



**TRASTA KOMERCBANKA**

**JSC "TRASTA KOMERCBANKA"  
INTERIM CONDENSED FINANCIAL STATEMENTS  
AND CONSOLIDATED CONDENSED FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2011  
(prepared according to FCMC Regulations No.145)**

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**MANAGEMENT REPORT OF THE BANK (GROUP HOLDING COMPANY)**

In the first half of 2011, the Bank continued to develop its services, providing active support to its customers in Latvia and abroad, with particular emphasis being put on the development of *Private Banking* service and support of Latvian entrepreneurs – exporters.

Continuing to expand its presence in new regions of the world, the Bank opened a representative office in the People's Republic of China, and became the first Eastern-European bank represented in Hong Kong. The Bank is planning to support business deals and partnership development in this promising region.

In the first half of 2011, the development of Bank's correspondent banking network provided an opportunity to offer its customers remittances in Chinese Yuan. The Bank's successful cooperation with its correspondent banks, and its clean reputation among foreign partners resulted once again in being granted the annual Deutsche Bank Award for excellent quality of international payments in the previous year.

At the beginning of the year, along with upgrading of services for its customers, the Bank launched a new design of MasterCard payment cards series, where modern technologies are combined with a special design of classic heraldry traditions and success symbolism. These payment cards provide Bank customers with many advantages, including convenient and expedient making of payments abroad, and a possibility to effectively manage finances from anywhere in the world.

In the first half of 2011, the number of Bank customers increased by 8 %. As of 30 June, Trasta komercbanka's assets amounted to LVL 230.8 million, which is by LVL 12 million more than the final figure of 2010. As at the end of the reporting period the amount of attracted deposits reached LVL 172.9 million, but the Bank's loan portfolio amounted to LVL 89.6 million. The Bank concluded the first half of 2011 with a profit of LVL 0.74 million.

On 30 June 2011, the Bank completed its capital increase through share issue. As a result of the share issue the Bank's capital increased by LVL 7.46 million and as of the end of the reporting period amounted to LVL 14.51 million. The Bank's capital and reserves as of 30 June 2011 amounted to LVL 37.19 million. The Bank's liquidity as at the end of the reporting period was 64.05%, but its capital adequacy - 19.06%.

The Bank's consolidation group consists of the subsidiary companies: "TKB Nekustamie īpašumi", "TKB Līzings", and also "Heckbert C7 Holdings", which is classified as held for sale, and its subsidiary „Ferrous Kereskedelmi KFT”. In order to expand the area of its operation, the Bank's subsidiary "TKB Līzings" Ltd in the first half of the year worked intensively on establishment of a subsidiary company in Tajikistan, and finalized this work in July 2011.

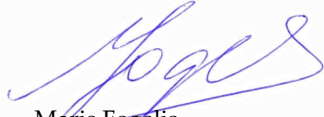
The amount of Group's assets as at the end of the reporting period was LVL 228.9 million, which is by LVL 11.4 million more than the final figure of 2010. The first half of 2011 the Group ended with a profit of LVL 0,63 million.

The management confirms that the consolidated financial statements and the separate financial statements set out on pages 4 to 21 for the period from 1 January 2011 to 30 June 2011 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 on a going concern concept basis. The purpose of the statement is to present comprehensive information regarding the financial standing of the Bank and the Group, performance results, and the Bank's activities-related risks.

This financial report for the second quarter of 2011 is not audited and it has been prepared based on the audited semi annual financial statements, which were audited by SIA Ernst & Young Baltic (Licence No.17).

This financial report was approved by the Board of the Bank on August 29, 2011 and it is available on the Bank's website at [www.tkb.eu](http://www.tkb.eu).

On behalf of the Bank's management:



Maris Fogelis  
First vice-chairman of the Board  
Riga,  
August 29, 2011

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**PROFIT AND LOSS STATEMENTS**

In thousands of lats	Note	<u>The Group</u>		<u>The Bank</u>	
		<u>30.06.2011</u>	<u>30.06.2010</u>	<u>30.06.2011</u>	<u>30.06.2010</u>
Interest revenue		3 087	3 314	3 036	3 257
Interest expense		(1 766)	(1 999)	(1 775)	(2 006)
Dividends		2	0	2	0
Commission income		2 517	2 444	2 514	2 439
Commission expense		(471)	(537)	(471)	(537)
Net realized profit/loss on financial assets and liabilities at amortized cost		0	0	0	0
Net realized losses on available for sale financial assets		2	0	2	0
Net gains from trading financial assets		(56)	191	(56)	191
Net profit / loss on financial assets and financial liabilities at fair value through profit or loss statement		0	0	0	0
Changes in fair value due to risk minimization accounting		0	0	0	0
Net (losses)/gains from foreign currency trading and revaluation		2 109	(1 436)	2 112	(1 436)
Property, plant and equipment, investment property and intangible assets derecognition profit / loss		(3)	(2)	(3)	(2)
Other income		45	35	35	36
Other expenses		(147)	(107)	(130)	(87)
Administrative expenses		(3 812)	(3 449)	(3 814)	(3 398)
Depreciation		(397)	(362)	(393)	(358)
Result of forming reserves, net	8	(164)	(607)	(7)	(454)
Impairment losses		(75)	(48)	(74)	(48)
Corporate income tax		(246)	(249)	(239)	(248)
<b>(Loss)/profit for the period</b>		<b>625</b>	<b>(2 812)</b>	<b>739</b>	<b>(2 651)</b>

