



TRASTA KOMERCBANKA

**JSC "TRASTA KOMERCBANKA"
INTERIM CONDENSED FINANCIAL STATEMENTS
AND CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED
30 SEPTEMBER 2008
(UNAUDITED)**

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INTERIM REPORT OF THE MANAGEMENT OF THE BANK (GROUP'S HOLDING COMPANY'S)

In 2008, the rate of economic development considerably decreased: GDP growth of the state amounted only to 3.3% in Quarter I of 2008 (10.3% was the average index of 2007), to 0,1% in Quarter II, but in Quarter III GDP fell by 4,2% (approximate estimates). Therefore, the total shrink of GDP of Latvia in the first 9 months of 2008 was 0,4% which, in fact, is indicative of a recession process in Latvia. The same evidence provides unemployment rate in Latvia which has been gradually going up since May 2008 and by the end of September 2008 amounted to 5,3%.

At the same time, the inflation index in the state remained high - 16.6 % in the first 9 months of 2008 (10.1% was the average index of 2007; consequently, Latvia appeared to be in stagflation) which caused the increase of subsistence minimum in this period by 21.2% and shrink of retail trade by 13.4 % in September 2008 (as compared to September 2007). On the other hand, the amount of foreign trade in the first 9 months of 2008 increased by 3.6% owing mainly to the growth of export (current account deficit in the 1st quarter of 2008 amounted to 21.4% of GDP – at the average index of 22.8% in 2007).

In this situation the government of Latvia was obliged to decrease the planned public expenditure of 2008 (by EUR 240 million) and almost all planned state budget profit (in the amount of EUR 232 million), the latter was decreased from 1% to 0.05% of GDP. The anti-inflation plan adopted by the previous government did not reach its final goal but negatively influenced the crediting increase rate.

The global financial crisis which began in the US real estate market caused far-reaching consequences in the world financial sector. Volatility of securities, currency and raw materials prices has considerably increased, but liquidity of money and capital market has fallen. However, despite the complicated situation in Latvia and in the world financial sector in 2008 the Bank continued to develop and it managed to preserve high profitability and its leader position according to return on equity (ROE), which was 31.66% as of 30 September 2008, and the second position among Latvian banks according to ROA index on the same date - 3.74%.

The amount of Bank's assets as of 30 September 2008 reached 359.1 million EUR which is by 53.7 million EUR less than in 2007. The amount of attracted deposits amounted to 256.9 million EUR which is also by 74.2 million EUR less than the results of 2007. The bank's credit portfolio as of 30 September 2008 was 173.6 million EUR.

The amount of capital and reserves of the Bank amounted to EUR 50.5 million on 30 September 2008. The profit of the Bank amounted to EUR 11.3 million for 9 months of 2008. In October 2008 the Bank received a permission from FCMC for inclusion of the Bank's audited profit of 9,8 million for 6 months in the capital adequacy of the Bank thus increasing its stability.

The Bank's consolidation group consists of three subsidiary companies: TKB "Nekustamie Īpašumi", TKB "Līzings" and "Misto Bank". Profit of the Group for 9 months of 2008 is EUR 11.9 million and amount of assets as of the end of the accounting period amounted to 489.7 million EUR.

In November, 2008 the Bank repaid its syndicated loan of EUR 16 million which must be noted as an important event, and consequently, the Bank does not have syndicated loans any more.

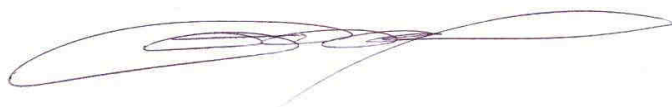
**INTERIM REPORT OF THE MANAGEMENT OF THE BANK (GROUP'S HOLDING COMPANY'S
(continued)**

The Bank Management confirms that consolidated and individual financial statements set out on pages 4 to 25 for the period from -1 January 2008 to 30 September 2008 have been prepared consistently applying the relevant accounting methods and that the management's judgments and estimates in relation to preparation of these statements are reasonable and prudent. The management confirms that the applicable International Financial Reporting Standards have been used in the preparation of the financial statements and that these financial statements have been prepared according to a going concern concept.

For the accounting period from 01 January 2008 to 30 June the Bank prepared condensed interim financial statements which were audited by "Ernst & Young Baltic", Ltd (Licence No.17). For the accounting period from 01 July 2008 to 30 September the Bank has not carried out any additional interim audit.

These statements are freely available on the internetpage of the Bank at: www.tkb.lv

On behalf of management of the Bank we would like to thank our clients and partners for the expressed trust, shareholders for support and employees for successful performance.



Gundars Grieze
Chairman of the Board

Riga,
24 November 2008

COMPOSITION OF THE BOARD AND COUNCIL OF THE BANK (GROUP'S HOLDING COMPANY'S)

Supervisory Council

Name, surname	Positions	Election date
Igors Buimisters	Chairman of the Council	24.03.2006, repeatedly 19.05.2006
Alfrēds Čepānis	Member of the Council	30.03.1999, recurrently 19.05.2006
Charles E.G. Treherne	Member of the Council	16.03.2001, recurrently 19.05.2006

During the current year no changes in the Supervisory Council occurred.

