



Transparency Report

For the year ended
30 September 2009

KPMG Baltics SIA

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Foreword

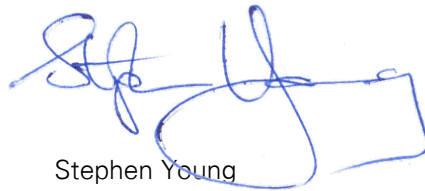
KPMG in Latvia provides a wide range of audit, tax and advisory services to clients, including private individuals, public and private companies and government organisations. The quality of our work and integrity of our people are paramount to everything we do.

KPMG Baltics SIA is a registered audit firm. Reliable financial information is essential for capital markets and the auditor's role in ensuring the probity of such information is vital. It is for this reason that we believe that all audit firms, entrusted with this responsibility, should be open about the quality and integrity measures that they adopt.

We are therefore pleased to present this Transparency Report for KPMG Baltics SIA for the year ended 30 September 2009. We hope that providing information about who we are, how we are organised and what quality processes we follow to assure integrity and audit quality will help enhance public confidence in us and the audit reports we provide.

This Transparency Report for KPMG Baltics SIA is produced in accordance with the standards set by Article 40 of the European Union Statutory Audit Directive.

According to the best of our knowledge and belief, the information included in this Transparency Report is true as at the date of publishing this report.

A handwritten signature in blue ink, appearing to read 'Stephen Young', written over a faint rectangular box.

Stephen Young
Chairman of the Board
Senior Partner

KPMG Baltics SIA

Legal structure, ownership and network arrangements

Legal structure and ownership

KPMG Baltics SIA is a Latvian Limited Liability Company. It is owned by Latvian Sworn Auditors Inga Lipsane (Certificate No 112) and Valda Uzane (Certificate No 4) each holding 25.5% and KPMG CEE Holdings Limited (49%), and is governed by Latvian legislation.

Network arrangements

KPMG Baltics SIA is a member firm of the KPMG network of independent firms affiliated with KPMG International. There are KPMG network firms in 144 countries. Collectively, they employ 137,000 people across a range of disciplines

KPMG International is a Swiss Cooperative which is a legal entity formed under Swiss law. All member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International carries on business activities for the overall benefit of the KPMG network of member firms, but does not provide professional services to clients. Professional services to clients are exclusively provided by member firms.

The KPMG structure is designed to support consistency of service quality and adherence to agreed upon values, wherever in the world the member firms operate. One of the main purposes of KPMG International is to facilitate the provision by member firms of high quality audit, tax and advisory services to their clients. For example, KPMG International establishes and facilitates the implementation and maintenance of uniform policies and standards of work and conduct by member firms and protects and enhances the use of the KPMG name and brand.

KPMG International is legally separate from each member firm. KPMG International and the member firms are not a global partnership, joint venture, or in a principal or agent relationship or partnership with each other. No member firm has any authority to obligate or bind KPMG International or any other member firm vis a vis third parties, nor does KPMG International have any such authority to bind any member firm.

All member firms are committed to following common standards in the provision of services for clients and to maintaining the highest levels of independence and integrity. These standards include the adherence to a common code of conduct, adoption of common methodologies for many of our key service offerings (including audit), the adoption of common base line risk management and compliance policies and a common engagement quality monitoring process. All of these mechanisms help to ensure that the professional services we deliver to clients throughout the network are delivered to a consistently high standard.

KPMG Baltics SIA is not a member of KPMG International as a matter of Swiss law, but has entered into legal agreements with KPMG CEE

Throughout this Report, 'we', 'KPMG', 'us' and 'our' refer to KPMG Baltics SIA, a Latvian limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International.

Holdings Limited ("KPMG CEE"), which is a member of KPMG International, and with KPMG International. Under such agreements ("sub-licenses"), sub-licensees become member firms of the KPMG network

KPMG CEE Holdings Limited ("KPMG CEE") is a limited liability company incorporated under, and governed by, Cyprus law. KPMG CEE is a licensed auditor under Cyprus regulations.

