TRASTA KOMERCBANKA

JSC "TRASTA KOMERCBANKA"
INTERIM CONDENSED FINANCIAL STATEMENTS
AND CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED
30 JUNE 2008
AND INDEPENDENT AUDITOR'S REPORT

CONTENTS **page**

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

In the 1st half-year of 2008 quick "cooling" indications of Latvian economy were observed – GDP growth of the state amounted only to 3.3% in Quarter I of 2008 (10.3% was the average index of 2007). At the same time, the inflation index in the state was 17.1% (in the 1st half-year of 2008; 10.1% was the average index of 2007; consequently, Latvia appeared to be in stagflation) which caused increase of subsistence minimum in the 1st half-year of 2008 by 21.3% (although the unemployment rate still remains comparatively low – 4.9% as of the end of the 1st half-year of 2008) as a result of which the amount of retail trade shrank by 5.1% in May 2008 (as compared to May 2007) , but the amount of foreign trade (whereas current account deficit in the 1st quarter of 2008 amounted to 19.4% 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 LVL 169 million) and almost all planned state budget proficite (in the amount of LVL 163 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 (assets of Latvian commercial banks increased only by 1.9% in the first 5 months of 2008, deposits – by 2%, credit portfolio – by 5.2%).

The continuous total financial crisis which began in the US real estate market should also be noted, which was also deepened by oil and food price increases and therefore caused far-reaching consequences in the world financial sector. However, all the mentioned factors are carefully analysed by the Bank and potential risks are maximally diversified – for example, the Bank did not have great exposition in the most suffered market segments, consequently, the corrections in global prices did not particularly influence its activity results.

Regardless of the existing problems, the Bank continued to develop in the first half-year of 2008 in accordance with its activity Strategy. The results achieved in the 1st half-year of 2008 allow to conclude that the Bank has positioned itself good enough so that the national and global economic situation has not made substantial influence on its finances. The Bank managed to preserve its leader positions according to return on equity (ROE) – it amounted to 42.25% in the first six months of 2008 and also according to ROA index – 4.91%.

As of June 30, 2008, the amount of assets of the Bank reached LVL 278.6 million which is a little less than the result of 2007, whereas the amount of proper deposits reached LVL 216.3 million which is also less by LVL 16.4 million than in 2007. Upon implementing the approved activity policy of 2008, the Bank carried out restructuring of its assets by distributing financial resources in the income bringing assets, as a result of which the credit portfolio of the Bank increased to LVL 126.7 million.

The amount of capital and reserves of the Bank amounted to LVL 34.3 million on June 30, 2008. Profit of the Bank amounted to LVL 6.9 million for 6 months of 2008. It is decided not to divide the profit of 6 months of 2008, completely including it in the capital adequacy calculation of the Bank. That will allow to increase stability of the Bank and activity in financial markets.

The International rating agency "Moody`s Investors Service Ltd" has assigned the financial stability rating to the Bank for the first time, as well as long-term deposit and short-term deposit ratings. The following ratings were assigned to the Bank: E+ Bank financial stability rating (BFSR), long-term deposit rating B2 and short-term deposit rating *Not-Prime*. The forecast of all ratings - "stable" *(stable outlook)*. The report of the rating agency distinguished high profitability, high capital adequacy and activity efficiency of the Bank as the strong points of the Bank. The Bank considers receipt of such ratings a positive achievement taking into consideration the economic situation of Latvia. The rating contributes to transparency of the Bank, as well as openness to external observers – creditors, rating agencies, investors and other market participants.

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

In April 2008, the Bank acquired 9.0055% of "Misto Bank" (Ukraine, Odessa) shares, as well as 100% of shares of the foreign investment company "Rolvenden Standart" the assets of which contain 41.2945% of the shares of „Misto Bank". By acquiring the controlling interest of "Misto Bank" shares, the Bank planned to strengthen its presence in the Ukrainian market and expand opportunities of its clients in this region. The Bank and Ukrainian „Misto Bank" are linked by long-term co-operation. One of the main directions in which the banks have successfully co-operated is crediting of Ukrainian entrepreneurs where the Bank provided financing to local clients, but drawing up of documentation and the necessary control within the region was within the competence of "Misto Bank".

