in the Statute of the Bank. According to the Statute, shareholders have a right to a share of profit which is proportional to the shares they own.

- 1.2. In order to protect the Issuer's shareholders' interest to a sufficient extent, not only the Issuers but also any other persons who according to the procedure stipulated in legislative acts call, announce and organize a shareholders' meeting are asked to comply with all of these Recommendations in relation to calling shareholders' meetings and provision of shareholders with the required information.

Parex banka complies with this principle of corporate governance.

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

Parex banka complies with this principle of corporate governance.

- 1.4. The Issuer shall inform shareholders on calling a shareholders' meeting by issuing a notice in line with the procedure and timing set forth in legislative acts.

Parex banka complies with this principle of corporate governance.

- 1.5. The Issuer shall ensure that information to the shareholders on meeting agenda, draft resolutions, about which shareholders are expected to vote as well as place where the meeting will take place is made available in accordance with the timing and procedure as set out in the legislative acts. The Issuers shall also inform the shareholders whom they can address to receive answers to any questions on the arrangements for the shareholders' meeting and the agenda issues and ensure that the required additional information is provided to the shareholders.

Parex banka complies with this principle of corporate governance.

- 1.6. The Issuer shall ensure that at least 14 (fourteen) days prior to the meeting the shareholders have the possibility to acquaint themselves with the draft resolutions on the issues to be dealt with at the meeting, including those that have been submitted after the announcement on calling the meeting.

Parex banka complies with this principle of corporate governance.

- 1.7. The Issuer may not restrict the right of shareholders to consult among themselves during a shareholders' meeting if it is required in order to adopt a decision or to clarify certain matter.

Parex banka complies with this principle of corporate governance.

- 1.8. To provide shareholders with complete information on the course of the shareholders' meeting, the Issuer shall prepare the regulations on the course of shareholders' meeting, in which the agenda of shareholders' meeting and a procedure for solving any organizational issues connected with the shareholders' meeting are determined. The procedures adopted by the Issuer in relation to participation in voting shall be easy to implement.

Parex banka complies with this principle of corporate governance. The regulations on the course of shareholders' meeting, if necessary, are approved by shareholders during the course of shareholders' meeting.

- 1.9. The Issuer shall ensure that during the shareholders' meeting the shareholders have the possibility to ask questions to the candidates to be elected at the shareholders' meeting (or to those that nominated them) and other attending representatives of the Issuer.

Parex banka complies with this principle of corporate governance.

- 1.10. Since, setting a long break during a meeting, would hinder the rights of shareholders to act unrestrictedly with their shares for an undetermined time period, it shall not be recommended to announce a break during a shareholders' meeting. The conditions upon which it is possible to announce a break shall be stipulated also in the regulations on the course of meeting. A break of meeting may be a lunch break, a short break (up to 30 minutes) etc.

Parex banka complies with this principle of corporate governance.

- 1.11. When entering the course and contents of discussions on the agenda issues to be dealt with at the shareholders' meeting in the minutes of shareholders' meeting, the chairperson of the meeting shall ensure that, in case any meeting participant requires it, particular debates are reflected in the minutes or that shareholder proposal or questions are appended thereto in written form.

Parex banka complies with this principle of corporate governance.

MANAGEMENT BOARD

The Management Board is the Issuer's executive institution, which is responsible for managing the company and represents the Issuer in its everyday business. Therefore, the Issuer by clearly determining the Management Board's obligations and responsibilities shall ensure that the Management Board is effective, able to take decisions, and committed to increase the value of the company.