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**BALANCE SHEET**

In thousands of lats	Note	The Group		The Bank	
		30.06.2011	31.12.2010	30.06.2011	31.12.2010
Cash and balances due from central banks		22 521	16 588	22 521	16 588
Due from credit institutions on demand	9	43 599	53 147	43 599	53 147
Held for trading financial assets	11, (1)	2 534	2 224	2 534	2 224
Financial assets classified at fair value through profit and loss statement		0	0	0	0
Available for sale financial assets	11, (2)	11 290	7 960	11 290	7 960
Loans and receivables	12	88 179	92 119	89 647	93 771
Held to maturity investments	10	23 781	9 877	23 781	9 877
Interest risk protected portfolio share' s fair value changes		0	0	0	0
Accrued income and deferred expenses		238	127	237	124
Property and equipment		8 606	8 918	8 586	8 894
Long-term projects costs		4 969	2 405	4 969	2 405
Intangible assets		359	360	359	360
Investments in share capital of subsidiary		0	0	702	52
Corporate income tax assets		725	933	723	913
Other assets	13	22 060	22 756	21 830	22 469
<b>TOTAL ASSETS</b>		<b>228 861</b>	<b>217 414</b>	<b>230 778</b>	<b>218 784</b>
Due to central banks		0	0	0	0
Due to credit institutions on demand		5 108	2 389	5 108	2 389
Financial liabilities held for trading		3	4	3	4
Financial liabilities classified at fair value through profit and loss statement		0	0	0	0
Financial liabilities at amortised cost	14	181 163	182 437	182 256	183 142
Financial liabilities resulting from transfer of financial assets		0	0	0	0
Interest risk protected portfolio share' s fair value changes		0	0	0	0
Accrued expenses and deferred income		579	503	616	493
Reserves for potential liabilities		0	0	0	0
Corporate income tax liabilities		0	25	0	25
Other liabilities	15	5 619	3 746	5 607	3 735
<b>TOTAL LIABILITIES</b>		<b>192 472</b>	<b>189 104</b>	<b>193 590</b>	<b>189 788</b>
<b>Equity and reserves</b>		<b>36 389</b>	<b>28 310</b>	<b>37 188</b>	<b>28 996</b>
<b>TOTAL LIABILITIES AND EQUITY AND RESERVES</b>		<b>228 861</b>	<b>217 414</b>	<b>230 778</b>	<b>218 784</b>
<b>OFF-BALANCE SHEET ITEMS</b>					
Contingent liabilities	16	6 054	6 128	6 054	6 423
Commitments to customers	16	13 438	6 544	14 888	8 625

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

**(1) The Group**

In thousands of lats	Share capital	Share premium	Reserve capital and other reserves	Available for sale financial asset revaluation reserves	Foreign exchange translation reserve	Retained earnings	Total	Minority shareholder interest	Total equity and reserves
<b>BALANCE AS AT 31 DECEMBER 2009</b>	6 337	111	3 804	(21)	0	21 966	32 197	9	32 206
<i>Net loss for the period</i>	0	0	0	0	0	(2 811)	(2 811)	(1)	(2 812)
<i>Other comprehensive expenses</i>	0	0	0	10	0	0	10	0	10
Total comprehensive loss	0	0	0	10	0	(2 811)	(2 801)	(1)	(2 802)
Issue of share capital	699	0	0	0	0	0	699	0	699
<b>BALANCE AS AT 30 JUNE 2010</b>	7 036	111	3 804	(11)	0	19 155	30 095	8	30 103
<b>BALANCE AS AT 31 DECEMBER 2010</b>	7 049	111	3 804	(6)	0	17 352	28 310	-	28 310
<i>Net profit for the period</i>	0	0	0	0	0	625	625	0	625
<i>Other comprehensive income</i>	0	0	0	(5)	1	0	(4)	0	(4)
Total comprehensive income	0	0	0	(5)	1	625	621	0	621
Issue of share capital	7 458	0	0	0	0	0	7 458	0	7 458
<b>BALANCE AS AT 30 JUNE 2011</b>	14 507	111	3 804	(11)	1	17 977	36 389	0	36 389