Thereby, the consolidation group of the Bank is formed of three subsidiary companies: "TKB Nekustamie īpašumi", "TKB Līzings" and "Misto Banka". Profit of the group for 6 months of 2008 was LVL 6.8 million and the amount of assets as of the end of the reporting period reached LVL 357.4 million.

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

Gundars Grieze
Chairman of the Board

Riga,
24 October 2008

STATEMENT OF RESPONSIBILITY OF THE MANAGEMENT'S OF THE BANK (GROUP'S HOLDING COMPANY'S)

Bank's management (Group's holding company) is responsible for preparation of consolidated financial statements and the separate financial statements, which fairly and truly present the Groups' and the Bank's financial standing as at the end of the financial year and the results of its activity and cash flow for that year, respectively, according International Financial Reporting Standards (IFRS) as adopted by the European Union.

The management confirms that the consolidated financial statements and the separate financial statements set out on pages 8 to 28 for the period from 1 January 2008 to 30 June 2008 have been prepared consistently applying relevant accounting methods and 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 based on a going concern concept basis.

The Bank's management is responsible for proper keeping of accounting records, for safeguarding of the Group's and the Bank's assets and for prevention of any fraudulent actions. They are also responsible for managing the Group and the Bank in compliance with the Credit Institution Law of the Republic of Latvia, regulatory enactments of the Bank of Latvia and the Financial and Capital Market Commission and other applicable laws and regulations of the Republic of Latvia

On behalf of management of the Bank:

Gundars Grieze
Chairman of the Board

Riga,
24 October 2008

THE MANAGEMENT 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.

INDEPENDENT AUDITORS' REPORT

To the shareholders of AS TRASTA KOMERCBANKA

Report on the Financial Statements

We have audited the interim condensed consolidated financial statements of AS TRASTA KOMERCBANKA and its subsidiaries (hereinafter – the Group) and the accompanying interim condensed financial statements of AS TRASTA KOMERCBANKA (hereinafter - the Bank), which are set out on pages 8 through 28and which comprise the balance sheet as at 30 June 2008, the statements of income, changes in equity and cash flows for the six month period ended 30 June 2008, and explanatory notes.

Management's Responsibility for the Financial Statements
The Bank's management is responsible for the preparation and fair presentation of these financial statements in accordance with International Accounting Standard 34 *Interim Financial Reporting*, as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility
Our responsibility is to express an opinion on these interim condensed financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the condensed interim financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the interim condensed financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the interim condensed financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the interim condensed financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the interim condensed financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the interim condensed financial statements of the Group and the Bank have been prepared, in all material respects, in accordance with International Accounting Standard 34, as adopted by the EU.

SIA Ernst & Young Baltic
Licence No. 17

Diāna Krišjāne
Personal ID code: 250873-12964
Latvian Sworn Auditor
Certificate No. 124

Riga, 24 October 2008

PROFIT AND LOSS STATEMENTS AND CONSOLIDATED PROFIT AND LOSS STATEMENTS

In thousands of lats	The Group 2008 (6 months)	The Group 2007 (6 months)	The Bank 2008 (6 months)	The Bank 2007 (6 months)
Interest income	7 953	7 831	7 843	7 759
Interest expense	(1 351)	(980)	(1 372)	(980)
Net interest income	**6 602**	**6 851**	**6 471**	**6 779**
Allowance for impairment, net	(310)	(140)	(209)	(113)
Net interest income after allowance for impairment	**6 292**	**6 711**	**6 262**	**6 666**
Commission income	3 660	2 864	3 658	2 853
Commission expense	(692)	(874)	(694)	(874)
Net commission income	**2 968**	**1 990**	**2 964**	**1 979**
Dividends	2	15	2	15
(Loss)/profit from financial assets held for trading, net	(572)	73	(572)	73
Realised profit from available-for-sale financial assets, net	148	29	148	29
Foreign currency trading and revaluation gain	3 986	4 048	3 977	4 049
Other income	506	259	457	257
Other non-interest income	**4 070**	**4 424**	**4 012**	**4 423**
Salaries and benefits expenses	(2 947)	(2 423)	(2 896)	(2 378)
Administrative expenses	(1 740)	(1 547)	(1 758)	(1 564)
Tangible and intangible assets amortisation and depreciation	(249)	(227)	(248)	(226)
Other expenses	(58)	(42)	(50)	(40)
Release of other impairment and provisions	-	21	50	21
Other non-interest expense	**(4 994)**	**(4 218)**	**(4 902)**	**(4 187)**
Profit before corporate income tax	**8 336**	**8 907**	**8 336**	**8 881**
Corporate income tax	(1 499)	(1 336)	(1 478)	(1 331)
Profit for the period	**6 837**	**7 571**	**6 858**	**7 550**
Attributable to equity holders of the Bank	6 834	7 565	6 858	7 550
Attributable to minority interest	3	6	-	-
Earnings per share (basic and diluted) in lats	**53.92**	**68.31**	**-**	**-**