Generally the rights and obligations of a sub-licensee are exactly the same as if they were a member firm of KPMG International. In particular, all rights and obligations of member firms that are described in this report are rights and obligations of sub-licensee's, unless otherwise specifically stated. In addition, the member that is a party to the sub-licensee's agreement with KPMG International is also responsible to KPMG International (but not to any other person or entity) for the sub-licensee's compliance with its obligations as a KPMG member firm.

Each member firm is responsible for its own obligations and liabilities.

As a sub-licensee, KPMG Baltics SIA commits itself to a common set of KPMG Values (see Appendix 1). KPMG Baltics SIA is required to comply with the policies and regulations of KPMG under which we operate and provide services to clients. This includes having a firm structure that ensures continuity and stability and being able to adopt global and regional strategies, share resources (incoming and outgoing), service multinational clients, manage risk, and deploy global methodologies and tools. KPMG Baltics SIA takes responsibility for its management and the quality of its work. In accordance with our Global Code of Conduct, partners and professionals working within member firms are required to act with integrity at all times.

KPMG International can and does terminate the license of any member firm or sub-licensee which fails to meet the quality standards required of KPMG member firms

Organizational and management structure

The Management Board is responsible for setting the firm's strategy and overseeing its implementation. The Management Board consists of 5 Board members. It is chaired by Stephen Young, Senior Partner of KPMG in the Baltics and Belarus. The Board met 2 times during 2009. A schedule of matters to be monitored regularly by the Board includes matters of fundamental importance to the company such as operating and financial performance, annual business plans and budgets, new business proposals (considered individually), marketing, technology development, recruitment and retention, remuneration and risk management policies.

Appointments to the Board are made by the Chairman after consultation with KPMG CEE Holdings Ltd. The members of the Board as at 30 September 2009 were:

- Stephen Young
- Valda Uzane
- Inga Lipsane
- Armine Movsisjana
- Irena Sarma

Quality control

KPMG Baltics SIA ("Firm") maintains a system of quality controls for its audit practice that is designed to meet or exceed the expectations of our clients, as well as the rules and standards issued by the Association of Sworn Auditors of Latvia, the International Federation of Accountants (IFAC), the Public Company Accounting Oversight Board (PCAOB) and Latvian legislation. Integrating key policies and procedures, this system also facilitates compliance with relevant rules and regulations of the Latvian legislation, the Sarbanes-Oxley Act of 2002, the SEC, International Standard of Quality Control (ISQC) 1, professional standards, and the firm's standards of quality.

The system of quality controls applicable to our audit practice encompasses the following:

- Commitment to Professionalism and Integrity
- Independence, ethics, and objectivity
- Personnel management, including training and professional development
- Rigorous procedures for acceptance and continuance of clients and engagements
- Risk Management and Engagement performance
- Monitoring of policy

Commitment to Professionalism and Integrity

To support the quality control system, the firm separates the responsibility for oversight of professional practice, risk management, and quality control from the responsibility for managing the firm's business activities. Stephen Young, Senior Partner of KPMG in the Baltics and Belarus, is responsible for firm-wide risk management; all professional practice matters, regulatory relationships; approval of all new service offerings; and development of all methodologies and tools.

A Risk Management partner has been delegated responsibility for the system of quality control and risk management in KPMG Baltics SIA. The Risk Management Partner reports to the Senior Partner and is responsible to the partners for Risk Management but also has a direct reporting line to the KPMG CEE Risk Management partner.

Professional practice, risk management, and quality control are also the responsibilities of every partner and staff member, who are expected to understand, apply, and adhere to the firm's policies and associated procedures at all times. Our policies reflect individual quality control elements to help ensure that all partners and staff act with integrity and objectivity, perform their work with diligence, and comply with applicable laws, regulations, and professional standards.

Ethical standards

We are committed to achieving a high standard of ethical behaviour in everything that we do. KPMG's overarching value is that "Above all, we act with integrity". KPMG's values are communicated to all of our people and are embedded into our performance appraisal process. These values are reproduced in Appendix 1.

The firm's Code of Conduct reflects the values and principles embodied in the firm's policies and underscores the firm's commitment to ethics and integrity. The Code of Conduct details the values and standards of behaviour expected of all partners and staff. Partners and staff who serve clients complete annual ethics training on relevant Code of Conduct topics, and each year acknowledge that they agree to comply with the Code.