Management Board

Name, surname	Positions	Election date
Gundars Grieze	Chairman of the Board	28.06.1999, recurrently 23.03.2006
Māris Fogelis	First vice-chairman of the Board	28.06.1999, recurrently 23.03.2006
Viktors Ziemelis	Vice-chairman of the Board	28.03.2003, recurrently 23.03.2006
Svetlana Krasovska	Member of the Board	24.10.1995, recurrently 23.03.2006
Tatjana Konnova	Member of the Board	23.03.2006

During the current year no changes in the Management Board occurred.

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PROFIT AND LOSS STATEMENTS AND CONSOLIDATED PROFIT AND LOSS STATEMENTS

In thousands of euros	<u>The Group</u>		<u>The Bank</u>	
	<u>2008</u> <u>(9 months)</u>	<u>2007</u> <u>(9 months)</u>	<u>2008</u> <u>(9 months)</u>	<u>2007</u> <u>(9 months)</u>
Interest income	21278	17636	17030	17440
Interest expense	(6137)	(2040)	(3159)	(2043)
Net interest income	15141	15596	13871	15397
Allowance for impairment, net	(1155)	(3638)	(748)	(3546)
Net interest income after allowance for impairment	13986	11958	13123	11851
Commission income	8569	6676	8149	6673
Commission expense	(1501)	(1810)	(1456)	(1810)
Net commission income	7068	4866	6693	4863
Dividends	6	21	6	21
(Loss)/profit from financial assets held for trading, net	(3650)	285	(4458)	285
Realised profit from available-for-sale financial assets, net	198	41	198	41
Foreign currency trading and revaluation gain	8886	8732	8876	8735
Other income	938	390	827	380
Other non-interest income	6378	9469	5449	9462
Salaries and benefits expenses	(7077)	(4711)	(6245)	(4614)
Administrative expenses	(4005)	(3499)	(3544)	(3532)
Tangible and intangible assets amortisation and depreciation	(693)	(497)	(531)	(494)
Other expenses	(148)	(83)	(131)	(78)
Release of other impairment and provisions	0	30	71	30
Other non-interest expense	(11923)	(8760)	(10380)	(8688)
Profit before corporate income tax	15509	17533	14885	17488
Corporate income tax	(3631)	(3231)	(3567)	(3226)
Profit for the period	11878	14302	11318	14262
Attributable to equity holders of the Bank	11549	14294	11318	14262
Attributable to minority interest	329	8	-	-
Earnings per share (basic and diluted) in lats	91	113	-	-

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BALANCE SHEETS AND CONSOLIDATED BALANCE SHEETS

In thousands of euros	Note	<u>The Group</u>		<u>The Bank</u>	
		<u>September 30, 2008</u>	<u>December 31, 2007</u>	<u>September 30, 2008</u>	<u>December 31, 2007</u>
ASSETS					
Cash and balances due from the Bank of Latvia and other Central Banks		37131	25602	32784	25602
Due from credit institutions with a maturity of less than 3 months		97232	214614	84481	214614
<i>On demand</i>		70146	164948	65190	164948
<i>Other</i>		27086	49666	19291	49666
Held for trading financial assets		12332	11874	6000	11874
<i>Fixed income securities</i>		6040	8421	4380	8421
<i>Equity shares and other non-fixed income securities</i>		6170	3386	1498	3386
<i>Derivatives</i>		122	67	122	67
Available for sale financial assets		12958	8903	11954	8903
<i>Fixed income securities</i>		12888	8810	11884	8810
<i>Equity shares and other non-fixed income securities</i>		70	93	70	93
Due from credit institutions with a maturity of more than 3 months		15331	9152	13650	9152
Loans	5	271778	130280	173647	131316
Accrued income and deferred expenses		623	381	334	366
Long-term projects costs		3184	3155	3184	3155
Tangible assets		18231	3056	4555	3048
Intangible assets		9697	292	297	292
Investments in share capital of subsidiary	6	-	-	17362	3
Corporate income tax receivable		201	-	198	-
Deferred tax assets		44	34	43	36
Other assets		10942	4579	10585	4453
TOTAL ASSETS		489684	411921	359074	412814

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BALANCE SHEETS AND CONSOLIDATED BALANCE SHEETS (continued)