BALANCE SHEETS AND CONSOLIDATED BALANCE SHEETS

In thousands of lats	Note	The Group June 30, 2008	The Group December 31, 2007	The Bank June 30, 2008	The Bank December 31, 2007
ASSETS					
Cash and balances due from the Bank of Latvia and other Central Banks		**22 794**	**17 993**	**19 166**	**17 993**
Due from credit institutions with a maturity of less than 3 months		**97 338**	**150 832**	**94 556**	**150 832**
On demand		*81 961*	*115 927*	*72 675*	*115 927*
Other		*15 377*	*34 905*	*21 881*	*34 905*
Held for trading financial assets		**11 961**	**8 345**	**9 173**	**8 345**
Fixed income securities		*8 015*	*5 918*	*7 107*	*5 918*
Equity shares and other non-fixed income securities		*3 908*	*2 380*	*2 028*	*2 380*
Derivatives		*38*	*47*	*38*	*47*
Available for sale financial assets		**6 994**	**6 257**	**6 302**	**6 257**
Fixed income securities		*6 945*	*6 192*	*6 253*	*6 192*
Equity shares and other non-fixed income securities		*49*	*65*	*49*	*65*
Due from credit institutions with a maturity of more than 3 months		**4 457**	**6 432**	**2 337**	**6 432**
Loans	5	**188 578**	**91 561**	**126 698**	**92 290**
Accrued income and deferred expenses		**447**	**268**	**230**	**257**
Long-term projects costs		**2 217**	**2 217**	**2 219**	**2 217**
Tangible assets		**12 534**	**2 148**	**2 730**	**2 142**
Intangible assets		**5 881**	**205**	**210**	**205**
Investments in share capital of subsidiary	6	**-**	**-**	**11 227**	**2**
Corporate income tax receivable		**139**	**-**	**139**	**-**
Deferred tax assets		**31**	**24**	**30**	**25**
Other assets		**4 010**	**3 218**	**3 604**	**3 130**
TOTAL ASSETS		**357 381**	**289 500**	**278 621**	**290 127**

BALANCE SHEETS AND CONSOLIDATED BALANCE SHEETS (continued)

In thousands of lats	The Group June 30, 2008	The Group December 31, 2007	The Bank June 30, 2008	The Bank December 31, 2007
LIABILITIES				
Due to credit institutions	**29 278**	**16 561**	**17 688**	**16 561**
On demand	*12 907*	*4 850*	*5 616*	*4 850*
Term deposits with a maturity of less than 3 months	*1 625*	*500*	*780*	*500*
Term deposits with a maturity of more than 3 months	*14 746*	*11 211*	*11 292*	*11 211*
Held for trading financial liabilities	**2**	**2**	**2**	**2**
Derivatives	*2*	*2*	*2*	*2*
Due to customers	**277 030**	**232 651**	**216 266**	**232 697**
On demand	*211 588*	*204 764*	*197 541*	*204 810*
Term deposits	*65 442*	*27 887*	*18 725*	*27 887*
Debt securities issued	**2 814**	**2 812**	**3 520**	**3 518**
Accrued expenses and deferred income	**1 461**	**711**	**1 209**	**698**
Provisions for contingent liabilities	**30**	**-**	**9**	**-**
Corporate income tax liabilities	**876**	**779**	**30**	**766**
Other liabilities	**4 839**	**3 393**	**4 451**	**3 360**
Liabilities before subordinated liabilities	**316 330**	**256 909**	**243 175**	**257 602**
Subordinated liabilities	**1 106**	**1 208**	**1 106**	**1 208**
TOTAL IABILITIES	**317 436**	**258 117**	**244 281**	**258 810**