Our policies provide that anyone who has concerns about how other are behaving (either internally or at a client) is encouraged to raise the issue with their line manager or any partner. Anyone, at anytime, is entitled to contact our Ethics and Independence Partner with the assurance that their concern will be dealt with in confidence. We recognize that some staff could feel uncomfortable reporting through normal channels of communication within the firm or may consider that concerns they have expressed have not been dealt with effectively. We inform staff on our intranet that KPMG International maintains a hotline operated by a third party supplier. This Hotline is available to all partners and staff, as well as clients, contractors, vendors and others in a business relationship with any member firm of KPMG International.

Audit partner rotation

The firm's audit partners and responsible sworn auditors are subject to rotation requirements that limit the number of years that they may provide services to a financial institution or a listed entity and its affiliates. The firm's policies are written to comply with specific regulatory requirements, such as the Latvian law On Sworn Auditors, IFAC Code of Ethics for Professional Accountants, the U.S. Sarbanes Oxley Act of 2002. We monitor the rotation of partners and responsible sworn auditors who provide services to audit clients. This monitoring system also aids in the development of timely transition plans that help the member firm deliver consistent quality service to its clients. The process of monitoring and tracking service time and partner rotation is subject to compliance testing as part of national quality performance review processes.

Approval of Audit and Non-audit Services

We have policies and procedures in place to strictly monitor the scope of services that can be provide to audit clients, so they are consistent with IFAC principles and other applicable regulations. These require consideration of the threats arising from the provision of non audit services and the safeguards available to address those threats, thus preventing the provision of non permitted services to audit clients

The firm's proprietary system, Sentinel, facilitates compliance with these policies and, at the same time, is used to identify and manage

potential conflicts of interest within and across member firms in the KPMG International network. . Sentinel enables audit engagement partners to review and approve, or deny, any proposed service for certain audit clients and their affiliates by any KPMG member firm based on independence or client requirements

Conflicts of interest

Independence, integrity, ethics, and objectivity are the pillars of our firm. Thus, we work diligently to avoid even the appearance of a conflict of interest. Personnel are vigilant at all times to recognize actual and potential conflicts of interest, identifying them at the earliest opportunity to resolve, manage, or avoid the conflict. Conflicts of interest may preclude the firm from accepting a client or an engagement. The firm's proprietary system, Sentinel is used to identify and manage potential conflicts of interest within and across member firms in the KPMG International network. Any potential conflict issues identified are resolved in consultation with other parties, and the resolution of all matters is documented.

Independence

To help ensure compliance with independence rules and to meet our requirements to maintain the highest standard of ethical conduct, integrity and objectivity, each member firm, its partners and management group, and the personnel assigned to each engagement must be free from financial interests in and from prohibited relationships with the client, its management, its directors, and its significant owners. KPMG partners and their immediate family members are prohibited from owning any securities in any audit client of any KPMG member firm worldwide. Other client serving staff are also prohibited from owning certain securities. The firm monitors compliance with its independence policies through an integrated, web-based, automated independence compliance system as well as through a compliance audit process.

The firm also requires all professionals to take annual independence training and affirm their independence using an electronic confirmation system. This confirmation is signed upon commencement of employment at the firm, every year thereafter, and at key promotions. In addition, the confirmation is used to evidence the individual's compliance with and understanding of the firm's independence policies. Each year, we conduct tests, on a sample basis, to confirm compliance by our partners and professionals with personal independence regulations.

The firm has established processes that communicate independence policies and procedures to our personnel. We require adherence to applicable independence requirements and ethical standards, which meet the standards promulgated by the Latvian Sworn Auditors Association, IFAC, the PCAOB, SEC, and all other applicable regulatory bodies. These policies and procedures, which cover areas such as personal independence, post employment relationships, partner and responsible sworn auditors' rotation, and approval of audit and non-

audit services, are monitored continuously to keep abreast of current developments.

We have a disciplinary policy in place that applies to individuals who breach our independence rules.

