



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 LVL 169 million) and almost all planned state budget profit (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.

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 252.4 million lats which is by 37.8 million lats less than in 2007. The amount of attracted deposits amounted to 180.6 million lats which is also by 52.1 million lats less than the results of 2007. The bank's credit portfolio as of 30 September 2008 was 122 million lats.

The amount of capital and reserves of the Bank amounted to LVL 35.5 million on 30 September 2008. The profit of the Bank amounted to LVL 7.95 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 6,8 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 8.3 million lats and amount of assets as of the end of the accounting period amounted to 344.2 million lats.

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.

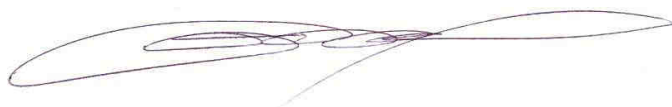
**INTERIM REPORT OF THE MANAGEMENT OF THE BANK (GROUP'S HOLDING COMPANY'S
(continued)**

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 lats	<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	14 954	12 395	11 969	12 257
Interest expense	(4 313)	(1 434)	(2 220)	(1 436)
Net interest income	10 641	10 961	9 749	10 821
Allowance for impairment, net	(812)	(2 557)	(526)	(2 492)
Net interest income after allowance for impairment	9 829	8 404	9 223	8 329
Commission income	6 022	4 692	5 727	4 690
Commission expense	(1 055)	(1 272)	(1 023)	(1 272)
Net commission income	4 967	3 420	4 704	3 418
Dividends	4	15	4	15
(Loss)/profit from financial assets held for trading, net	(2 565)	200	(3 133)	200
Realised profit from available-for-sale financial assets, net	139	29	139	29
Foreign currency trading and revaluation gain	6 245	6 137	6 238	6 139
Other income	659	274	581	267
Other non-interest income	4 482	6 655	3 829	6 650
Salaries and benefits expenses	(4 974)	(3 311)	(4 389)	(3 243)
Administrative expenses	(2 815)	(2 459)	(2 491)	(2 482)
Tangible and intangible assets amortisation and depreciation	(487)	(349)	(373)	(347)
Other expenses	(104)	(58)	(92)	(55)
Release of other impairment and provisions	0	21	50	21
Other non-interest expense	(8 380)	(6 156)	(7 295)	(6 106)
Profit before corporate income tax	10 898	12 323	10 461	12 291
Corporate income tax	(2 552)	(2 271)	(2 507)	(2 267)
Profit for the period	8 346	10 052	7 954	10 024
Attributable to equity holders of the Bank	8 117	10 046	7 954	10 024
Attributable to minority interest	229	6	-	-
Earnings per share (basic and diluted) in lats	64.04	79.26	-	-

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BALANCE SHEETS AND CONSOLIDATED BALANCE SHEETS

In thousands of lats	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		26 096	17 993	23 041	17 993
Due from credit institutions with a maturity of less than 3 months		68 335	150 832	59 374	150 832
<i>On demand</i>		49 299	115 927	45 816	115 927
<i>Other</i>		19 036	34 905	13 558	34 905
Held for trading financial assets		8 667	8 345	4 217	8 345
<i>Fixed income securities</i>		4 245	5 918	3 078	5 918
<i>Equity shares and other non-fixed income securities</i>		4 336	2 380	1 053	2 380
<i>Derivatives</i>		86	47	86	47
Available for sale financial assets		9 107	6 257	8 401	6 257
<i>Fixed income securities</i>		9 058	6 192	8 352	6 192
<i>Equity shares and other non-fixed income securities</i>		49	65	49	65
Due from credit institutions with a maturity of more than 3 months		10 775	6 432	9 593	6 432
Loans	5	191 007	91 561	122 040	92 290
Accrued income and deferred expenses		438	268	235	257
Long-term projects costs		2 238	2 217	2 238	2 217
Tangible assets		12 813	2 148	3 201	2 142
Intangible assets		6 815	205	209	205
Investments in share capital of subsidiary	6	-	-	12 202	2
Corporate income tax receivable		141	-	139	-
Deferred tax assets		31	24	30	25
Other assets		7 690	3 218	7 439	3 130
TOTAL ASSETS		344 153	289 500	252 359	290 127