BALANCE SHEETS AND CONSOLIDATED BALANCE SHEETS (continued)

In thousands of lats	The Group		The Bank	
	June 30, 2008	December 31, 2007	June 30, 2008	December 31, 2007
EQUITY AND RESERVES				
Share capital	6 337	6 337	6 337	6 337
Share premium	111	111	111	111
Reserve capital and other reserves	3 804	3 804	3 804	3 804
Available for sale financial assets revaluation reserves	(18)	17	(18)	17
Retained earnings	24 136	21 102	24 106	21 048
Equity and reserves attributable to shareholders of the Bank	**34 370**	**31 371**	**34 340**	**31 317**
Minority shareholder interest	**5 575**	**12**	**-**	**-**
Total equity and reserves	**39 945**	**31 383**	**34 340**	**31 317**
TOTAL LIABILITIES AND EQUITY AND RESERVES	**357 381**	**289 500**	**278 621**	**290 127**

STATEMENTS OF CHANGES IN EQUITY AND RESERVES AND CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY AND RESERVES

(1) The Group

In thousands of lats	Share capital	Share premium	Reserve capital and other reserves	Available for sale financial asset revaluation reserves	Retained earnings	Total	Minority shareholder interest	Total equity and reserves
BALANCE AS AT 31 DECEMBER 2006	**5 537**	**111**	**3 804**	**103**	**10 138**	**19 693**	**7**	**19 700**
Changes in fair value of available for sale securities	-	-	-	*(92)*	-	*(92)*	-	*(92)*
Total income recognized directly in equity	-	-	-	(92)	-	(92)	-	(92)
Net profit for the period	-	-	-	-	*7 565*	*7 565*	*6*	*7 571*
Total income recognised for the period	-	-	-	(92)	7 565	7 473	6	7 479
Dividends paid	-	-	-	-	(5 000)	(5 000)	-	(5 000)
BALANCE AS AT 30 JUNE 2007	**5 537**	**111**	**3 804**	**11**	**12 703**	**22 166**	**13**	**22 179**
BALANCE AS AT 31 DECEMBER 2007	**6 337**	**111**	**3 804**	**17**	**21 102**	**31 371**	**12**	**31 383**
Changes in fair value of available for sale securities	-	-	-	*(35)*	-	*(35)*	-	(35)
Total loss recognised directly in equity	-	-	-	(35)	-	(35)	-	(35)
Net profit for the period	-	-	-	-	*6 834*	*6 834*	*3*	*6 837*
Total income recognised for the period	-		-	(35)	6 834	6 799	3	6 802
Minority interest as a result of purchase	-	-	-	-	-	-	5 560	5 560
Dividends paid	-	-	-	-	(3 800)	(3 800)	-	(3 800)
BALANCE AS AT 30 JUNE 2008	**6 337**	**111**	**3 804**	**(18)**	**24 136**	**34 370**	**5 575**	**39 945**

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

(2) The Bank

In thousands of lats	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	**5 537**	**111**	**3 804**	**103**	**10 142**	**19 697**
Changes in fair value of available for sale securities	-	-	-	*(92)*	-	*(92)*
Total income recognised directly in equity	-	-	-	(92)	-	(92)
Net profit for the period	-	-	-	-	*7 550*	*7 550*
Total income recognised for the period	-	-	-	(92)	7 550	7 458
Dividends paid					(5 000)	(5 000)
BALANCE AS AT 30 JUNE 2007	**5 537**	**111**	**3 804**	**11**	**12 692**	**22 155**
BALANCE AS AT 31 DECEMBER 2007	**6 337**	**111**	**3 804**	**17**	**21 048**	**31 317**
Changes in fair value of available for sale securities	-	-	-	*(35)*	-	*(35)*
Total loss recognised directly in equity	-	-	-	(35)	-	(35)
Net profit for the period	-	-	-	-	*6 858*	*6 858*
Total income recognised for the period	-		-	(35)	6 858	6 823
Dividends paid	-	-	-	-	(3 800)	(3 800)
BALANCE AS AT 30 JUNE 2008	**6 337**	**111**	**3 804**	**(18)**	**24 106**	**34 340**