**(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
<b>BALANCE AS AT 31 DECEMBER 2009</b>	6 337	111	3 804	(21)	22 405	32 636
<i>Net loss for the period</i>	0	0	0	0	(2 651)	(2 651)
<i>Other comprehensive income</i>	0	0	0	10	0	10
Total comprehensive loss	0	0	0	10	(2 651)	(2 641)
Issue of share capital	699	0	0	0	0	699
<b>BALANCE AS AT 30 JUNE 2010</b>	7 036	111	3 804	(11)	19 754	30 694
<b>BALANCE AS AT 31 DECEMBER 2010</b>	7 049	111	3 804	(6)	18 038	28 996
<i>Net profit for the period</i>	0	0	0	0	739	739
<i>Other comprehensive income</i>	0	0	0	(5)	0	(5)
Total comprehensive income	0	0	0	(5)	739	734
Issue of share capital	7 458	0	0	0	0	7 458
<b>BALANCE AS AT 30 JUNE 2011</b>	14 507	111	3 804	(11)	18 777	37 188

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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>30.06.2011</u>	<u>30.06.2010</u>	<u>30.06.2011</u>	<u>30.06.2010</u>
<b>Cash flow as a result of operating activity:</b>				
Profit/(Loss) before corporate income tax	871	(2 563)	978	(2 403)
Amortisation and depreciation	397	362	393	358
Increase/(decrease) in allowance for impairment of debts	(891)	1 401	(1 048)	1 248
Increase/(decrease) in other provisions	70	48	69	48
Foreign currency revaluation (profit) loss	(1 382)	2 562	(1 383)	2 562
(Gain)/loss from revaluation of financial assets	99	22	99	22
Income adjustments	0	(50)	0	(67)
Loss on disposal of fixed and intangible assets	3	2	3	2
<b>Increase in cash and cash equivalents from operating activities before changes in assets and liabilities</b>	<b>(833)</b>	<b>1 784</b>	<b>(889)</b>	<b>1 770</b>
Decrease of held for trading financial assets	(472)	(2 255)	(472)	(2 255)
(Increase)/decrease in due from credit institutions	(9 657)	937	(9 657)	937
(Increase)/decrease in loans	4 769	(7 362)	5 110	(7 444)
(Increase)/decrease in accrued income and deferred expense	(108)	(47)	(110)	(48)
Increase in other assets	(1 168)	(984)	(1 223)	(909)
Decrease in due to credit institutions	73	0	73	0
(Decrease)/increase in deposits	(2 363)	(54 256)	(1 975)	(54 256)
(Decrease)/increase in accrued expenses and deferred income	76	(26)	123	(17)
Increase in other liabilities	1 800	871	1 799	872
<b>Decrease in cash and cash equivalents from operating activities before corporate income tax</b>	<b>(7 883)</b>	<b>(61 338)</b>	<b>(7 221)</b>	<b>(61 350)</b>
Corporate income tax paid	(63)	(79)	(74)	(69)
<b>(Decrease)/increase in cash and cash equivalents from operating activities</b>	<b>(7 946)</b>	<b>(61 417)</b>	<b>(7 295)</b>	<b>(61 419)</b>
<b>Cash flows from investing activities</b>				
Purchase of tangible and intangible fixed assets, net	(87)	(81)	(87)	(79)
(Increase)/decrease in available-for-sale financial assets	(3 335)	45	(3 335)	45
Purchase of investments in share capital of subsidiary	0	0	(650)	0
Cash flow of disposal group classified as held for sale	1	0	0	0
Cash outflow on long-term projects	(577)	(44)	(577)	(44)
<b>Decrease in cash and cash equivalents from investing activities</b>	<b>(3 998)</b>	<b>(80)</b>	<b>(4 649)</b>	<b>(78)</b>

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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>30.06.2011</u>	<u>30.06.2010</u>	<u>30.06.2011</u>	<u>30.06.2010</u>
<b>Cash flows from financing activities</b>				
Subordinated liabilities issue	1 146	35	1 146	35
Repayment of subordinated liabilities	0	(111)	0	(111)
Issue of share capital	7 458	699	7 458	699
<b>(Decrease)/increase in cash and cash equivalents from financing activities</b>	<b>8 604</b>	<b>623</b>	<b>8 604</b>	<b>623</b>
<b>(Decrease)/increase in cash and cash equivalents</b>	<b>(3 340)</b>	<b>(60 874)</b>	<b>(3 340)</b>	<b>(60 874)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>76 558</b>	<b>130 320</b>	<b>76 558</b>	<b>130 320</b>
<b>Foreign currency revaluation (loss)/profit</b>	<b>1 253</b>	<b>(2 313)</b>	<b>1 253</b>	<b>(2 313)</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>74 471</b>	<b>67 133</b>	<b>74 471</b>	<b>67 133</b>