Management Board of Parex banka:

<i>Name</i>	<i>Position</i>	<i>Date of election</i>
Nils Melngailis	Chairman of the Board, p.p.	5 December 2008
Guntis Beļavskis	Member of the Board, p.p.	5 December 2008
Roberts Stūģis	Member of the Board	9 January 2009
Vladimirs Ivanovs	Member of the Board	5 December 2008
Valters Ābele	Member of the Board	5 December 2008

***Nils Melngailis**, Chairman of the Management Board, p.p.*

Nils Melngailis was elected as Chairman of the Management Board on 5 December 2008. He also is chairman of the council of a subsidiary of the Bank – investment management joint-stock company Parex Asset Management. Prior to election as Chairman of the Management Board of the Bank N.Melngailis was CEO of Lattelecom; also held position of partner at Northern Europe office of IBM Business Consulting Services, as well as PriceWaterhouseCoopers, London and position of Managing Partner in Baltics. Managed auditing company Coopers & Lybrand in Latvia. Born in the USA, built strong foundation of academic knowledge, including a Masters degree in Corporate Finance and Law from Taft University, as well as a Bachelor's degree in Political Science from Boston University. Fulbright scholarship recipient.

***Guntis Beļavskis**, Member of the Management Board, p.p.*

Elected to the Management Board of Parex banka on 5 December 2008. G.Beļavskis also holds positions of Head of Retail Sector and Senior Vice President. G.Beļavskis joined the Bank in 2002 as head of Bank's Sales and Marketing Department. In a couple of years' time became Head of Client Service Division and obtained position of Vice President of Client Service. G.Beļavskis has a Bachelor's degree in Business Administration from Riga Institute of Transportation and Communications. G.Beļavskis is Chairman of the Council of the subsidiary of the Bank, Parex bankas, JSC (Lithuania).

***Roberts Stūģis**, Member of the Management Board*

Elected to the Management Board of Parex banka on 9 January 2009, dismissed from duties as a member of the Management Board according to 15 March 2010 Council's decision. Last position of R.Stūģis in the Bank – Senior Vice President, Head of Finance and Treasury Sector. R.Stūģis has worked for the Bank since 2001, previously obtaining experience in auditing company Arthur Andersen. R.Stūģis has an MBA degree from Stockholm School of Economics in Riga, is a member ACCA.

***Vladimirs Ivanovs**, Member of the Management Board*

Elected to the Management Board of Parex banka on 5 December 2008. V.Ivanovs is Vice President and Deputy Head of Private Capital Management Sector. Responsible for service of Bank's clients in Central Europe, Eastern Europe and CIS countries, including branches and representative offices, development and promotion of Bank's products and services in these countries, developing ties with correspondent banks, as well as crediting in CEE and CIS countries. V.Ivanovs has been working in the banking sector since 1995 and has had several managing positions. Prior to joining the

Parex banka team in 2001, he was Chairman of the Management Board of JSC "Paritāte". He has obtained a Masters degree in Business Administration from Riga International School of Economics and Business Administration.

Valters Ābele, Member of the Management Board

Elected to the Management Board of Parex banka on 5 December 2008. He is also Senior VP and Head of Risk and Compliance Sector. Prior to election to Management Board of the Bank V.Ābele was head of Bank's Credit Risk Division. Before joining Bank's team in 2008, he acquired an extensive experience as an auditor and financial consultant in companies such as Ernst & Young and Arthur Andersen. V.Ābele is a member of Latvian Chartered Auditors' Association and ACCA. He has a Masters degree in Business Administration and International Economics Relations from University of Latvia. V.Ābele is a Member of the Board of Bank's subsidiary – SIA "NIF".

Election and dismissal of Members of the Board of the Bank is carried out according to Commercial Law and Statute of Parex banka. The Council of Parex banka, which appoints the Chairman of the Board, has the right to elect and dismiss Members of the Board. Additional information regarding the structure of the Board and professional experience and education of its members is available on the Bank's web page in section "Mediju telpa".

3. Obligations and responsibilities of the Management Board

The Issuers shall clearly and expressively determine the obligations and authorities of the management board and responsibilities of its members, thus ensuring a successful work of the management board and an increase in the Issuer's value.

- 3.1. The management board shall have the obligation to manage the business of the Issuer, which includes also the responsibility for the realization of the objectives and strategies determined by the Issuer and the responsibility for the results achieved. The management board shall be responsible for the said to the council and the shareholders' meeting. In fulfilment of its obligations, the management board shall adopt decisions guided by interests of all the shareholders and preventing any potential conflict of interests.

Parex banka complies with this principle of corporate governance.