In thousands of euros	<u>The Group</u>		<u>The Bank</u>	
	<u>September 30, 2008</u>	<u>December 31, 2007</u>	<u>September 30, 2008</u>	<u>December 31, 2007</u>
LIABILITIES				
Due to credit institutions	50326	23564	24191	23564
<i>On demand</i>	10669	6901	6670	6901
<i>Term deposits with a maturity of less than 3 months</i>	11023	711	1111	711
<i>Term deposits with a maturity of more than 3 months</i>	28634	15952	16410	15952
Held for trading financial liabilities	-	3	-	3
<i>Derivatives</i>	-	3	-	3
Due to customers	351741	331033	256912	331098
<i>On demand</i>	246685	291353	231891	291418
<i>Term deposits</i>	105056	39680	25021	39680
Debt securities issued	4008	4001	5013	5006
Accrued expenses and deferred income	1578	1011	1565	993
Provisions for contingent liabilities	68	-	36	-
Corporate income tax liabilities	1262	1108	43	1090
Other liabilities	14358	4828	13506	4781
Liabilities before subordinated liabilities	423341	365548	301266	366535
Subordinated liabilities	7335	1719	7335	1719
TOTAL LIABILITIES	430676	367267	308601	368254

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BALANCE SHEETS AND CONSOLIDATED BALANCE SHEETS (continued)

In thousands of euros	<u>The Group</u>		<u>The Bank</u>	
	<u>September 30, 2008</u>	<u>December 31, 2007</u>	<u>September 30, 2008</u>	<u>December 31, 2007</u>
EQUITY AND RESERVES				
Share capital	9016	9016	9016	9016
Share premium	158	158	158	158
Reserve capital and other reserves	5413	5413	5413	5413
Available for sale financial assets revaluation reserves	13	24	27	24
Retained earnings	36168	30026	35859	29949
Equity and reserves attributable to shareholders of the Bank	50768	44637	50473	44560
Minority shareholder interest	8240	17	-	-
Total equity and reserves	59008	44654	50473	44560
TOTAL LIABILITIES AND EQUITY AND RESERVES	489684	411921	359074	412814

**INTERIM CONDENSED FINANCIAL STATEMENTS
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**STATEMENTS OF CHANGES IN EQUITY AND RESERVES AND CONSOLIDATED STATEMENTS OF
CHANGES IN EQUITY AND RESERVES**

(1) The Group

In thousands of euros	Share capital	Share premium	Reserve capital and other reserves	Available for sale financial asset revalu- ation reserves	Retained earnings	Total	Minority share- holder interest	Total equity and reserves
BALANCE AS AT 31 DECEMBER 2006	7878	158	5413	147	14425	28021	10	28031
<i>Changes in fair value of available for sale securities</i>	-	-	-	(122)	-	(122)	-	(122)
Total income recognised directly in equity	-	-	-	(122)	-	(122)	-	(122)
<i>Net profit for the period</i>	-	-	-	-	14294	14294	8	14302
Total income recognised for the period	-	-	-	(122)	14294	14172	8	14180
Dividends paid	-	-	-	-	(7114)	(7114)	-	(7114)
BALANCE AS AT 30 SEPTEMBER 2007	7878	158	5413	25	21605	35079	18	35097
BALANCE AS AT 31 DECEMBER 2007	9016	158	5413	24	30026	44637	17	44654
<i>Changes in fair value of available for sale securities</i>	-	-	-	-	-	-	7907	7907
Total loss recognised directly in equity	-	-	-	(11)	-	(11)	(13)	(24)
<i>Net profit for the period</i>	-	-	-	(11)	-	(11)	(13)	(24)
Total income recognised for the period	-	-	-	-	11549	11549	329	11878
Minority interest as a result of purchase	-	-	-	(11)	11549	11538	316	11854
Dividends paid	-	-	-	-	(5407)	5407)	-	(5407)
BALANCE AS AT 30 SEPTEMBER 2008	9016	158	5413	13	36168	50768	8240	59008

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**STATEMENTS OF CHANGES IN EQUITY AND RESERVES AND CONSOLIDATED STATEMENTS OF
CHANGES IN EQUITY AND RESERVES (continued)**

(2) The Bank

In thousands of euros	Share capital	Share premium	Reserve capital and other reserves	Available for sale financial asset revaluation reserves	Retained earnings	Total equity and reserves
BALANCE AS AT 31 DECEMBER 2006	7878	158	5413	147	14430	28026
<i>Changes in fair value of available for sale securities</i>	-	-	-	(122)	-	(122)
Total income recognised directly in equity	-	-	-	(122)	-	(122)
<i>Net profit for the period</i>	-	-	-	-	14262	14262
Total income recognised for the period	-	-	-	(122)	14262	14140
Dividends paid					(7114)	(7114)
BALANCE AS AT 30 SEPTEMBER 2007	7878	158	5413	25	21578	35052
BALANCE AS AT 31 DECEMBER 2007	9016	158	5413	24	29949	44560
<i>Changes in fair value of available for sale securities</i>	-	-	-	3	-	3
Total loss recognised directly in equity	-	-	-	3	-	3
<i>Net profit for the period</i>	-	-	-	-	11318	11318
Total income recognised for the period	-	-	-	3	11318	11320
Dividends paid	-	-	-	-	(5407)	(5407)
BALANCE AS AT 30 SEPTEMBER 2008	9016	158	5413	27	35859	50473