Cash and cash equivalents are calculated as follows

In thousands of lats	<u>The Group</u>		<u>The Bank</u>	
	<u>30.06.2011</u>	<u>30.06.2010</u>	<u>30.06.2011</u>	<u>30.06.2010</u>
Due from credit institutions with a maturity of less than 3 months	57 058	51 234	57 058	51 234
Cash and balances due from the Bank of Latvia and other Central Banks	22 521	17 247	22 521	17 247
Due to credit institutions with a maturity of less than 3 months	(5 108)	(1 348)	(5 108)	(1 348)
<b>CASH AND CASH EQUIVALENTS</b>	<b>74 471</b>	<b>67 133</b>	<b>74 471</b>	<b>67 133</b>

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

In thousands of lats	<u>The Group</u>		<u>The Bank</u>	
	<u>30.06.2011</u>	<u>30.06.2010</u>	<u>30.06.2011</u>	<u>30.06.2010</u>
Interest income received during the reporting period	2 403	3 390	2 364	3 352
Interest expenses paid during the reporting period	(1 697)	(1 970)	(1 706)	(1 977)
Dividends paid during the reporting period	0	0	0	0

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

JSC "Trasta Komerbanka" (hereinafter – the Bank) has been registered as a joint stock company, in the Latvian Register of Companies with 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.

This financial statements were approved by the Board of the Bank on 29 August 2011.

2 ACCOUNTING AND ASSESSMENT PRINCIPLES

(1) General principles

These interim condensed financial statements have been prepared in accordance with International Accounting Standard 34 as adopted by European Union and do not include a complete set of financial statements as required by IAS 1 „Presentation of Financial Statements”. Therefore, to obtain a complete view of Bank’ s activities, these interim condensed financial statements should be analyzed 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.

(2) Consolidation principles

The Bank has consolidated its subsidiaries in the consolidated financial statements according to International Accounting Standard 27. 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>30.06.2011.</u>	<u>31.12.2010</u>	<u>30.06.2010</u>
LVL 1 =	EUR	1.423	1.423	1.423
	USD	2.045	1.869	1.745
	GBP	1.279	1.214	1.156
	RUB	57.471	56.818	54.348

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**NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS**

**3 PERFORMANCE INDICATORS**

<b>Position</b>	<b>30.06.2011</b>	<b>30.06.2010</b>
Return on equity (ROE) (%) <sup>1</sup>	4.79	-16.43
Return on assets (ROA) (%) <sup>2</sup>	0.58	-2.24

<sup>1</sup> Ratio on profit/losses (after tax) against the Bank's average amount of capital and reserves.

<sup>2</sup> Ratio on profit/losses (after tax) against the Bank's average amount of assets.

**4 MANAGEMENT OF THE BANK (GROUP HOLDING COMPANY)**

**(1) Paid fixed capital**

On 25 March 2011 Bank shareholders' meeting approved provisions on increasing the share capital by 10 million LVL, by emitting an extra 200 000 ordinary shares with the nominal value of 50 LVL each. As of the end of the reporting period, shareholders had subscribed for 149 164 shares and had paid up as many as 7 458 thousand LVL. These shares were to be paid up by the deadline of 1 July 2011.

As of 30 June 2011, the Bank's registered capital amounted to 7 049 thousand LVL, consisting of 140 972 ordinary voting shares with the nominal value of 50 LVL, while the paid-up capital amounted to 14 507 thousand LVL (2010: 7 049 thousand LVL), consisting of 290 136 ordinary voting shares with the nominal value of 50 LVL. The total number of shareholders is 47, of which 10 are legal entities and 37 are individuals.

**List of shareholders:**

<b>Shareholder</b>	<b>Country</b>	<b>Shareholding</b>		<b>Shareholding</b>	
		<b>30 June 2011</b>		<b>31 December 2010</b>	
		<b>%</b>	<b>LVL'000</b>	<b>%</b>	<b>LVL'000</b>
I.Buimisters	Latvia	43.21	6 269	37.63	2 653
S.Tarasenoks*	Latvia	6.18	896	12.72	896
SIA "C&R Invest"	Latvia	14.59	2 117	13.70	966
C.E.G. Treherne	Great Britain	9.31	1 351	9.31	656
GCK Holdings					
Netherlands B.V.	Netherlands	7.40	1 074	6.95	490
Rikam S.A.H.	Luxembourg	7.29	1 058	6.85	483
Figon Co Limited	Cyprus	3.40	493	3.19	225
Another shareholders		8.62	1 249	9.65	680

\* Since Sergejs Tarasenoks passed away, his shares are included in the succession mass.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

4 MANAGEMENT OF THE BANK (GROUP HOLDING COMPANY) (continued)

(2) Composition of the board and council of the Bank (Group Holding Company)

Supervisory Council

Name, surname	Positions	Election date
Igors Buimisters	Chairman of the Council	24.03.2006, reelected 27.03.2009
Alfrēds Čepānis	Member of the Council	30.03.1999, reelected 27.03.2009
Igor Snisarevskyi	Member of the Council	07.10.2010.