Personnel Management

The firm's personnel management system encompasses the areas of:

- *Recruiting and Hiring*
- *Learning and Development*
- *Engagement Assignment*
- *Supervision*
- *Performance Evaluation and Compensation*
- *Licensing*

Recruiting and Hiring

All candidates for professional positions submit résumés, are interviewed, and may be subject to background checks. Prior to hiring, candidates are provided access to the firm's resources to ascertain and confirm their independence. Any situations involving independence or conflicts of interest must be resolved before the individual can begin employment with the firm. Upon joining the firm, personnel are also required to complete training programs on independence, ethics, respect and dignity, and security, in addition to any job-related modules.

Learning and Development

Our policies require our professionals to maintain their technical competence and to comply with applicable regulatory and professional requirements. In regard to continuous learning, we provide opportunities to help our professionals meet their continuing professional education requirements as well as their own professional development goals.

The firm's learning and development programs include course prerequisites and proficiency tests, varied delivery methods, and interactive, Web-based sessions that enable our professionals to take self-study courses; attend classroom courses at the national, regional, and local levels; and participate in Web-based seminars in real time. Technical and skills based training is tailored to the level of experience of staff and all audit professionals are required to complete a minimum of annual training in accordance with KPMG International standards. Attendance is monitored and non attendees are followed up. The firm also maintains a system that enables its professional staff to monitor compliance with applicable Continuing Professional Education (CPE) requirements.

In addition, the firm requires its professionals to complete annual training on independence standards and the ethical standards embedded in the firm's Code of Conduct. We also encourage our

professionals to stay abreast of technical updates by attending internal and external industry-specific training programs and conferences as well as reviewing pertinent bulletins and periodicals. Audit quality is continually emphasized to our client service professionals through timely training and communication of accounting, auditing, and reporting matters.

Engagement Assignment

The firm assigns an individual to specific engagements by evaluating his or her skill sets, relevant professional and industry experience, and the nature of the assignment or engagement. The Risk Management Partner must approve engagement partner and engagement quality control reviewer assignments to public interest entity audit clients and certain higher risk non public interest audit clients. For all other audit clients, engagement partner and engagement quality control reviewer assignments require approval from the Head of Audit.

Supervision

Supervision entails directing the efforts of professionals who are involved in accomplishing the objectives of the audit and determining whether those objectives are accomplished. Elements of supervision include instructing and guiding professionals, keeping informed of significant issues, reviewing the work performed, reconciling issues, and agreeing on appropriate conclusions. Each audit professional is evaluated for adequate performance and documentation of work, as well as for results that are consistent with the conclusions presented in the auditor's report.

Performance Evaluation and Compensation

All professionals, including sworn auditors and partners, undergo annual goal setting and performance evaluations conducted by performance managers who are familiar with the professionals' performance. Each professional is evaluated on his or her attainment of agreed-upon goals, demonstration of skills/behaviours, and adherence to the firm's values. Skills/behaviours evaluated include delivering quality service, professionalism, technical knowledge, accountability, business and strategic focus, problem solving, leading and developing people, feedback and learning, relationship building, drive and resilience and making an impact. The results of the annual performance evaluation directly affect compensation of personnel, including partners, and in some cases their continued association with the firm. Audit professionals, including partners and sworn auditors do not have goals rewarding them for sales of non audit services to their audit clients.

Accreditation

All staff that are given the responsibility for signing for the firm, are required to have obtained a relevant qualification, e.g. Sworn Auditors license, qualification of a recognized professional body in the EU etc. The firm also requires partners and directors engaged in selected advisory services to maintain an accredited status by attending periodic

training and ensuring sufficient client service in the designated area is achieved, eg IFRS reporting

Acceptance and Continuance of Clients and Engagements

The firm recognizes that rigorous client acceptance and continuance policies are vitally important to the firm's ability to provide high-quality professional services. We have established policies and procedures for deciding whether to accept or continue a client relationship and whether to perform specific services for a particular client.

Prospective Client Evaluation Process

Prior to the firm accepting or declining appointment as a service provider an evaluation is conducted and documented on all prospective clients using a process which evaluates the risk of KPMG being associated with the prospective client. The client evaluation is reviewed and approved by appropriate independent senior personnel. The client evaluation determines whether KPMG will accept the client and identifies what steps need to be taken to mitigate risks identified by the evaluation. Every new client acceptance must be approved by the sponsoring partner, the Risk Management Partner and the Senior Partner.