- 3.2. The management board shall be responsible also for the compliance with all the binding regulatory acts, risk management, as well as the financial operations of the Issuer.

Parex banka complies with this principle of corporate governance.

- 3.3. The management board shall perform certain tasks, including:

- 1) Corporate strategies, work plan, risk control procedure, assessment and advancement of annual budget and business plans, ensuring control on the fulfilment of plans and the achievement of planned results;
- 2) Selection of senior managers of the Issuer, determination of their remuneration and control of their work and their replacement, if necessary, in compliance with internal procedures (e.g. personnel policy adopted by the Issuer, remuneration policy etc.);
- 3) Timely and qualitative submission of reports, ensuring also that the internal audits are carried out and the disclosure of information is controlled.

Parex banka complies with this principle of corporate governance.

- 3.4. In annual reports, the management board shall confirm that the internal risk procedures are effective and that the risk management and internal control have been carried out in compliance with the said control procedures throughout the year.

Parex banka complies with this principle of corporate governance.

- 3.5. It shall be preferable that the management board submits decisions that determine the objectives and strategies for achievement thereof (participation in other

companies, acquisition or disposal of property, opening of representation offices or branches, expansion of business etc) to the Issuer's council for approval.

The Management Board manages Parex banka in accordance with the legislative acts of the Republic of Latvia, the Statute and decisions of the Council and shareholders' meeting. In accordance with the Statute of the Bank, some decisions of the Management Board require approval of the Council. This relates to approval of budget and business plans, etc. All policies which establish main operating principles of the Bank, are reviewed and accepted by the Management Board, and approved by the Council.

4. Management Board composition and requirements for board members

A management board composition approved by the Issuer shall be able to ensure sufficiently critical and independent attitude in assessing and taking decisions.

- 4.1. In composing the management board, it shall be observed that every member of management board has appropriate education and work experience and that the requirements of the legislative acts of the Republic of Latvia are met.

Parex banka complies with this principle of corporate governance in accordance with the requirements of Law of Credit Institutions.

- 4.2. On the Issuer's website on the Internet, the following information on every Issuer's management board member shall be published: name, surname, year of birth, education, office term, position, description of the last three year's professional experience, number of the Issuer's or its parent companies/subsidiaries shares owned by the member, information on positions held in other capital companies.

Parex banka complies with this principle of corporate governance.

- 4.3. In order to fulfil their obligations successfully, management board members must have access in due time to accurate information on the operations of the Issuer. The management board must be capable of providing an objective evaluation on the operations of the Issuer. Board members must have enough time for the performance of their duties.

Parex banka complies with this principle of corporate governance.

- 4.4. It is not recommended to elect one and the same management board member for more than four successive terms. The Issuer has to evaluate whether its development will be facilitated in the result of that and whether it will be possible to avoid a situation where greater power is concentrated in hands of one or a number of separate persons due to their long-term work at the Issuer. If, however, such election is admitted, it shall be recommended to consider changing the field of work of the relevant Management Board member at the Issuer.

Parex banka complies with this principle of corporate governance.

5. Identification of interest conflicts in the work of management board members

Every management board member shall avoid any interest conflicts in his/her work and be maximally independent from any external circumstances and willing to assume responsibility for the decisions taken and comply with the general accepted ethical principles in making any decisions connected with the business of the Issuer.

- 5.1. It shall be the obligation of every management board member to avoid any, even only supposed interest conflicts in his/her work. In taking decisions, board members shall be guided by the interests of the Issuer and to obtain personal benefit.

Parex banka complies with this principle of corporate governance.

- 5.2. It is undesirable for the Management board members to participate in taking decisions that could cause a conflict of interest.

Parex banka complies with this principle of corporate governance.

COUNCIL

In compliance with legal acts a council is the institution that supervises the Issuer and represents interests of shareholders between meetings in cases stipulated in the law and in the statutes of the Issuer, supervises the work of the management board.