Management Board

Name, surname	Positions	Election date
Gundars Grieze	Chairman of the Board	28.06.1999, reelected 24.03.2009
Māris Fogelis	First vice-chairman of the Board	28.06.1999, reelected 24.03.2009
Viktors Ziemelis	Vice-chairman of the Board	28.03.2003, reelected 24.03.2009
Svetlana Krasovska	Member of the Board	24.10.1995, reelected 24.03.2009
Tatjana Konnova	Member of the Board	23.03.2006, reelected 24.03.2009

During the current period no changes in the Council and Management Board occurred.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

4 MANAGEMENT OF THE BANK (GROUP HOLDING COMPANY) (continued)

(3) Structure of the Bank (Group Holding Company)

JSC "Trasta komercbanka"	
<b>Internal Audit Division</b> <i>Head of Division Olga Lomaša</i>	<b>Cyprus branch</b> <i>Head of the Branch Constantinos Constantinou</i> 56 Arch.Makariou III, 1075, Nicosia, Cyprus tel +357 22676766, +357 22677797, e-mail: <a href="mailto:info@tkb.com.cy">info@tkb.com.cy</a>
<b>Financial Market Department</b> <i>Head of Department Marina Krutiļina</i>	<b>Liepaja Branch</b> <i>Head of the Branch Guntis Brūders</i> 10 Kursu street, Liepaja, LV-3401, Latvia tel 6 3483917, Fax 6 3483918, e-mail: <a href="mailto:liepaja@tkb.eu">liepaja@tkb.eu</a>
<b>Securities Market and Bank Investments Department</b> <i>Head of Department Sergejs Popovs</i>	<b>Daugavpils Branch</b> <i>Head of the Branch Marija Rimvide-Mickeviča</i> 10 Lacpleša street, Daugavpils, LV-5401, Latvia tel 6 5457961, Fax: 6 5457966, e-mail: <a href="mailto:daugavpils@tkb.eu">daugavpils@tkb.eu</a>
<b>Lending Department</b> <i>Head of Department Tatjana Konnova</i>	<b>Representative Office in Ukraine</b> <i>Head of Representative Office Aleksandrs Bikovecs</i> Kiev, 43/11 Moskovskaja street, 2.floor. tel +380 44 4963402, e-mail: <a href="mailto:ukraine@tkb.eu">ukraine@tkb.eu</a>
<b>Customer Department</b> <i>Head of Department Diāna Mickēviča</i>	<b>Representative Office in Kazakhstan</b> <i>Head of Representative Office Irina Jugai</i> Alma Ata, 151-115 Abaja ave., Office 507 tel +7 727 3341906, Fax: +7 727 3341905, e-mail: <a href="mailto:kazakhstan@tkb.eu">kazakhstan@tkb.eu</a>
<b>Bank Operation Accounting and Statistics Department</b> <i>Head of Department – Chief Accountant Svetlana Krasovska</i>	<b>Representative Office in Tajikistan</b> <i>Head of Representative Office Mustafõ Davljabekov</i> 100 Rudaki ave. , Dusanbe, Tajikistan, 734003 tel+992 91 9448838, Fax: +992 44 6102777, e-mail: <a href="mailto:tajikistan@tkb.eu">tajikistan@tkb.eu</a>
<b>Correspondent Relations and Payments Department</b> <i>Head of Department Nataļļa Nikolajenko</i>	<b>Representative Office in Belarus</b> <i>Head of Representative Office Marija Okuloviča</i> Minsk, Nezavisimosti ave. 117a (Aleksandrov-passazh), office 5, Tel/fax: +375 17 2650678, e-mail: <a href="mailto:belarus@tkb.eu">belarus@tkb.eu</a>
<b>Risk Analysis and Control Department</b> <i>Head of Department – Deputy Chief Accountant Tatjana Paļcina</i>	<b>Representative Office in Hong Kong</b> <i>Head of Representative Office Vadim Levitskiy</i> 3155, 31/F, Tower One, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong, tel.+852 2107 3631, fax+852 2107 3699
<b>Information System Department</b> <i>Head of Department Timofejs Džubins</i>	
<b>Administrative Department</b> <i>Head of Department Māris Jaunozols</i>	
<b>Security Department</b> <i>Head of Department Jevgeņijs Fokins</i>	

**NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS**

**4 MANAGEMENT OF THE BANK (GROUP HOLDING COMPANY) (continued)**

**(4) Strategy and Objectives of the Bank (Group Holding Company)**

We are an international private bank for chosen clientele whom we provide with exclusive and high-quality financial services using newest technologies.