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BALANCE SHEETS AND CONSOLIDATED BALANCE SHEETS (continued)

In thousands of lats	<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	35 369	16 561	17 002	16 561
<i>On demand</i>	7 498	4 850	4 688	4 850
<i>Term deposits with a maturity of less than 3 months</i>	7 747	500	781	500
<i>Term deposits with a maturity of more than 3 months</i>	20 124	11 211	11 533	11 211
Held for trading financial liabilities	-	2	-	2
<i>Derivatives</i>	-	2	-	2
Due to customers	247 205	232 651	180 559	232 697
<i>On demand</i>	173 371	204 764	162 974	204 810
<i>Term deposits</i>	73 834	27 887	17 585	27 887
Debt securities issued	2 817	2 812	3 523	3 518
Accrued expenses and deferred income	1 109	711	1 100	698
Provisions for contingent liabilities	48	-	25	-
Corporate income tax liabilities	887	779	30	766
Other liabilities	10 091	3 393	9 492	3 360
Liabilities before subordinated liabilities	297 526	256 909	211 731	257 602
Subordinated liabilities	5 155	1 208	5 155	1 208
TOTAL LIABILITIES	302 681	258 117	216 886	258 810

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BALANCE SHEETS AND CONSOLIDATED BALANCE SHEETS (continued)

In thousands of lats	<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	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	10	17	19	17
Retained earnings	25 419	21 102	25 202	21 048
Equity and reserves attributable to shareholders of the Bank	35 681	31 371	35 473	31 317
Minority shareholder interest	5 791	12	-	-
Total equity and reserves	41 472	31 383	35 473	31 317
TOTAL LIABILITIES AND EQUITY AND RESERVES	344 153	289 500	252 359	290 127

**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 lats	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	5 537	111	3 804	103	10 138	19 693	7	19 700
<i>Changes in fair value of available for sale securities</i>	-	-	-	(86)	-	(86)	-	(86)
Total income recognised directly in equity	-	-	-	(86)	-	(86)	-	(86)
<i>Net profit for the period</i>	-	-	-	-	10 046	10 046	6	10 052
Total income recognised for the period	-	-	-	(86)	10 046	9 960	6	9 966
Dividends paid	-	-	-	-	(5 000)	(5 000)	-	(5 000)
BALANCE AS AT 30 SEPTEMBER 2007	5 537	111	3 804	17	15 184	24 653	13	24 666
BALANCE AS AT 31 DECEMBER 2007	6 337	111	3 804	17	21 102	31 371	12	31 383
<i>Changes in fair value of available for sale securities</i>	-	-	-	-	-	-	5 559	5 559
Total loss recognised directly in equity	-	-	-	(7)	-	(7)	(9)	(16)
<i>Net profit for the period</i>	-	-	-	(7)	-	(7)	(9)	(16)
Total income recognised for the period	-	-	-	-	8 117	8 117	229	8 346
Minority interest as a result of purchase	-	-	-	(7)	8 117	8 110	220	8 330
Dividends paid	-	-	-	-	(3 800)	(3 800)	-	(3 800)
BALANCE AS AT 30 SEPTEMBER 2008	6 337	111	3 804	10	25 419	35 681	5 791	41 472

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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 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
<i>Changes in fair value of available for sale securities</i>	-	-	-	(86)	-	(86)
Total income recognised directly in equity	-	-	-	(86)	-	(86)
<i>Net profit for the period</i>	-	-	-	-	10 024	10 024
Total income recognised for the period	-	-	-	(86)	10 024	9 938
Dividends paid					(5 000)	(5 000)
BALANCE AS AT 30 SEPTEMBER 2007	5 537	111	3 804	17	15 166	24 635
BALANCE AS AT 31 DECEMBER 2007	6 337	111	3 804	17	21 048	31 317
<i>Changes in fair value of available for sale securities</i>	-	-	-	2	-	2
Total loss recognised directly in equity	-	-	-	2	-	2
<i>Net profit for the period</i>	-	-	-	-	7 954	7 954
Total income recognised for the period	-	-	-	2	7 954	7 956
Dividends paid	-	-	-	-	(3 800)	(3 800)
BALANCE AS AT 30 SEPTEMBER 2008	6 337	111	3 804	19	25 202	35 473