Current Council of the Bank was elected in an extraordinary shareholders' meeting on 6 April 2010, after accounting period, due to resignation from their posts of Chairman of the Council Andžs Ūbelis and Manager of State Treasury Kaspars Āboliņš. Currently Members of Council of Parex banka are Juris Jākobsons, Michael J. Bourke, Laurence Phillip Adam, Klāvs Vasks and Juris Vaskāns.

Changes that have taken place in structure of the Council of the Bank during accounting year:

<i>Name</i>	<i>Position</i>	<i>Date of change</i>	<i>Type of change</i>
<i>Andžs Ūbelis</i>	<i>Chairman of the Council</i>	<i>17.09.2009</i>	<i>Re-elected</i>
<i>Michael J. Bourke</i>	<i>Deputy Chairman of the Council</i>	<i>17.09.2009</i>	<i>Re-elected</i>
<i>Andžs Ūbelis</i>	<i>Member of the Council</i>	<i>28.08.2009</i>	<i>Reappointed</i>
<i>Michael J. Bourke</i>	<i>Member of the Council</i>	<i>28.08.2009</i>	<i>Reappointed</i>
<i>Kaspars Āboliņš</i>	<i>Member of the Council</i>	<i>28.08.2009</i>	<i>Reappointed</i>
<i>Laurence Phillips Adams</i>	<i>Member of the Council</i>	<i>28.08.2009</i>	<i>Reappointed</i>
<i>Juris Vaskāns</i>	<i>Member of the Council</i>	<i>28.08.2009</i>	<i>Appointed</i>
<i>Andžs Ūbelis</i>	<i>Chairman of the Council</i>	<i>28.08.2009</i>	<i>Removed</i>
<i>Michael J. Bourke</i>	<i>Deputy Chairman of the Council</i>	<i>28.08.2009</i>	<i>Removed</i>
<i>Kaspars Āboliņš</i>	<i>Member of the Council</i>	<i>28.08.2009</i>	<i>Removed</i>
<i>Carl Hakan Kallaker</i>	<i>Member of the Council</i>	<i>28.08.2009</i>	<i>Resigned</i>
<i>Laurence Phillips Adams</i>	<i>Member of the Council</i>	<i>28.08.2009</i>	<i>Removed</i>
<i>Andžs Ūbelis</i>	<i>Chairman of the Council</i>	<i>29.06.2009</i>	<i>Reappointed</i>
<i>Michael J. Bourke</i>	<i>Deputy Chairman of the Council</i>	<i>29.06.2009</i>	<i>Appointed</i>
<i>Kaspars Āboliņš</i>	<i>Member of the Council</i>	<i>29.06.2009</i>	<i>Reappointed</i>
<i>Carl Hakan Kallaker</i>	<i>Member of the Council</i>	<i>29.06.2009</i>	<i>Reappointed</i>
<i>Laurence Phillips Adams</i>	<i>Member of the Council</i>	<i>29.06.2009</i>	<i>Appointed</i>
<i>Rolands Paņko</i>	<i>Deputy Chairman of the Council</i>	<i>29.06.2009</i>	<i>Resigned</i>
<i>Gints Freimanis</i>	<i>Member of the Council</i>	<i>29.06.2009</i>	<i>Resigned</i>
<i>Žaneta Jaunzeme-Grende</i>	<i>Member of the Council</i>	<i>29.06.2009</i>	<i>Resigned</i>

Information on Members of the Council of JSC "Parex banka", short professional biography:

Juris Jākobsons, Member of the Council

Elected to Council of the Bank on 6 April 2010. Since January 2010 Juris Jākobsons is Head of restructuring project of Parex banka in state JSC Privatisation Agency, previously occupying the positions of Chairman of the Management Board and President of Vereinsbank Riga (later renamed to HVB Bank Latvia, now UniCredit Bank) and member of the Management Board and Vice President at SEB Bank Latvija. J.Jākobsons has a Masters degree in Business Administration from Helsinki School of Economics and Business Administration.

Michael Joseph Bourke, Deputy Chairman of the Council

On 29 June 2009 Michael J. Bourke, who for a long period of time was President of Rietumu Banka, was elected to Council of Parex banka. M.J.Bourke has extensive experience in international financial institutions such as the Central Bank of Ireland, International Monetary Fund and NCB Group. M.J.Bourke is a member of Chartered Certified Accountants (FCCA). Re-elected in 6 April 2010.