Taking into consideration possible external disturbances (swing in oil prices, religious problems, etc.) and internal disturbances (inflation, drop of real estate prices, etc.) the Bank chooses conservative development strategy that does not pursue maximum profit, which in its turn requires risky investments, thus the Bank achieves its main purpose, retains shareholders equity and annually receives profit.

The Bank is an international bank providing services to its customers thorough a network of its international representative offices and branches.

**Objectives of the Bank:**

- ✓ To strengthen its position in the banking sector of Latvia;
- ✓ To regain Bank's profitability and to strive to achieve the return on assets (ROA) 2%;
- ✓ To maintain the Bank's capital at a proper level for operation and to secure the internal capital adequacy ratio of not less than 11.4% in 2011;
- ✓ To increase the number of customers and offer of new products, which would allow to attract selected clientele with high demands. To offer professional and quality service to every customer.
- ✓ To continue upgrading of qualification of the existing staff and to recruit new high-quality specialists;
- ✓ To maintain the leading position in the Latvian market as to rendering of high-tech services. To keep track of technological innovations and implement those into customer service. To secure 100% of Trastnet functioning at all times. To focus on speed and simplicity as main objectives in development of the information technology;
- ✓ To ensure the highest standards in the Bank's compliance monitoring, continuing staff training and implementation of necessary technologies;
- ✓ To continue developing of the Bank's service network, opening of Bank's branches and representative offices in regions of prime importance for customers;
- ✓ To enhance the Bank's current image (an international bank with the motto - "Financial Art"), to promote developing of goodwill in the target audience, meanwhile contributing to attraction of quality customers, and increasing of loyalty of the existing customers.

**Values of the Bank:**

- ✓ The Bank considers its personnel to be the main resource for achieving the Bank's mission. The Bank provides for professional growth of its personnel and takes care of its employees.
- ✓ The Bank's reputation is in the focus of its attention. The Bank closely follows requirements of legislation regarding prevention of legalization of illegally acquired proceeds, the Bank does not cooperate with the customers and does not perform transactions that cause doubts as far as the said requirements are considered.
- ✓ Conservative approach is at the basis of the Bank's development concept.
- ✓ The Bank does not provide services to high-risk customers who do not have their business history and respective recommendations.
- ✓ Information technologies are at the forefront of the customer service.

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**5 INTERNATIONAL RATINGS ASSIGNED TO THE BANK**

The International Credit Rating Agency' s Moody's Investors Service assigned ratings (on 25/06/2009 and have not been changed up to now):

- ✓ long-term deposits in foreign and local currency - B3 (negative future outlook);
- ✓ short-term deposits in foreign and local currency - Not-Prime;
- ✓ Bank's financial strength rating (BFSR) to E + (negative outlook rating);

Descriptions of the ratings assigned by *Moody's Investors Service* are posted on the international rating agency' s website: [www.moody.com](http://www.moody.com).

**6 COMPOSITION OF THE CONSOLIDATED GROUP**

The consolidation group of the Bank consists of the subsidiaries *TKB Nekustamie ģpašumi* , *TKB LĪZINGS* and "Heckbert C7 Holdings", which is classified as held for sale, and its subsidiary "Ferrous Kereskedelmi KFT". The description of "Heckbert C7 Holdings" and "Ferrous Kereskedelmi KFT" is provided in Note 13 of these financial. Services provided by *TKB Nekustamie ģpašumi* and *TKB LĪZINGS* extend the range of services offered by the Bank.

No	Name of commercial company	Registration place code , registration address	Type of activity of commercial company *	Share in the fixed capital (%)	Voting share in commercial company (%)	Grounds for inclusion in the Group**
1	TKB līzings, Ltd., LV-40003591059	9 Miesnieku, Riga, LV	AFI	100	100	SC
2	TKB nekustamie ģpašumi, Ltd., LV-40003723143	9 Miesnieku, Riga, LV	AC	100	100	SC
3	Heckbert C7 Holdings Limited CY-HE134861	CY, Nicosia, Kritonos 21, Cyprus	AFI	100	100	SC
4	Ferrous Kereskedelmi KFT HU-01-09-717395	HU, Budapest, 3 Szegedi street, Hungary	AFI	100	100	SC

\* - BNK – bank, EMI - electronic money institution, IC – insurance company, RI – reinsurer, IMC – insurance management company, IBC – investment brokerage company, IMC – investment management company, PF – pension fund, AFI – another financial institution, AC - auxiliary company, FMC – financial management company.

\*\* - SC – subsidiary company, JVC – joint-venture company,, PC – parent company.