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STATEMENTS OF CASH FLOWS AND CONSOLIDATED STATEMENTS OF CASH FLOWS

In thousands of lats	<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>
Cash flow as a result of basic activity:				
Profit before corporate income tax	10 669	12 317	10 461	12 291
Amortisation and depreciation	487	349	373	347
Change in allowance for impairment	792	2 516	540	2 449
Change in other provisions	27	(21)	25	(21)
Foreign currency revaluation profit	(843)	(318)	(854)	(338)
(Profit)/ loss from revaluation of financial assets held-for-trading	2178	87	2178	87
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	13 310	14 744	12 723	14 629
Increase in financial assets held for trading	286	(3 876)	1 948	(3 876)
Increase in available-for-sale financial assets	(2 165)	(1 240)	(2 142)	(1 240)
Decrease in balances due from credit institutions	(1 997)	370	(3 161)	370
Increase in loans and receivables	(38 016)	(39 120)	(30 290)	(39 761)
Decrease/(increase) in accrued income and deferred expense	372	(3)	22	-
(Increase)/decrease in other assets	(4 170)	(1 299)	(4 309)	(1 248)
Increase/(decrease) in balances due to credit institutions	5 459	(96)	322	(96)
(Decrease/increase in deposits from customers	(46 269)	(9 909)	(52 138)	(9 927)
Decrease in financial liabilities held for trading	-	2	-	2
Increase in accrued expense and deferred income	375	208	402	196
Increase/(decrease) in other liabilities	4 277	(6 063)	6 116	(6 068)
	(68 538)	(46 282)	(70 507)	(47 019)
Corporate income tax paid	(3 420)	(2 400)	(3 387)	(2 391)
(Decrease)/ increase in cash and cash equivalents from operating activities	(71 958)	(48 682)	(73 894)	(49 410)
Cash flows from investing activities				
Purchase of fixed and intangible fixed assets, net	(1 345)	(1 148)	(1 436)	(1 146)
Investments in subsidiaries, net	(11 976)	-	(12 200)	-
Sale of long-term projects	-	2 673	-	2 673
(Decrease)/increase in cash and cash equivalents from investing activities	(13 321)	1 525	(13 636)	1 527

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

In thousands of lats	<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	-	2 826	-	3 532
Change in subordinated capital	3 947	-	3 947	-
Dividends paid	(3 800)	(5 000)	(3 800)	(5 000)
(Decrease)/increase in cash and cash equivalents from financing activities	147	(2 174)	147	(1 468)
(Decrease)/increase in cash and cash equivalents	(85 132)	(49 331)	(87 383)	(49 351)
Cash and cash equivalents at the beginning of the year	163 475	187 562	163 475	187 562
Foreign currency revaluation profit	843	318	854	338
Cash and cash equivalents at the end of the year	79 186	138 549	76 946	138 549

Cash and cash equivalents are calculated as follows

In thousands of lats	<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	68 335	119 786	59 374	119 786
Cash and balances due from the Bank of Latvia and other Central Banks	26 096	23 362	23 041	23 362
Due to credit institutions with a maturity of less than 3 months	(15 245)	(4 599)	(5 469)	(4 599)
CASH AND CASH EQUIVALENTS	79 186	138 549	76 946	138 549

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

In thousands of lats	<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	14 126	11 725	11 716	11 634
Interest expenses paid during the reporting period	(3 947)	(1 477)	(2 149)	(1 477)

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 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

		<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 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	<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	146 320	68 097	92 043	62 590
Private persons	45 538	22 287	23 291	21 795
Related companies	-	-	5 979	6 624
Financial institutions	2 965	1 325	1 269	1 325
Employees	1 484	1 428	1 470	1 428
Public enterprises	10	-	-	-
Total gross loans	196 317	93 137	124 052	93 762
Impairment allowances, <i>individually assessed</i>	(5 310)	(1 576)	(2 012)	(1 472)
	191 007	91 561	122 040	92 290