STATEMENTS OF CASH FLOWS AND CONSOLIDATED STATEMENTS OF CASH FLOWS

In thousands of lats	The Group 2008 (6 months)	The Group 2007 (6 months)	The Bank 2008 (6 months)	The Bank 2007 (6 months)
Cash flow as a result of basic activity:				
Profit before corporate income tax	8 333	8 901	8 336	8 881
Amortisation and depreciation	249	227	248	226
Change in allowance for impairment	241	119	138	91
Change in other provisions	-	(21)	-	(21)
Foreign currency revaluation profit	(68)	(436)	(68)	(455)
(Profit)/ loss from revaluation of financial assets held-for-trading	(78)	95	(78)	95
Gain on disposal of fixed and intangible assets	-	(186)	-	(186)
Increase in cash and cash equivalents from operating activities before changes in assets and liabilities	**8 677**	**8 699**	**8 576**	**8 631**
Increase in financial assets held for trading	(750)	(2 692)	(750)	(2 692)
Increase in available-for-sale financial assets	(80)	(3 042)	(80)	(3 042)
Decrease in balances due from credit institutions	4 095	748	4 095	748
Increase in loans and receivables	(34 656)	(26 815)	(34 546)	(26 786)
Decrease/(increase) in accrued income and deferred expense	32	(215)	27	(211)
(Increase)/decrease in other assets	(452)	1 127	(474)	1 156
Increase/(decrease) in balances due to credit institutions	81	(93)	81	(93)
(Decrease/increase in deposits from customers	(16 437)	50 515	(16 431)	50 497
Decrease in financial liabilities held for trading	-	1	-	1
Increase in accrued expense and deferred income	494	700	511	701
Increase/(decrease) in other liabilities	984	(7 635)	998	(7 638)
	(38 012)	**21 298**	**(37 993)**	**21 272**
Corporate income tax paid	(2 393)	(1 804)	(2 358)	(1 798)
(Decrease)/ increase in cash and cash equivalents from operating activities	**(40 405)**	**19 494**	**(40 351)**	**19 474**
Cash flows from investing activities				
Purchase of fixed and intangible fixed assets, net	(840)	(265)	(841)	(264)
Investments in subsidiaries, net	(12 898)	-	(11 225)	-
Sale of long-term projects	-	2 673	-	2 673
(Decrease)/increase in cash and cash equivalents from investing activities	**(13 738)**	**2 408**	**(12 066)**	**2 409**

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

In thousands of lats	The Group 2008 (6 months)	The Group 2007 (6 months)	The Bank 2008 (6 months)	The Bank 2007 (6 months)
Cash flows from financing activities				
Changes/sale of mortgage bonds issued	-	1 389	-	1 389
Change in subordinated capital	-	(42)	-	(42)
Dividends paid	(3 800)	(5 000)	(3 800)	(5 000)
(Decrease)/increase in cash and cash equivalents from financing activities	**(3 800)**	**(3 653)**	**(3 800)**	**(3 653)**
(Decrease)/increase in cash and cash equivalents	**(57 943)**	**18 249**	**(56 217)**	**18 230**
Cash and cash equivalents at the beginning of the year	**163 475**	**187 562**	**163 475**	**187 562**
Foreign currency revaluation profit	**68**	**436**	**68**	**455**
Cash and cash equivalents at the end of the year	**105 600**	**206 247**	**107 326**	**206 247**

Cash and cash equivalents are calculated as follows

In thousands of lats	The Group 2008 (6 months)	The Group 2007 (6 months)	The Bank 2008 (6 months)	The Bank 2007 (6 months)
Due from credit institutions with a maturity of less than 3 months	97 338	189 463	94 556	189 463
Cash and balances due from the Bank of Latvia and other Central Banks	22 794	19 735	19 166	19 735
Due to credit institutions with a maturity of less than 3 months	(14 532)	(2 951)	(6 396)	(2 951)
CASH AND CASH EQUIVALENTS	**105 600**	**206 247**	**107 326**	**206 247**