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7 RISK CONTROL AND MANAGEMENT

Information on the Bank's risk management policies is provided in the audited financial statements 2010 of AS TRASTA KOMERCBANKA, posted on the Bank's website (www.tkb.eu), Note 45 (pp.88-96), and in the Information Disclosure Statement of 2010 (pp. 1 to 7), and since this publication of information it has not changed.

8 RESULT OF FORMING RESERVES, NET

In thousands of lats	The Group		The Bank	
	30.06.2011	30.06.2010	30.06.2011	30.06.2010
<b>Balance as at 1 January</b>	<b>17 374</b>	<b>17 076</b>	<b>16 323</b>	<b>16 240</b>
<i>incl. for due from credit institutions</i>	0	1 479	0	1 479
<i>incl. for loans</i>	17 374	15 597	16 323	14 761
Additional <i>individual</i> allowance	1 141	1 903	974	1 746
Change in <i>collective</i> allowance	33	24	33	24
Release of <i>individual</i> allowances	(1 010)	(1 320)	(1 000)	(1 316)
Interest on loans, which are recognized as impaired	(637)	0	(637)	0
Effect of changes in currency exchange rates	(418)	794	(418)	794
<b>Balance as at 30 June</b>	<b>16 483</b>	<b>18 477</b>	<b>15 275</b>	<b>17 488</b>
<i>incl. for due from credit institutions</i>	0	597	0	597
<i>incl. for loans</i>	16 483	17 880	15 275	16 891

9 DUE FROM CREDIT INSTITUTIONS ON DEMAND

In thousands of lats	The Group		The Bank	
	30.06.2011	31.12.2010	30.06.2011	31.12.2010
Due from credit institutions registered in the Republic of Latvia	5 323	1 138	5 323	1 138
Due from credit institutions registered in the foreign countries	38 276	52 009	38 276	52 009
	<b>43 599</b>	<b>53 147</b>	<b>43 599</b>	<b>53 147</b>

10 HELD TO MATURITY INVESTMENTS

In thousands of lats	The Group		The Bank	
	30.06.2011	31.12.2010	30.06.2011	31.12.2010
Other claims on credit institutions - - <i>With a maturity of up to 3 months</i> -				
Due from credit institutions registered in the Republic of Latvia	4 890	5 350	4 890	5 350
Due from credit institutions registered in the foreign countries - <i>With a maturity of more than 3 months</i> -	8 569	3 862	8 569	3 862
Due from credit institutions registered in the foreign countries	10 322	665	10 322	665
	<b>23 781</b>	<b>9 877</b>	<b>23 781</b>	<b>9 877</b>

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**11, (1) HELD FOR TRADING FINANCIAL ASSETS**

In thousands of lats	<u>The Group</u>		<u>The Bank</u>	
	<u>30.06.2011</u>	<u>31.12.2010</u>	<u>30.06.2011</u>	<u>31.12.2010</u>
Fixed income securities	1 116	849	1 116	849
- Government debt securities -	364	0	364	0
- Debt securities of other institutions -	752	849	752	849
Equity shares and other non-fixed income securities	1 399	1 277	1 399	1 277
Derivatives	19	98	19	98
	<b>2 534</b>	<b>2 224</b>	<b>2 534</b>	<b>2 224</b>

**11, (2) AVAILABLE FOR FINANCIAL ASSETS**

In thousands of lats	<u>The Group</u>		<u>The Bank</u>	
	<u>30.06.2011</u>	<u>31.12.2010</u>	<u>30.06.2011</u>	<u>31.12.2010</u>
Fixed income securities	11 241	7 911	11 241	7 911
- Government debt securities -	11 109	7 768	11 109	7 768
- Debt securities of other institutions -	132	143	132	143
Equity shares and other non-fixed income securities	49	49	49	49
	<b>11 290</b>	<b>7 960</b>	<b>11 290</b>	<b>7 960</b>

Presented below is the analysis of geographic concentration of financial instruments items:

<u>30 June 2011</u>	<u>Latvia</u>	<u>EU*</u>	<u>Russia</u>	<u>Other countries</u>	<u>Total</u>
Fixed income securities	5 800	5 713	639	205	12 357
- Government debt securities -	5 668	5 713	0	92	11 473
- Debt securities of other institutions -	132	0	639	113	884
Equity shares and other non-fixed income securities	39	49	1 360	0	1 448
	<b>5 839</b>	<b>5 762</b>	<b>1 999</b>	<b>205</b>	<b>13 805</b>

\* The government debt securities portfolio includes debt securities of different EU countries (Denmark, Sweden, Poland, France, Finland and other countries). None of the items of financial instruments of national positions, except Latvia, exceeds 10% of the Bank's equity.