Client Continuance Process

Existing clients are re-evaluated, at a minimum, every 12 months if the relationship with the client is intended to be continued. Earlier re-evaluation is required when a significant change relating to the risk profile of the client becomes known to the firm. The client re-evaluation determines how altered risks associated with that client can be managed and ultimately whether the client relationship should be maintained or discontinued. Each client continuance must be approved by a sponsoring partner and the Risk Management Partner. Client continuance for audit clients which are Public Interest entities or other entities we assess as higher risk must also be approved by the Senior Partner.

Engagement Evaluation Process

Prior to accepting an engagement an engagement evaluation is conducted and documented by the prospective engagement partner, in consultation with other senior personnel as required. The engagement evaluation determines whether the engagement is one that the firm is willing and able to undertake and identifies what steps need to be taken to mitigate the risks identified by the evaluation. Every audit engagement must be approved by the prospective engagement partner/leader and the Head of Audit. Audit engagement acceptance for Public Interest Entities or other entities we assess as higher risk must also be approved by the Risk Management partner.

Engagement Performance

Fundamental to the delivery of our professional services are our quality controls that are embedded throughout our audit engagement process. These quality controls include policies and guidance to help ensure that

the work performed by engagement personnel meets applicable professional standards, regulatory requirements, and the firm's standards of quality. Engagement performance encompasses all phases of execution of an engagement, including the firm's audit methodology and the review, supervision, consultation, documentation, and communication of audit results.

Audit methodology

Our audit methodology, developed by KPMG International's Global Services Center, is based on the requirements of International Standards on Auditing (ISAs). The methodology is set out in our audit manual "KPMG Audit Manual" (KAM). KAM is available on-line to all our audit professionals. This methodology provides the foundation for our financial statement audit. In addition to engagement and risk management matters, KAM also deals with the activities involved in and standard documentation for all aspects of our audit work.

Our audit process is structured to require appropriate leadership from the Engagement Partner /Leader from the planning stage (e.g. through leading the planning meetings and reviewing and approving planning and other documents) through review to the completion of the audit.

KPMG International provides a suite of technology tools to support KPMG's audit methodology. These tools promote consistent implementation of the audit process globally, and drive audit quality. KPMG's next generation global audit tool, eAudit, which leverages technology to further improve the audit experience for our clients and audit professionals, is currently in development, scheduled for full global deployment in 2010.

Supervision, Review, and Support for the Engagement Team

The firm's supervision, review, and consultation guidelines for audit work include:

- Review and approval of engagement planning and analysis prior to the start of significant fieldwork
- Review of work papers by another professional, including review by the engagement partner of key work papers in high-risk audit areas
- Assignment of an engagement quality control reviewer to all public interest entity and higher-risk audit engagements
- Approval of a completion document that summarizes findings and conclusions in relation to significant issues as identified by various parties, including the engagement partner
- In-depth technical reviews by the engagement quality control reviewer in certain situations as required by professional standards

Internal consultation with others is encouraged and in certain circumstances required. Technical support for each engagement team comes from a network that includes the Department of Professional Practice (DPP), KPMG's International Financial Reporting Group and

International Standards on Auditing Group, as well as the professional practice partners.

The firm has established protocols for consultation regarding, and the documentation of, significant accounting and auditing matters, including procedures to resolve differences of opinion on engagement issues. Consultation with a team member at a higher level of responsibility than either of the differing parties usually resolves such differences. In other circumstances, the matter may be elevated through the chain of responsibility for resolution by the DPP.

Audit reports

The audit opinion is the key deliverable from member firms' audit work. The format and content of the audit opinion is largely dictated by auditing standards and local legislation. All audit opinions are arrived at by experienced engagement leaders, after involvement in, and review of, the work performed by the audit team. All audit opinions on the financial statements of public interest entities are required to be agreed with the appointed engagement quality control review partner. The importance of ensuring that any uncertainties are clarified before signing the audit opinion is emphasised in training. All proposed modifications and qualifications to the opinion in an audit report require consultation with a second audit partner. In certain circumstances, the Head of Audit and the Risk Management partner may also be consulted

Client confidentiality, information security, and data privacy

The importance of maintaining standards on client confidentiality is emphasized through a variety of mechanisms including the Code of Conduct, training, and the annual affidavit/confirmation process, which all professionals are required to complete.