Laurence Phillips Adams, Member of the Council

On 29 June 2009, Laurence Phillip Adams, a nominee of European Bank for Reconstruction and Development, a lawyer specializing in the financial sector and 25 years of experience in the sector, was elected to Council of Parex banka. L.P.Adams has been working for such foreign financial institutions as ABN AMRO Bank and Citibank. Re-elected on 6 April 2010.

Klāvs Vasks, Member of the Council

Elected to Council of Parex banka on 6 April 2010. Since July 2009 Klāvs Vasks is a Member of the Management Board of the Latvian Guarantee Agency. Klāvs Vasks has acquired an extensive experience in SEB Bank Latvija, where he occupied the position of Vice President and Head of Restructuring and Large Enterprise Service Divisions. He has a Masters degree from Riga Business School of Riga Technical University.

Juris Vaskāns, Member of the Council

Juris Vaskāns was elected to Council of Parex banka on 28 August 2009. Prior to this he was a member of the Management Board in the Privatisation Agency, and counsellor to President of AS "Krājbanka", as well as member of the Management Board / Central Financial Officer of SIA "Latvian Finnish Maritime Agency, Ltd". Juris Vaskāns has a Bachelors degree in Finance from East Michigan University, Ypsilanti, MI, ASV. He was re-elected to the Council on 6 April 2010.

6. Obligations and responsibilities of the council

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

- 6.1. The functions of the council shall be determined in the council regulation or a document equated thereto that regulates the 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 council is regulated and its functions are set by Law on Commerce, Statutes of Parex banka and regulations of Parex banka council, available in Parex office in Republikas Square 2a upon enquiry.

- 6.2. The supervision carried out by the council over the work of the management 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, management board's proposals on the Issuer's profit distribution, and the compliance of the Issuer's operations with the requirements of regulatory acts. The council should discuss every of the said matters and express its opinion at least annually, complying with frequency of calling council meetings as stipulated in regulatory acts, and the results of discussions shall be reflected in the minutes of the council's meetings.

Parex banka complies with this principle of corporate governance.

- 6.3. The council and its every member shall be responsible that they have all the information needed to fulfil their duties. The information can be obtained from management board members and internal auditors or, if necessary, from employees of the Issuer or external consultants. To ensure information exchange, the council chairperson shall regularly communicate with the Issuer's management board, inter alia the management board's chairperson, and discuss all the most important issues connected with the Issuer's business and development strategy, business activities, and risk management.

Parex banka complies with this principle of corporate governance.

8. Identification of conflicts of interest in the work of council members

All council members shall comply with generally accepted ethical principles and take full responsibility for the decisions taken concerning the business of the Issuer.

- 8.1. Any decisions taken by the member of the council shall be driven by the interests of the Issuer.

Parex banka complies with this principle of corporate governance.

- 8.2. A council member who is in a possible interest conflict should not participate in taking decisions that might be a cause of an interest conflict.

Parex banka complies with this principle of corporate governance.

DISCLOSURE OF INFORMATION

Disclosure of information about Issuer's economic activity and its financial results is a good practice of corporate governance for an Issuer whose debt securities are included in the market regulated by the Stock Exchange. This facilitates a justified determination of the price of financial instruments in public circulation as well as the trust in finance and capital markets. Disclosure of information is closely connected with investor relations (hereinafter – the IR), which 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 business

The information disclosed by the Issuers shall be provided in due time and allowing the investors to assess the management of the Issuer, to get an idea on the business of the company and its financial results, as well as to take grounded decisions in relation to the debt securities held by them.

- 9.1. The structure of corporate governance shall be established in a manner that ensures provision of timely and exhaustive information on all the substantial matters that concern the Issuer, including its financial situation, business results, and the structure of owners.

Parex banka complies with this principle of corporate governance. Information is published not only on the Bank's corporate website in three languages; it is also published on the Stock Exchange website and in the centralized storage system of official obligatory information.