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STATEMENTS OF CASH FLOWS AND CONSOLIDATED STATEMENTS OF CASH FLOWS

In thousands of euros	<u>The Group</u>		<u>The Bank</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	<u>(9 months)</u>	<u>(9 months)</u>	<u>(9 months)</u>	<u>(9 months)</u>
Cash flow as a result of basic activity:				
Profit before corporate income tax	15180	17525	14885	17488
Amortisation and depreciation	693	497	531	494
Change in allowance for impairment	1127	3580	768	3485
Change in other provisions	38	(30)	36	(30)
Foreign currency revaluation profit	(1199)	(452)	(1215)	(481)
(Profit)/ loss from revaluation of financial assets held-for-trading	3099	124	3099	124
Gain on disposal of fixed and intangible assets	-	(265)	-	(265)
Increase in cash and cash equivalents from operating activities before changes in assets and liabilities	18938	20979	18104	20815
Increase in financial assets held for trading	407	(5515)	2772	(5515)
Increase in available-for-sale financial assets	(3081)	(1764)	(3048)	(1 764)
Decrease in balances due from credit institutions	(2841)	526	(4498)	526
Increase in loans and receivables	(54092)	(55663)	(43099)	(56575)
Decrease/(increase) in accrued income and deferred expense	529	(4)	31	-
(Increase)/decrease in other assets	(5933)	(1849)	(6131)	(1776)
Increase/(decrease) in balances due to credit institutions	7767	(137)	458	(137)
(Decrease/increase in deposits from customers	(65835)	(14099)	(74186)	(14125)
Decrease in financial liabilities held for trading	-	3	-	3
Increase in accrued expense and deferred income	534	296	572	279
Increase/(decrease) in other liabilities	6086	(8627)	8702	(8634)
	(97521)	(65854)	(100323)	(66903)
Corporate income tax paid	(4866)	(3415)	(4819)	(3402)
(Decrease)/ increase in cash and cash equivalents from operating activities	(102387)	(69269)	(105142)	(70305)
Cash flows from investing activities				
Purchase of fixed and intangible fixed assets, net	(1914)	(1633)	(2043)	(1631)
Investments in subsidiaries, net	(17040)	-	(17359)	-
Sale of long-term projects	-	3803	-	3803
(Decrease)/increase in cash and cash equivalents from investing activities	(18954)	2170	(19402)	2172

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**STATEMENTS OF CASH FLOWS AND CONSOLIDATED STATEMENTS OF CASH FLOWS
(continued)**

In thousands of euros	<u>The Group</u>		<u>The Bank</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	<u>(9 months)</u>	<u>(9 months)</u>	<u>(9 months)</u>	<u>(9 months)</u>
Cash flows from financing activities				
Changes/sale of mortgage bonds issued	-	4021	-	5026
Change in subordinated capital	5616	-	5616	-
Dividends paid	(5407)	(7114)	(5407)	(7114)
(Decrease)/increase in cash and cash equivalents from financing activities	209	(3093)	209	(2088)
(Decrease)/increase in cash and cash equivalents	(121132)	(70192)	(124335)	(70221)
Cash and cash equivalents at the beginning of the year	232604	266877	232604	266877
Foreign currency revaluation profit	1199	452	1215	481
Cash and cash equivalents at the end of the year	112671	197137	109484	197137

Cash and cash equivalents are calculated as follows

In thousands of euros	<u>The Group</u>		<u>The Bank</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	<u>(9 months)</u>	<u>(9 months)</u>	<u>(9 months)</u>	<u>(9 months)</u>
Due from credit institutions with a maturity of less than 3 months	97232	170440	84481	170440
Cash and balances due from the Bank of Latvia and other Central Banks	37131	33241	32784	33241
Due to credit institutions with a maturity of less than 3 months	(21692)	(6544)	(7781)	(6544)
CASH AND CASH EQUIVALENTS	112671	197137	109484	197137

Reflection of the received and (paid) sums of interest income/(expenditure) is provided below:

In thousands of euros	<u>The Group</u>		<u>The Bank</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	<u>(9 months)</u>	<u>(9 months)</u>	<u>(9 months)</u>	<u>(9 months)</u>
Interest income received during the reporting period	20099	16683	16670	16554
Interest expenses paid during the reporting period	(5616)	(2102)	(3058)	(2102)

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

JSC "Trasta Komercbanka" (hereinafter – the Bank) has been registered as a joint stock company, in the Latvian Register of Companies with the identification No. LV40003029667, and operates under the legislation of the Republic of Latvia and Credit institution license No.8 issued by the Bank of Latvia. The head office of the Bank is located in Miesnieku street 9, Riga, Latvia, LV-1050. The Bank provides full scope of banking services, however, the priority of the Bank is exclusive banking services for private individuals and companies.