The firm's formal document retention policy governs matters such as the retention period for audit work papers and other records relevant to an engagement in accordance with Latvian legislation, the relevant IFAC, SEC and PCAOB rules as well as other applicable regulatory bodies' standards and regulations.

KPMG Baltics SIA has clear policies on information security that cover a wide range of areas. Data privacy policies are in place governing the handling of personal information, and associated training is required for all KPMG Baltics SIA personnel.

Monitoring

KPMG International has an integrated monitoring program that covers all member firms and is designed to help us review and assess our systems of quality control and provide assurance that these are relevant, adequate, operating effectively and are complied with in practice, locally and globally. The monitoring program addresses engagement delivery - our Quality Performance Review Program (QPR), and also compliance by member firms with KPMG International policies and procedures - our Risk Compliance review (RCP) and Global Compliance Review (GCR). The results and lessons of these reviews are communicated within each member firm and the overall results and

lessons from all member firms are considered at the regional and global levels.

The components of the reviews include:

- Regular reviews at the engagement level of individual engagement partners/leaders following a three year rotation schedule, carried out under the control of KPMG CEE, using external reviewers
- Reviews of general and functional controls, including independence, client acceptance and continuance, personnel evaluations, CPE compliance, licensing and document retention
- Provision of the results of the review to management, including action plans to be implemented to address issues identified
- Training for professionals to communicate the results, implement the action plans, and emphasise corresponding changes to firm policies and guidance.

Quality Assurance Review

Quality review procedures within the KPMG International programme are undertaken annually. In addition, a quality assurance review was conducted by the Latvian Sworn Auditors Association in June 2005.

The above review did not identify any issues that could have had a material effect on the conduct of firm's auditing practice. Like most companies with quality review programs, we identify areas for continuous improvement and disseminate our findings to our professionals through written communications, internal training tools, and periodic partner, manager, and staff meetings. These areas also are emphasised in subsequent years of the review process to gauge the extent of continuous improvement.

Public Interest Entity listing

The list of public interest entities for which KPMG Baltics SIA has carried out a statutory audit during the preceding financial year is as follows:

- AS Akciju komercbanka "Baltikums"
- AS PrivatBank
- AS Rietumu banka
- AS Latvijas tirdzniecibas banka DELETE
- AS Unicredit Bank Latvia
- AS Multibanka
- AS GE Money Bank
- AS Baltic International Bank
- IPS GE Money Bank Asset Management
- AS GE Money Bank atklatais pensiju fonds
- AS RB Securities
- IPS AS RB Asset management
- IPAS Nordea Pensions Latvia
- AAS ERGO Latvija
- AAS ERGO dziviba
- AAS BTA
- AAS "Gjensidige Baltic"
- AAS Seesam
- Central Bank of Latvia
- Lattelecom

Continuing professional education

Refer to section [Learning and development](#) on page 11.

Key financial data

	For the year ended 30 Sep 2009 Preliminary Unaudited (thousand LVL)
Revenues	4,475
including:	
audit services	2,800
other services	1,675



Remuneration policy for responsible sworn auditors

Refer to section [Performance Evaluation and Compensation](#) on page 12.

Appendix 1. KPMG values

Our values define what we stand for and how we do things within the KPMG network of member firms. They create a sense of shared identity and help us to work together in the most effective and fulfilling way.

We lead by example

At all levels, we act in a way that exemplifies what we expect of each other and our member firms' clients.

We work together

We bring out the best in each other and create strong and successful working relationships.

We respect the individual

We respect people for who they are and for their knowledge, skills, and experience as individuals and team members.

We seek the facts and provide insight

By challenging assumptions and pursuing facts, we strengthen our reputation as trusted and objective business advisers.

We are open and honest in our communication

We share information, insight, and advice frequently and constructively and managing tough situations with courage and candor.

We are committed to our communities

We act as responsible corporate citizens by broadening our skills, experience, and perspectives through work in our communities.

Above all, we act with integrity

We are constantly striving to uphold the highest professional standards, provide sound advice, and rigorously maintain our independence.

Our values are at the heart of our Global Code of Conduct, which defines the standards of ethical conduct we require of people in KPMG member firms worldwide.