- 9.2. The information disclosed shall be checked, precise, unambiguous and prepared in compliance with high-quality standards.

Parex banka complies with this principle of corporate governance.

- 9.3. The Issuers should appoint a person who would be entitled to contact the press and other mass media on behalf of the Issuer, thus ensuring uniform distribution of information and evading publication of contradictory and untruthful information, and this person could be contacted, if necessary, by the Stock Exchange and investors.

Parex banka complies with this principle of corporate governance.

- 9.4. The Issuers should ensure timely and compliant with the existing requirements preparation and disclosure of financial reports and annual reports of the Issuer.

Parex banka complies with this principle of corporate governance.

10. Investor relations

Considering that financial instruments of the Issuers are offered on a regulated market, also such activity sphere of the Issuers as investor relations (hereinafter – the IR) and the development and maintaining thereof is equally important, paying special attention to that all the investors have access to equal, timely and sufficient information.

- 10.1. The main objectives of the IR are the provision of accurate and timely information on the business of the Issuer to participants of finance market, as well as the provision of a feedback, i.e. receiving references from the existing and potential investors and other persons. In the realization of the IR process, it shall be born in mind that the target group consists not only of institutional investors and finance market analysts. A greater emphasis should be put on individual investors, and more importance should be attached to informing other interested parties: employees, creditors and business partners.

Parex banka complies with this principle of corporate governance. Information about all substantial events is both sent to the Bank's shareholders, and disseminated on the website of the Stock Exchange, is published in the centralized storage system of official obligatory information, as well as is available on the Bank's website and the intranet.

- 10.2. The Issuer shall provide all investors with equal and easily accessible important information related to the Issuer's business, including financial position, ownership structure and management. The Issuer shall present the information in a clear and understandable manner, disclosing both positive and negative facts, thus providing the investors with complete and comprehensive information on the Issuer, allowing the investor to assess all information available before the decision making.

Parex banka complies with this principle of corporate governance. The Bank's financial information, as well as information about substantial events is publicized on the Bank's website, as well as disseminated to the Bank's shareholders, is disseminated on the website of the Stock Exchange and is published in the centralized storage system of official obligatory information.

- 10.3. A number of channels shall be used for the information flow in the IR. The IR strategy of the Issuer shall be created using both the possibilities provided by technologies (website) and relations with mass media and the ties with the participants of finance market. Considering the development stage of modern technologies and the accessibility thereof, the Internet is used in the IR of every modern company. This type of media has become one of the most important means of communications for the majority of investors.

Parex banka complies with this principle of corporate governance. Parex banka has created three official websites www.parex.lv, www.parex.ru and www.parexgroup.com, where all significant IR information about the Bank, which might be useful for the Bank's shareholders and bondholders, is available.

- 10.4. The basic principles that should be observed by the Issuers in preparing the IR section of their websites:

- 1) The IR section of website shall be perceived not only as a store of information or facts but also as one of the primary means of communication by means of which it is possible to inform the investors;

Parex banka complies with this principle of corporate governance. Although there is no separate IR section created on Parex banka's website, however, creating the Bank's website the recommended principles are complied with. The information for investors is easily to find on the Bank's website and available in sections "Par banku" and "Mediju telpa". All information is available in Latvian, English and Russian.

- 2) all the visitors of the IR section of website shall have the possibility to obtain conveniently all the information published there. Information on websites shall be published in all the foreign languages in which the Issuer normally distributes information so that in no way would foreign investors be discriminated, however, it shall be taken into account that information must be disclosed at least in Latvian and English;

Parex banka complies with this principle of corporate governance. All important information is available at least in three languages.

- 4) it shall be recommended to consider a solution that would allow the existing and potential investors to maintain ties with the Issuer by using the IR section of website – submit questions and receive answers thereto, order the most recent information, express their opinions etc.;

Parex banka complies with this principle of corporate governance. On the Bank's website in section "Mediju telpa" one can find contacts of the Bank's media relations specialists, including, telephone number, fax, e-mail address.