The Bank has five representative offices outside Latvia, i.e. in Canada, Kazakhstan, Ukraine, Belarus and Bulgaria. Their mission is to represent interests of the Bank in the respective countries, maintain relations with the Bank customers and provide them with necessary information. The Bank has a foreign branch in Cyprus and two branches in Latvia – in Liepaja and Daugavpils. Their functions incorporate provision of financial services to customers of the Bank.

The Bank has established two subsidiaries, SIA TKB LĪZINGS and SIA TKB NEKUSTAMIE ĪPAŠUMI, thus broadening the range of services offered by the Bank. In April 2008, the Bank directly and indirectly acquired shares in the Ukrainian bank Misto Bank, obtaining 50.3% of its share capital. For more detailed information see Note 6.

This financial statements were approved by the Board of the Bank on 24 November 2008.

2 ACCOUNTING AND ASSESSMENT PRINCIPLES

(1) General principles

These interim condensed financial statements have been prepared in accordance with International Accounting Standard 34 and do not include a complete set of financial statements as required by IAS 1 „Presentation of Financial Statements”. Therefore, these interim condensed financial statements should be analysed together with the Group’s and Bank’s financial statements for the previous reporting year.

The monetary unit used in the financial statements is **the euro (EUR)**. All amounts in the financial statements are reported in **thousands of euros (EUR 000’s)**.

The Bank maintains its accounts based on appropriate accounting methods and policies which have been applied on a consistent basis. Since the end of the previous reporting year, no other changes in accounting policies have been made except for the following amendments that are mandatory for fiscal years beginning on or after 1 January 2008:

IFRIC 11 IFRS 2 – Group and Treasury Share Transactions

This interpretation requires arrangements whereby an employee is granted rights to an entity’s equity instruments, to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed. The adoption of this Interpretation did not have any effect on the financial position or performance of the Bank.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING AND ASSESSMENT PRINCIPLES (continuation)

(1) General principles (continued)

IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 Employee Benefits.

IFRS 2 Share-based Payment – Vesting Conditions and Cancellations

The Bank has elected to adopt the amendment to IFRS 2 as of 1 January 2008. The Standard has been amended to clarify the definition of vesting conditions and to prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied. The adoption of this amendment did not have any impact on the financial position or performance of the Bank.

The adoption of these standards did not have a significant effect on the operations of the Bank.

(2) Consolidation principles

The Bank has consolidated its subsidiaries in the consolidated financial statements according to International Accounting Standard 27. Information on the Bank's subsidiaries is disclosed in Note 6. The consolidation was based on control over the subsidiaries arising from the majority of voting rights in the subsidiaries.

(3) Foreign currency exchange rates

		<u>30.09.2008</u>	<u>31.12.2007</u>	<u>30.09.2007</u>
LVL 1 =	EUR	1.423	1.423	1.423
	USD	2.058	2.066	2.012
	GBP	1.127	1.038	0.998
	RUB	51.546	50.761	50.251

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

**3 INTERNAL CONTROL SYSTEM OF LAUNDERING OF THE PROCEEDS FROM CRIME
AND PREVENTION OF TERRORISM FINANCING**

Credit institutions are aware that when rendering financial services to their customers, they are exposed to the risk of being involved in laundering of proceeds from criminal activities; therefore, they take active measures to enhance control systems in this area.

The Bank, too, is aware that when rendering financial services to its customers it is exposed to the risk associated with laundering of money from criminal activities and financing of terrorism.

In order to prevent using the financial services rendered by the Bank for laundering of proceeds derived from criminal activity and financing of terrorism, the Bank has established and implemented an internal control system (hereinafter – ICS) which includes an aggregate of measures and procedures aimed at minimising the above mentioned risk.

Within the framework of ICS, the Bank has defined procedures for identification of customers (actual beneficiaries), unusual and suspicious transactions and reporting thereof; it has developed a risk-based approach for approval of prospective customers and supervision of customer transactions. The Bank organises regular training for its personnel in order to provide its employees with required knowledge on prevention of money laundering and financing of terrorism and with practical application of this knowledge to meet the requirements set in ICS documents.

Fighting laundering of proceeds derived from criminal activity and financing of terrorism remains one of the Latvia's priorities, and is being addressed at the highest level.

On 11 June 2008, the President exercised his rights granted by Section 71 of the Constitution (*Satversme*) of the Republic of Latvia and returned the new version of the Law on Prevention of Laundering of Proceeds Derived from Criminal Activity to the Parliament (*Saeima*) for revision. Currently, the Regulations of the Financial and Capital Market Commission on Customer Due Diligence are being considered for approval. The adoption of the above documents will be a significant step towards the implementation of the EU Third Money Laundering Directive; in addition these documents will detail the implementation of a risk-based approach for customer acceptance and performance review processes.