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

In thousands of lats	The Group 2008 (6 months)	The Group 2007 (6 months)	The Bank 2008 (6 months)	The Bank 2007 (6 months)
Interest income received during the reporting period	7 956	7 381	7 812	7 274
Interest expenses paid during the reporting period	(1 347)	(961)	(1 347)	(961)

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 October 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 lat (LVL)**, the monetary unit of the Republic of Latvia. All amounts in the financial statements are reported in **thousands of Lats (LVL 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

		30.06.2008	31.12.2007	30.06.2007
LVL 1 =	EUR	1.423	1.423	1.423
	USD	2.237	2.066	1.916
	GBP	1.126	1.038	0.958
	RUB	52.632	50.761	49.505
	UAH	10.235	10.438	9.615

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.

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 compatison 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 lats	The Group Jume 30, 2008	The Group December 31, 2007	The Bank June 30, 2008	The Bank December 31, 2007
5 LOANS				
Private enterprises	148 572	68 097	95 469	62 590
Private persons	40 284	22 287	23 820	21 795
Related companies	-	-	6 005	6 624
Financial institutions	3 005	1 325	1 596	1 325
Employees	1 319	1 428	1 319	1 428
Public enterprises	108	-	99	-
Total gross loans	**193 288**	**93 137**	**128 308**	**93 762**
Impairment allowances, ***individually assessed***	(4 710)	(1 576)	(1 610)	(1 472)
	188 578	**91 561**	**126 698**	**92 290**

Loans by types of loans may be specified as follows:

Commercial loans	82 877	34 235	45 870	40 859
Mortgage loans	51 438	37 532	50 541	37 257
Industrial loans	16 827	4 647	12 472	4 647
Consumer loans	14 928	395	168	170
Finance lease	5 372	5 499	-	-
Overdrafts	3 110	1 685	2 381	1 685
Bills of exchange	1 874	1 782	1 874	1 782
Reverse REPO	779	648	779	648
Factoring	736	346	736	346
Credit cards	305	173	179	173
Security deposits	293	315	293	315
Other	14 749	5 880	13 015	5 880
	193 288	**93 137**	**128 308**	**93 762**

Movements in impairment allowances during the reporting period :

	The Group 2008	The Group 2007	The Bank 2008	The Bank 2007
Balance as at 1 January	**1 576**	**1 606**	**1 472**	**1 604**
Additional allowance	346	163	247	111
Release of allowances	(45)	(78)	(47)	(129)
Writte-off of loans	-	(30)	-	(30)
Effect of changes in currency exchange rates	(62)	(85)	(62)	(84)
Increase in impairment allowance as a result of purchase of subsidiary	2 895	-	-	-
Balance as at 30 June/ 31 December	**4 710**	**1 576**	**1 610**	**1 472**

6 INVESTMENTS IN SHARE CAPITAL OF SUBSIDIARY

		30.06.2008 Investment and participation share				31.12.2007 Investment and participation share			
Group companies: name, registration number and address	Type of activity	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	Līzinga un kreditēšanas operācijas	6 325	50	100	50	6 904	50	100	-
SIA "TKB Nekustamie īpašumi", reg. No. 40003723143, Latvia, Riga, Palasta 7	Operācijas ar nekustamo īpašumu	62	2	75	2	51	2	75	2
KB "Misto Bank", reg. No. 20966466, Ukraine, Odessa, Fontanskaja doroga 11	Provision of Bank services	100 863	11 175	50.3	11 175	-	-	-	-
		107 250	**11 227**	**-**	**11 227**	**6 955**	**52**	**-**	**2**

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.

6 INVESTMENTS IN SHARE CAPITAL OF SUBSIDIARY (continued)

The Group has determined fair values of net assets acquired only provisionally and is still in process to finalise the amount of the fair value of the net identifiable assets acquired within 12 month period from purchase date.