- 5) the information published on websites shall be updated on a regular basis, and the news in relation to the Issuer and its business shall be published in due time. It shall not be admissible that outdated information that could mislead investors is found on websites;

Parex banka complies with this principle of corporate governance. The information published on the website is updated on a daily basis.

- 6) after the website is created the creators themselves should assess the IR section of the website from the point of view of users – whether the information of interest can be found easily, whether the information published provides answers to the most important questions etc.

Parex banka complies with this principle of corporate governance. Although the Bank does not make enquiries of the users regarding the content and structure of the website, at the same time Parex banka takes into consideration user comments, for example, a new subsection “Fakti par aktualitātēm” has been created in section “Par banku” (the main page has also a link to this significant subsection).

10.5. The Issuer shall ensure that at least the following information is contained in the IR section of website:

- 1) general information on the Issuer – history of its establishment and business, registration data, description of industry, main types of business;

Parex banka complies with this principle of corporate governance.

- 2) Issuer’s Report (“comply or explain”) on the compliance with the principles of corporate governance;

Parex banka complies with this principle of corporate governance. The Bank will place the Report on corporate governance for the financial year 2009 on the website in section About the Bank. The report will be also available on the website of the Stock Exchange, as well as will be published in the centralized storage system of official obligatory information.

- 3) the number of issued and paid financial instruments, specifying how many of them are included in a regulated market;

Parex banka complies with this principle of corporate governance. The aforementioned information is included in the Bank’s annual reports.

- 4) information on shareholders’ meetings, draft decisions to be examined, decisions adopted – at least for the last year of report;

Parex banka complies with this principle of corporate governance. The information related to shareholders’ meetings is sent to the shareholders, while notices about the calling of shareholders’ meetings and their decisions are available in subsection Press Releases of section Media Space.

- 5) Issuer’s statutes;

Parex banka complies with this principle of corporate governance. Parex banka’s Articles of Association are sent to interested persons (shareholder, bondholder, contrahent etc.) at request.

- 7) Information on the performance of the Issuer’s Audit Committee;

Parex banka complies with this principle of corporate governance, although this information is available only to the Bank’s shareholders, Parex banka had included an agenda point of the Audit Committee report for 2009 in the annual shareholders’ meeting of 29 January 2010.

- 8) information on present Issuer's council and management board members (on each individually): work experience, education, number of the Issuer's shares owned by the member (as at the beginning of year; the information shall be updated as necessary but at least annually), information on positions in other capital companies, and the term of office of management board and council members;

Parex banka complies with this principle of corporate governance, CV of each management board member is available on the Bank's website in section "Par banku", in turn information about the appointment of council members is available on the Bank's website in subsection "Preses relizes", as well as in the Bank's financial reports.

- 9) Issuer's shareholders which/who own at least 5% of the Issuer's shares; and information on changes of shareholders;

Parex banka complies with this principle of corporate governance. Information on the Bank's major shareholders is available on the Bank's corporate websites in three languages in sections "Par banku", as well as in subsection "Preses relizes" of section "Mediju telpa", as well as in quarterly and annual financial reports.

- 10) Financial reports and annual reports of the Issuer prepared in compliance with the procedure specified in legal acts and the Stock Exchange regulations;

Parex banka complies with this principle of corporate governance.

- 11) Any other information to be disclosed by the Issuer, e.g. information on any substantial events, Issuer's press releases, archived information on Issuer's financial and annual reports on previous periods etc.

Parex banka complies with this principle of corporate governance.

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 information disclosed and compliance to the relevant regulatory acts and business principles. Internal control helps the management board to identify shortcomings and risks in the management of the Issuer as well as facilitates that the council's task - to supervise the work of the management board - is fulfilled effectively.

11. Principles of the Issuer's internal and external control

To ensure successful work of the Issuer, it shall be necessary to plan regular control and to determine the procedure of internal and external (audit) control.

- 11.1. To ensure successful operations, the Issuer shall control its work on a regular basis and define the procedure of internal control.

Parex banka complies with this principle of corporate governance. More detailed information is provided in Note 35 of the 2009 annual report.