After the approval of the above mentioned legislation, the Bank shall require significant effort to introduce changes and improvements in its internal control documents to ensure their compliance with the new legislation.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

4 RISK CONTROL AND MANAGEMENT

In order to manage risks and meet the performance standards for Bank activities - capital adequacy, liquidity, foreign currency positions and risk control and administration of Bank transactions - the Bank has approved its Risk Management Policy and other policies, including its Capital Adequacy Assessment Policy, Liquidity Management Policy, Foreign Currency Risk Management Policy, Country Risk Management Policy, Lending Policy, Trading Portfolio Policy and other policies approved by the Council and the Board of the Bank. These policies have been developed in accordance with the Strategic Plan of the Bank, and they are regularly updated based on the development of the market and Bank core activities.

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

- ✓ General guidelines applied by the Bank in its operations in order to minimise all kinds of risks which may result in losses;
- ✓ Classification of risk transactions and other risks to which the Bank is exposed in its operating activities;
- ✓ General day-to-day control and administration of the Bank's risk exposures.

The main purpose of the Bank's Risk Management Policy is to describe and determine the set of measures which would help the Bank to minimise any probability of incurring losses in situations where the funds deposited by the Bank or the funds that are due to the Bank are not fully paid in a timely fashion, or where the Bank incurs losses of another kind.

The Bank's Risk Management Policy is implemented by the Council, the Board, the Asset-Liability Assessment Committee (hereinafter – ALCO), the Loan Committee and the Loan Assessment Committee of the Bank, as well as by the respective structural units of the Bank engaged in risk transaction control.

The Risk Control and Management Policy of the Group has not differ materially from the Bank's policies. An extended comparison of these policies is to be made until the end of the reporting year.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousand of euros	<u>The Group</u>		<u>The Bank</u>	
	<u>September 30, 2008</u>	<u>December 31, 2007</u>	<u>September 30, 2008</u>	<u>December 31, 2007</u>
5 LOANS				
Private enterprises	208194	96893	130965	89058
Private persons	64795	31712	33139	31010
Related companies	-	-	8507	9425
Financial institutions	4218	1885	1806	1885
Employees	2112	2032	2092	2032
Public enterprises	14	-	-	-
Total gross loans	279333	132522	176509	133410
Impairment allowances, <i>individually assessed</i>	(7555)	(2242)	(2 862)	(2094)
	271778	130280	173647	131316

Loans by types of loans may be specified as follows:

Commercial loans	119372	48712	64869	58136
Mortgage loans	65718	53403	63415	53011
Industrial loans	26343	6612	19924	6612
Consumer loans	28682	562	202	242
Finance lease	7232	7824	-	-
Overdrafts	6409	2398	2733	2398
Bills of exchange	2308	2536	2308	2536
Reverse REPO	421	922	421	922
Factoring	1114	492	1114	492
Credit cards	454	246	243	246
Security deposits	455	448	455	448
Other	20825	8367	20825	8367
	279333	132522	176509	133410

Movements in impairment allowances during the reporting period :

	<u>The Group</u>		<u>The Bank</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Balance as at 1 January	2242	2285	2094	2282
Additional allowance	1436	232	781	158
Release of allowances	(276)	(111)	(68)	(183)
Writte-off of loans	-	(43)	-	(43)
Effect of changes in currency exchange rates	55	(121)	55	(120)
Increase in impairment allowance as a result of purchase of subsidiary	4098	-	-	-
Balance as at 30 September/ 31 December	7555	2242	2862	2094

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

6 INVESTMENTS IN SHARE CAPITAL OF SUBSIDIARY

<u>Group companies: name, registration number and address</u>	<u>Type of activity</u>	<u>30.09.2008</u>				<u>31.12.2007</u>			
		<u>Investment and participation share</u>				<u>Investment and participation share</u>			
		Total book value of assets	Cost	Fixed capital portion (%)	Cost less impair- ment	Total book value of assets	Cost	Fixed capital portion (%)	Cost less impair- ment
SIA "TKB Līzings", reg.No.40003591059, Latvia, Riga, Palasta 7	Līzings un kreditēšanas operācijas	9006	71	100	71	9824	71	100	-
SIA "TKB Nekustamie īpašumi", reg. No. 40003723143, Latvia, Riga, Palasta 7	Operācijas ar nekustamo īpašumu	80	3	75	3	73	3	75	3
KB "Misto Bank", reg. No. 20966466, Ukraine, Odessa, Fontanskaja doroga 11	Provision of Bank services	144065	17288	50.3	17288	-	-	-	-
		153151	17362	-	17362	9897	74	-	3

Financial statements of subsidiaries were included in the Group's consolidated financial statements according to the policies described in Note 2. Shares of subsidiaries are not listed on stock exchanges.

In April 2008, the Bank acquired 9.0055% shares of Misto Bank, a Ukrainian commercial bank (registration number 20966466). The Bank has also acquired 100% of the shares of foreign investment company *Rolvenden Standart* (Ukrainian Enterprise Register unified registration number 31069036) which holds 41,2945% of Misto Bank shares. The Bank has requested permission of the National Bank of the Ukraine to obtain qualifying holdings in Misto Bank. The control over the investment was obtained on 27 June 2008, when the changes in Supervisory Council of Misto Bank were approved by National Bank of Ukraine, where two out of three representatives are from the Bank.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

7 SEGMENT ANALYSIS

The following analysis of segments is based on the Group's and the Bank's internal reports.