Fair values of net identifiable assets:

	Carrying value	Fair value
Cash and cash equivalents	6 830	6 830
Loans	63 469	63 469
Property, plant and equipment	9 913	9 913
Other assets	4 946	4 946
Deposits	(60 932)	(60 932)
Interbank borrowing	(11 710)	(11 710)
Other liabilities	(1 329)	(1 329)
Net identifiable assets	**11 187**	**11 187**
Share acquired	50.3%	50.3%
Net identifiable assets acquired	**5 627**	**5 627**

Cash paid	(11 175)
Fair value of net identifiable assets	5 627
Goodwill	**(5 548)**

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 lats	The Group June 30, 2008	The Group December 31, 2007	The Bank June 30, 2008	The Bank December 31, 2007
Cash	20 313	17 993	19 166	17 993
Balance from credit institutions	104 109	157 090	96 700	157 669
Loans and receivables	191 098	92 942	127 938	93 526
Other state fixed income securities	14 423	11 809	13 153	11 809
Shares and other investments	3 957	2 445	13 303	2 446
Fixed assets and intangible assets	20 632	4 571	5 158	4 493
Other assets	8 104	5 012	5 224	4 960
Total assets	**362 636**	**291 862**	**280 642**	**292 896**
Balances due to banks	29 215	16 643	17 679	21 694
Deposits	275 918	232 575	216 197	227 768
Issued bonds	2 800	2 798	3 503	3 501
Other liabilities	8 878	5 673	6 230	4 535
Impairment and accrued liabilities	4 797	1 582	1 610	2 619
Equity	41 028	32 591	35 423	32 779
Total equity and liabilities	**362 636**	**291 862**	**280 642**	**292 896**
Total assets per internal reporting	**362 636**	**291 862**	**280 642**	**292 896**
Reconciling items:				
Impairment[1]	*(4 797)*	*(1 581)*	*(1 610)*	*(1 472)*
Other reconciling items[2]	*(458)*	*(781)*	*(411)*	*(1 297)*
Total assets per IFRS statements	**357 381**	**289 500**	**278 621**	**290 127**
Total liabilities per internal reporting	**321 608**	**259 271**	**245 219**	**260 117**
Reconciling items:				
Impairment[1]	*(4 797)*	*(1 581)*	*(1 610)*	*(1 472)*
Subordinated liabilities[3]	*1 083*	*1 208*	*1 083*	*1 208*
Other reconciling items[2]	*(458)*	*(781)*	*(411)*	*(1 043)*
Total liabilities per IFRS statements	**317 436**	**258 117**	**244 281**	**258 810**

[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 lats	The Group 2008 (6 months)	The Group 2007 (6 months)	The Bank 2008 (6 months)	The Bank 2007 (6 months)
Interest revenue	7 902	7 739	7 803	7 688
Commission revenue	3 711	2 956	3 698	2 945
Profit from trading	3 564	4 165	3 554	4 166
Impairment	125	64	127	90
Other income	517	256	520	256
Total revenues	**15 819**	**15 180**	**15 702**	**15 145**
Interest expenses	1 351	980	1 372	980
Commission expenses	692	874	694	895
Administration expenses[1]	5 190	4 269	5 157	4 241
Tax expenses	1 338	1 282	1 317	1 278
Impairment	355	165	256	164
Other	56	39	48	37
Total expenses	**8 982**	**7 609**	**8 844**	**7 595**
Profit	**6 837**	**7 571**	**6 858**	**7 550**
Total revenues per internal reporting	**11 613**	**10 695**	**11 501**	**10 633**
Reconciling item[2]	-	-	-	(21)
Total revenues per IFRS statements	**11 613**	**10 695**	**11 501**	**10 612**

[1] Administrative expense includes depreciation charge in the amount of LVL 248 thousand (2007: LVL 226 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 lats	2008 (6 months) Latvian residents	2008 (6 months) Latvian non-residents	2007 (6 months) Latvian residents	2007 (6 months) Latvian non-residents
Interest income	3 591	4 362	2 354	5 477
Commission income	158	3 502	183	2 681
Total income	**3 749**	**7 864**	**2 537**	**8 158**

7 SEGMENT ANALYSIS (continued)

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

In thousand of lats	2008 (6 months) Latvian residents	2008 (6 months) Latvian non-residents	2007 (6 months) Latvian residents	2007 (6 months) Latvian non-residents
Interest income	3 493	4 350	2 308	5 451
Commission income	157	3 501	193	2 660
Total income	**3 650**	**7 851**	**2 501**	**8 111**