- 11.2. The objective of risk management is to ensure that the risks connected with the commercial activity of the Issuer are identified and supervised. To ensure an effective risk management, it is necessary to define the basic principles of risk management. It is recommended to characterize the most material potential and existing risks in relation to the business of the Issuer.

Parex banka complies with this principle of corporate governance. More detailed information is provided in Note 35 of the 2009 annual report.

- 11.3. Auditors shall be granted access to the information required for the fulfilment of auditor's tasks and the possibility to attend council and management board meetings at which financial results and other matters are dealt with.

Parex banka complies with this principle of corporate governance.

- 11.4. Auditors shall be independent in their work and their task shall be to provide the Issuer with independent and objective audit and consultation services in order to facilitate the efficiency of the Issuer's business and to provide support in achieving the objectives set for the Issuer's management by offering a systematic approach for the assessment and improvement of risk management and control processes.

Parex banka complies with this principle of corporate governance.

- 11.5. It shall be recommended to carry out an independent internal control at least annually in order to assess the work of the Issuer, including its conformity to the procedures approved by the Issuer.

Parex banka complies with this principle of corporate governance, Parex Group's Internal Audit Division, which is under direct subordination of the Bank's council, performs the function of the Bank's daily internal audit. The Internal Audit Division operates within the scope of authorities defined by the council and to the order thereof. Furthermore, the Bank has created an external and independent Audit Committee in line with the requirements of the Law on the Market of Financial Instruments.

- 11.6. When approving an auditor, it is recommended that the term of office of one auditor is not the same as the term of office of the management board.

Parex banka complies with this principle of corporate governance.

The management of Parex banka also strictly monitors the subsidiaries operations. All significant decisions related to the operations of the subsidiaries are approved by the Management Board. Moreover, the Articles of association of Parex banka stipulates that in order to take any such decisions the Management Board has to receive Supervisory Council's permit.

12. Audit Committee

The Audit Committee shall be established by a resolution of the Issuer's shareholders' meeting, and its operations and scope of responsibilities shall be set as guided by the legislation.

- 12.1. The functions and responsibility of the Audit Committee should be specified in the regulation of the committee or a comparable document.

Parex banka complies with this principle of corporate governance. Parex banka's Audit Committee in 2009 consisted of the following members:

- Solvita Deglava, Chairperson of the Audit Committee;
- Svetlana Koļesņikova, member of the Audit Committee;
- Andris Riekstiņš, member of the Audit Committee.

Parex banka's Audit Committee acts within the framework of Regulations for the Audit Committee approved at the Bank's annual meeting of shareholders.

- 12.2. To assure an effective functioning of the Audit Committee, it is recommended that it consists of at least three members, which have adequate knowledge of accounting and financial reporting, as one of the main responsibilities of the Audit Committee is issues related to the Issuer's financial reports and controls.

Parex banka complies with this principle of corporate management.

- 12.3. All Audit Committee members shall have access to the information about the accounting methods used by the Issuer. The Management Board shall update the Audit Committee about the approaches to significant and unusual transactions, where alternative evaluation methods are possible, and shall ensure that the Audit Committee has access to all information as specified in the legislation.

Parex banka complies with this principle of corporate management. Parex Banka's Management Board has appointed V.Ābele, member of the Management Board, to coordinate the work of the Audit Committee on the part of Parex Banka, therefore, ensuring availability of all the necessary information.

- 12.4 The Issuer shall ensure that the Audit Committee can obtain the information necessary for its operations from Issuer's officials, management board members and other staff members. The Audit Committee should also be entitled to carry out an independent investigation in order to identify, within its scope, any violations in the Issuer's operations.

Parex banka complies with this principle of corporate management. Parex Banka's Management Board has appointed V.Ābele, member of the Management Board, to coordinate the work of the Audit Committee on the part of Parex Banka, therefore, ensuring availability of all the necessary information.

- 12.5 Within its scope, the Audit Committee shall adopt resolutions, and for its operations is accountable to the shareholders' meeting.

Parex banka complies with this principle of corporate management.