(1) Balance

In thousand of euros	The Group		The Bank	
	September 30,	December 31,	September 30,	December 31,
	2008	2007	2008	2007
Cash	33833	25602	32382	25602
Balance from credit institutions	115708	223519	98363	224343
Loans and receivables	275861	132245	175931	133076
Other state fixed income securities	18163	16803	16006	16803
Shares and other investments	6238	3479	18928	3480
Fixed assets and intangible assets	31113	6504	8036	6393
Other assets	16951	7131	12765	7057
Total assets	497867	415283	362411	416754
Balances due to banks	49937	23681	23840	30868
Deposits	349594	330924	256757	324085
Issued bonds	3987	3981	4987	4981
Other liabilities	20465	8072	16263	6453
Impairment and accrued liabilities	7651	2251	2866	3727
Equity	66233	46373	57697	46640
Total equity and liabilities	497867	415282	362410	416754
Total assets per internal reporting	497867	415282	362411	416754
Reconciling items:				
<i>Impairment</i> ¹	(7651)	(2250)	(2866)	(2094)
<i>Other reconciling items</i> ²	(532)	(1111)	(471)	(1846)
Total assets per IFRS statements	489684	411921	359074	412814
Total liabilities per internal reporting	431635	368909	304714	370114
Reconciling items:				
<i>Impairment</i> ¹	(7651)	(2250)	(2866)	(2094)
<i>Subordinated liabilities</i> ³	7224	1719	7224	1719
<i>Other reconciling items</i> ²	(532)	(1111)	(471)	(1485)
Total liabilities per IFRS statements	430676	367267	308601	368254

¹ For internal reporting purposes impairment is shown as a liability and not netted with related assets.

² Other reconciling items mostly represent cut-off and classification required by IFRS.

³ For internal reporting purposes subordinated liabilities are classified as equity.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

7 SEGMENT ANALYSIS (continued)

The following analysis of segments is based on the Group's and the Bank's internal reports.

(2) Profit and loss statement

In thousand of euros	The Group		The Bank	
	2008 (9 months)	2007 (9 months)	2008 (9 months)	2007 (9 months)
Interest revenue	21233	17379	16985	17247
Commission revenue	8614	6940	8194	6919
Profit from trading	5434	9058	4616	9061
Impairment	276	118	69	158
Other income	944	411	904	401
Total revenues	36501	33906	30768	33786
Interest expenses	6137	2040	3159	2043
Commission expenses	1501	1817	1456	1863
Administration expenses ¹	11775	8707	10320	8640
Tax expenses	3631	3231	3567	3226
Impairment	1431	3726	817	3674
Other	148	83	131	78
Total expenses	24623	19604	19450	19524
Profit	11878	14302	11318	14262
Total revenues per internal reporting	29847	24319	25179	24166
Reconciling item ²	-	(7)	-	(53)
Total revenues per IFRS statements	29 847	24312	25179	24113

¹ Administrative expense includes depreciation charge in the amount of EUR 531 thousand (2007: EUR 494 thousand).

² Reconciling item is mainly due to cut-off, as well as nominal interest rate accounting used for internal reporting purposes in contrast to effective interest rate accounting used for IFRS compliant financial statements.

The Group's income analysis by the place of customers' residence

In thousand of euro	2008 (9 months)		2007 (9 months)	
	Latvian residents	Latvian non-residents	Latvian residents	Latvian non-residents
Interest income	7823	13455	5364	12272
Commission income	319	8250	408	6268
Total income	8142	21705	5772	18540

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

7 SEGMENT ANALYSIS (continued)

The Bank's income analysis by the place of customers' residence

In thousand of euros	2008 (9 months)		2007 (9 months)	
	Latvian residents	Latvian non-residents	Latvian residents	Latvian non-residents
Interest income	7658	9372	5195	12245
Commission income	293	7856	407	6266
Total income	7951	17228	5602	18511

8 OFF-BALANCE SHEET ITEMS

(1) Off-balance liabilities

In thousand of euros	<u>The Group</u>		<u>The Bank</u>	
	<u>September 30, 2008</u>	<u>December 31, 2007</u>	<u>September 30, 2008</u>	<u>December 31, 2007</u>
Contingent liabilities	1028	878	603	878
<i>including guarantees</i>	1096	878	639	878
<i>including provisions for guarantees</i>	(68)	-	(36)	-
Commitments to clients	43268	28671	28777	30720
<i>including unused credit lines</i>	30885	17958	17582	20007
<i>including rent commitments²</i>	11302	10649	10114	10649
<i>including letters of credit</i>	61	46	61	46
<i>Including other liabilities¹</i>	1020	18	1020	18
Total off-balance sheet liabilities	44296	29549	29380	31598

¹ Other liabilities are disclosed as the Bank's future liabilities for acquisition of fixed assets. In the previous period these liabilities included also equity securities.