8 OFF-BALANCE SHEET ITEMS

(1) Off-balance liablities

In thousand of lats	The Group June 30, 2008	The Group December 31, 2007	The Bank June 30, 2008	The Bank December 31, 2007
Contingent liabilities	**868**	**617**	**695**	**617**
including guarantees	*898*	*617*	*704*	*617*
including provisions for guarantees	*(30)*	*-*	*(9)*	*-*
Commitments to clients	**30 868**	**20 150**	**22 631**	**21 590**
including unused credit lines	*22 038*	*12 621*	*14 649*	*14 061*
including rent commitments [2]	*8 079*	*7 484*	*7 231*	*7 484*
including letters of credit	*-*	*32*	*-*	*32*
Including other liabilities [1]	*751*	*13*	*751*	*13*
Total off-balance sheet liabilities	**31 736**	**20 767**	**23 326**	**22 207**

[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:

	The Group December 31, 2007	The Bank December 31, 2007
Rent commitments before correction	4 374	4 374
Corrections related to recognition of additional rent payments	3 110	3 110
Rent commitments after correction	**7 484**	**7 484**

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 lats	Group		Bank	
	June 30, 2008	December 31, 2007	June 30, 2008	December 31, 2007
Assets under management				
Due from corporate	14 800	9 858	11 175	9 858
Due from individuals	75	148	59	148
	14 875	**10 006**	**11 234**	**10 006**
Customer profile on whose behalf the assets are managed				
Credit institutions registered in other countries	10 661	8 131	10 661	8 131
Private enterprises	-	535	-	535
Financial institutions	3 641	-	-	-
Individuals	573	1 340	573	1 340
	14 875	**10 006**	**11 234**	**10 006**

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 lats	30.06.2008				30.06.2007			
	Share-holders	Other related parties[1]	Council and board	Total	Share-holders	Other related parties[1]	Council and board	Total
Assets								
Loans	526	1 077	181	**1 784**	657	508	126	**1 291**
Allowance for loans		*(16)*		***(16)***		*(18)*		***(18)***
Loans, net	526	1 061	181	**1 768**	657	490	126	**1 273**
Liabilities								
Deposits	15	261	356	**632**	466	191	140	**797**
Off-balance items								
Unused credit lines	11	7	15	**33**	10	13	16	**39**
Profit and loss statement								
Interest income	24	28	6	**58**	27	16	3	**46**
Commissions income	1	3	2	**6**	-	1	1	**2**
Interest expense	(6)	(3)	(7)	**(16)**	(9)	(8)	(2)	**(19)**
Release of allowance, net	-	-	-	**-**	-	-	-	**-**
Other expenses	(8)	(33)	(24)	**(65)**	(7)	(73)	(20)	**(100)**

[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 lats	30.06.2008					30.06.2007				
	Shareholders	Subsidiary companies	Other related persons[1]	Council and Board	Total	Shareholders	Subsidiary companies	Other related	Council and Board	Total
Assets										
Credits	526	6 113	998	111	**7 748**	657	3 629	508	81	**4 875**
Reserves for unsecured credits	*-*	*-*	*(16)*	*-*	***(16)***	*-*	*(77)*	*(18)*	*-*	***(95)***
Credits, net	526	6 113	982	111	**7 732**	657	3 552	490	81	**4 780**
Liabilities										
Deposits	15	66	261	356	**698**	466	20	191	140	**817**
Non-balance items										
Unused credit limits	11	2 091	7	15	**2 124**	10	595	13	16	**634**
Profit and loss statement										
Interest income	24	113	26	3	**166**	27	74	16	2	**119**
Commissions income	1	3	3	2	**9**	-	1	1	1	**3**
Interest expenditure	(6)	(1)	(3)	(7)	**(17)**	(9)	-	(8)	(2)	**(19)**
Reserve decreasing income, net	-	5	-	-	**5**	-	27	-	-	**27**
Other expenses	(8)	(62)	(33)	(24)	**(127)**	(7)	(60)	(73)	(20)	**(160)**

[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 reporting 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 74%. 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, during the period from the last day of the reporting period until the date of signing these financial statements, 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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