Loans by types of loans may be specified as follows:

Commercial loans	83 895	34 235	45 590	40 859
Mortgage loans	46 187	37 532	44 568	37 257
Industrial loans	18 514	4 647	14 003	4 647
Consumer loans	20 158	395	142	170
Finance lease	5 083	5 499	-	-
Overdrafts	4 504	1 685	1 921	1 685
Bills of exchange	1 622	1 782	1 622	1 782
Reverse REPO	296	648	296	648
Factoring	783	346	783	346
Credit cards	319	173	171	173
Security deposits	320	315	320	315
Other	14 636	5 880	14 636	5 880
	196 317	93 137	124 052	93 762

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	1 576	1 606	1 472	1 604
Additional allowance	1 009	163	549	111
Release of allowances	(194)	(78)	(48)	(129)
Writte-off of loans	-	(30)	-	(30)
Effect of changes in currency exchange rates	39	(85)	39	(84)
Increase in impairment allowance as a result of purchase of subsidiary	2 880	-	-	-
Balance as at 30 September/ 31 December	5 310	1 576	2 012	1 472

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	6 330	50	100	50	6 904	50	100	-
SIA "TKB Nekustamie īpašumi", reg. No. 40003723143, Latvia, Riga, Palasta 7	Operācijas ar nekustamo īpašumu	57	2	75	2	51	2	75	2
KB "Misto Bank", reg. No. 20966466, Ukraine, Odessa, Fontanskaja doroga 11	Provision of Bank services	101 250	12 150	50.3	12 150	-	-	-	-
		107 637	12 202	-	12 202	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.

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		The Bank	
	September 30,	December 31,	September 30,	December 31,
	2008	2007	2008	2007
Cash	23 778	17 993	22 758	17 993
Balance from credit institutions	81 320	157 090	69 130	157 669
Loans and receivables	193 876	92 942	123 645	93 526
Other state fixed income securities	12 765	11 809	11 249	11 809
Shares and other investments	4 384	2 445	13 303	2 446
Fixed assets and intangible assets	21 866	4 571	5 648	4 493
Other assets	11 915	5 012	8 971	4 960
Total assets	349 904	291 862	254 704	292 896
Balances due to banks	35 096	16 643	16 755	21 694
Deposits	245 696	232 575	180 450	227 768
Issued bonds	2 802	2 798	3 505	3 501
Other liabilities	14 384	5 673	11 430	4 535
Impairment and accrued liabilities	5 377	1 582	2 014	2 619
Equity	46 549	32 591	40 550	32 779
Total equity and liabilities	349 904	291 862	254 704	292 896
Total assets per internal reporting	349 904	291 862	254 704	292 896
Reconciling items:				
<i>Impairment</i> ¹	(5 377)	(1 581)	(2 014)	(1 472)
<i>Other reconciling items</i> ²	(374)	(781)	(331)	(1 297)
Total assets per IFRS statements	344 153	289 500	252 359	290 127
Total liabilities per internal reporting	303 355	259 271	214 154	260 117
Reconciling items:				
<i>Impairment</i> ¹	(5 377)	(1 581)	(2 014)	(1 472)
<i>Subordinated liabilities</i> ³	5 077	1 208	5 077	1 208
<i>Other reconciling items</i> ²	(374)	(781)	(331)	(1 043)
Total liabilities per IFRS statements	302 681	258 117	216 886	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		The Bank	
	2008 (9 months)	2007 (9 months)	2008 (9 months)	2007 (9 months)
Interest revenue	14 922	12 214	11 937	12 121
Commission revenue	6 054	4 878	5 759	4 863
Profit from trading	3 819	6 366	3 244	6 368
Impairment	194	83	48	111
Other income	663	289	634	282
Total revenues	25 652	23 830	21 622	23 745
Interest expenses	4 313	1 434	2 220	1 436
Commission expenses	1 055	1 277	1 023	1 310
Administration expenses ¹	8 276	6 119	7 252	6 072
Tax expenses	2 552	2 271	2 507	2 267
Impairment	1 006	2 619	574	2 582
Other	104	58	92	54
Total expenses	17 306	13 778	13 668	13 721
Profit	8 346	10 052	7 954	10 024
Total revenues per internal reporting	20 976	17 092	17 696	16 984
Reconciling item ²	-	(5)	-	(37)
Total revenues per IFRS statements	20 976	17 087	17 696	16 947