² Rent commitments as of the end of 2007 were corrected for additional lease payments:

	<u>The Group</u> <u>December 31, 2007</u>	<u>The Bank</u> <u>December 31, 2007</u>
Rent commitments before correction	6224	6224
Corrections related to recognition of additional rent payments	4425	4425
Rent commitments after correction	10649	10649

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

8 OFF-BALANCE SHEET ITEMS (continued)

(2) Assets and liabilities under management are composed as follows

In thousand of euros	Group		Bank	
	<u>September 30, 2008</u>	<u>December 31, 2007</u>	<u>September 30, 2008</u>	<u>December 31, 2007</u>
Assets under management				
Due from corporate	23171	14026	18096	14026
Due from credit institutions registered in other countries	828	-	828	-
Due from individuals	17462	211	17378	211
	41461	14237	36302	14237
Customer profile on whose behalf the assets are managed				
Credit institutions registered in other countries	34506	11569	34506	11569
Private enterprises	1796	761	1796	761
Financial institutions	5159	-	-	-
Individuals	-	1907	-	1 907
	41461	14237	36302	14237

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

9 THE GROUP'S AND BANK'S TRANSACTIONS WITH RELATED PARTIES

Related parties are defined as shareholders of the Bank who have a significant influence in the Bank, as well as their spouses, parents and children, the Bank's subsidiaries, chairpersons and members of the council and management board, internal service manager and members and other employees of the Bank, who are authorized to perform planning, management and control activities on behalf of the Bank, or are in charge of these activities, as well as their spouses, parents, children and companies in which the above-mentioned persons have a controlling interest.

The Bank has offered standard services to related parties, such as the settlement of accounts, the purchase and sale of securities, securities management on behalf of clients, and brokerage etc. These transactions are mostly conducted on normal business terms.

(1) Amount of the Group transactions with related persons is presented below

In thousand euro	30.09.2008				30.09.2007			
	Share-holders	Other related parties ¹	Council and board	Total	Share-holders	Other related parties ¹	Council and board	Total
Assets								
Loans	943	1831	690	3464	909	719	302	1930
<i>Allowance for loans</i>		(24)		(24)		(24)		(24)
Loans, net	943	1807	690	3440	909	695	302	1906
Liabilities								
Deposits	55	427	396	878	20	260	84	364
Non-balance items								
Unused credit lines	14	17	24	55	14	14	18	46
Profit and loss statement								
Interest income	50	67	11	128	54	37	7	98
Commissions income	1	10	4	15	1	4	1	6
Interest expense	(9)	(9)	(13)	(31)	(13)	(11)	(4)	(28)
Release of allowance, net	-	-	-	-	-	-	-	-
Other expenses	(14)	(63)	(51)	(128)	(13)	(104)	(41)	(158)

¹ Other related parties are spouses, children of the shareholders and council and board members and companies in which they have a controlling interest.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

9 THE GROUP'S AND BANK'S TRANSACTIONS WITH RELATED PARTIES (continued)

(2) Amount of the Bank transactions with related persons is presented below

In thousand of euros	30.09.2008					30.09.2007				
	Shareholders	Subsidiary companies	Other related persons ¹	Council and Board	Total	Shareholders	Subsidiary companies	Other related	Council and Board	Total
Assets										
Credits	736	8507	1406	176	10825	909	8152	719	242	10022
<i>Reserves for unsecured credits</i>	-	-	(24)	-	(24)	-	(60)	(24)	-	(84)
Credits, net	736	8507	1382	176	10801	909	8092	695	242	9938
Liabilities										
Deposits	55	6	423	320	804	20	28	260	84	392
Non-balance items										
Unused credit limits	14	801	17	24	856	14	3364	14	18	3410
Profit and loss statement										
Interest income	48	238	63	7	356	54	145	36	6	241
Commissions income	1	3	10	4	18	1	1	4	1	7
Interest expenditure	(9)	(1)	(9)	(13)	(32)	(13)	-	(11)	(4)	(28)
Reserve decreasing income, net	-	7	-	-	7	-	18	-	-	18
Other expenses	(14)	(117)	(63)	(51)	(245)	(13)	(121)	(104)	(41)	(279)

¹ Other related parties are spouses, children of the shareholders and council and board members and companies in which they have a controlling interest.

10 EVENTS AFTER BALANCE SHEET DATE

During the period from the last day of the accounting period until the date of signing these financial statements, in connection with the current global market situation, the Bank's equity and debt securities trading portfolio has decreased by 43%. A part of this decrease is due to closing of positions of the trading portfolio, yet a part – due to fall in the market value of positions, ie. losses of revaluation. For all that, the Bank has managed to preserve its half year results and to gain extra net profit. There are no other subsequent events that require adjustment or disclosure in the financial statements or notes thereto.

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