¹ Administrative expense includes depreciation charge in the amount of LVL 373 thousand (2007: LVL 347 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 (9 months)		2007 (9 months)	
	Latvian residents	Latvian non-residents	Latvian residents	Latvian non-residents
Interest income	5 498	9 456	3 770	8 625
Commission income	224	5 798	287	4 405
Total income	5 722	15 254	4 057	13 030

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 lats	2008 (9 months)		2007 (9 months)	
	Latvian residents	Latvian non-residents	Latvian residents	Latvian non-residents
Interest income	5 382	6 587	3 651	8 606
Commission income	206	5 521	286	4 404
Total income	5 588	12 108	3 937	13 010

8 OFF-BALANCE SHEET ITEMS

(1) Off-balance liabilities

In thousand of lats	<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	722	617	424	617
<i>including guarantees</i>	770	617	449	617
<i>including provisions for guarantees</i>	(48)	-	(25)	-
Commitments to clients	30 409	20 150	20 225	21 590
<i>including unused credit lines</i>	21 706	12 621	12 357	14 061
<i>including rent commitments²</i>	7 943	7 484	7 108	7 484
<i>including letters of credit</i>	43	32	43	32
<i>Including other liabilities¹</i>	717	13	717	13
Total off-balance sheet liabilities	31 131	20 767	20 649	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:

	<u>The Group</u> <u>December 31, 2007</u>	<u>The Bank</u> <u>December 31, 2007</u>
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	
	<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	16 285	9 858	12 717	9 858
Due from credit institutions registered in other countries	582	-	582	-
Due from individuals	12 272	148	12 214	148
	29 139	10 006	25 513	10 006
Customer profile on whose behalf the assets are managed				
Credit institutions registered in other countries	24 251	8 131	24 251	8 131
Private enterprises	1 262	535	1 262	535
Financial institutions	3 626	-	-	-
Individuals	-	1 340	-	1 340
	29 139	10 006	25 513	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	30.09.2008				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	663	1 287	485	2 435	639	505	212	1 356
<i>Allowance for loans</i>		(17)		(17)		(17)		(17)
Loans, net	663	1 270	485	2 418	639	488	212	1 339
Liabilities								
Deposits	39	300	278	617	14	183	59	256
Non-balance items								
Unused credit lines	10	12	17	39	10	10	13	33
Profit and loss statement								
Interest income	35	47	8	90	38	26	5	69
Commissions income	1	7	3	11	1	3	1	5
Interest expense	(6)	(6)	(9)	(21)	(9)	(8)	(3)	(20)
Release of allowance, net	-	-	-	-	-	-	-	-
Other expenses	(10)	(44)	(36)	(90)	(9)	(73)	(29)	(111)

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	30.09.2008					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	517	5 979	988	124	7 608	639	5 729	505	170	7 043
<i>Reserves for unsecured credits</i>	-	-	(17)	-	(17)	-	(42)	(17)	-	(59)
Credits, net	517	5 979	971	124	7 591	639	5 687	488	170	6 984
Liabilities										
Deposits	39	4	297	225	565	14	20	183	59	276
Non-balance items										
Unused credit limits	10	563	12	17	602	10	2 364	10	13	2 397
Profit and loss statement										
Interest income	34	167	44	5	250	38	102	25	4	169
Commissions income	1	2	7	3	13	1	1	3	1	6
Interest expenditure	(6)	(1)	(6)	(9)	(22)	(9)	-	(8)	(3)	(20)
Reserve decreasing income, net	-	5	-	-	5	-	13	-	-	13
Other expenses	(10)	(82)	(44)	(36)	(172)	(9)	(85)	(73)	(29)	(196)

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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