<u>31 December 2010</u>	<u>Latvia</u>	<u>EU*</u>	<u>Russia</u>	<u>Other countries</u>	<u>Total</u>
Fixed income securities	4 515	3 396	392	457	8 760
- Government debt securities -	4 372	3 396	0	0	7 768
- Debt securities of other institutions -	143	0	392	457	992
Equity shares and other non-fixed income securities	39	49	1 238	0	1 326
	<b>4 554</b>	<b>3 445</b>	<b>1 630</b>	<b>457</b>	<b>10 086</b>

\* The government debt securities portfolio includes debt securities of different EU countries (Denmark, Sweden and Italy). None of the items of financial instruments of national positions, except Latvia, exceeds 10% of the Bank's equity.

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In thousands of lats	The Group		The Bank	
	30.06.2011	31.12.2010	30.06.2011	31.12.2010
<b>12 LOANS AND RECEIVABLES</b>				
Private non-financial corporations	84 881	88 386	80 841	84 150
Households	18 127	19 556	17 838	19 311
Related companies	0	0	4 763	5 132
Financial institutions	38	14	38	14
Employees	1 616	1 537	1 442	1 487
<b>Total gross loans</b>	<b>104 662</b>	<b>109 493</b>	<b>104 922</b>	<b>110 094</b>
Impairment allowances, <i>individually assessed</i> *	(16 171)	(16 543)	(14 963)	(15 492)
Impairment allowances, <i>collectively assessed</i>	(312)	(831)	(312)	(831)
	<b>88 179</b>	<b>92 119</b>	<b>89 647</b>	<b>93 771</b>

\* According to the loan assessment of the Financial and Capital Market Commission, the Bank has to make additional provisions in the amount of 3 241 thousand lats. Given that the Bank does not agree to this assessment, the Bank has applied adjustment to the capital adequacy calculation for this amount less the risk-weighted factor.

**Loans by types of loans may be specified as follows:**

Mortgage loans	39 065	41 347	39 065	41 231
Commercial loans	24 783	27 147	29 546	32 279
Industrial loans	10 445	12 273	10 445	12 273
Finance lease	4 269	4 305	0	0
Overdrafts	5 040	4 379	5 040	4 379
Reverse REPO	616	0	616	0
Consumer loans	492	433	258	323
Factoring	332	247	332	247
Secured by deposit	395	432	395	432
Payment card loans	417	335	417	335
Other	18 808	18 595	18 808	18 595
	<b>104 662</b>	<b>109 493</b>	<b>104 922</b>	<b>110 094</b>

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

13 OTHER ASSETS

In thousands of lats	The Group		The Bank	
	30.06.2011	31.12.2010	30.06.2011	31.12.2010
Receivables from financial institutions	2 736	2 520	2 736	2 520
Real property hold for sale <sup>1</sup>	1 559	3 381	1 270	3 192
Spot foreign exchange assets <sup>2</sup>	224	89	224	89
Overpaid value added tax	217	485	216	393
Money in transit <sup>3</sup>	23	20	23	20
Other assets <sup>4</sup>	3 654	2 540	3 692	2 514
Assets of disposal group classified as held for sale <sup>5</sup>	13 830	13 831	13 848	13 848
	<b>22 243</b>	<b>22 866</b>	<b>22 009</b>	<b>22 576</b>
Impairment loss	(183)	(110)	(179)	(107)
	<b>22 060</b>	<b>22 756</b>	<b>21 830</b>	<b>22 469</b>

<sup>1</sup> A real property hold for sale is the real property whose possession is taken by the Bank (as a result of takeover or acquisition) and which served as collateral for granted loans. The acquisition cost of this real property is measured at fair value. As a result of this transaction the amount received is channeled to settle customer's obligations to the Bank.

<sup>2</sup> The fair value of *spot* foreign exchange contracts which is disclosed for each contract as asset or liability. The notional value of these contracts reflects the value of basis asset underlying the agreement whose changes in fair value are estimated and the due and payable amounts of cash flow.

<sup>3</sup> The funds, transferred from other correspondent accounts of the Bank, whose crediting has not been confirmed by the correspondent bank yet, are disclosed as money in transit.

<sup>4</sup> Other assets include various claims on debtors in relation to operating activities of the Bank.

<sup>5</sup> Assets of the disposal group classified as held for sale are investments in the subsidiary "Heckbert C7 Holdings (100% shares), which owns 100% of the company" Ferrous Kereskedelmi KFT (Hungary) shares, which in its turn, holds 25,085% of the Ukrainian gas company "Dewon" shares. In June 2011, the Bank signed an agreement on sale of this investment for the amount of USD 28,4 million. The proceeds from the sale have been transferred to the escrow account in Ukrainian hryvnas, however, given that the purchaser is based in Ukraine, it needs according to the local legislation to obtain a permit from the National Bank of Ukraine for purchasing the investment and to transfer the proceeds in USD. Given that as of date of preparation of these financial statements the deal has not been finalized yet and the sale has not been concluded outside of the Group, the Bank continues to recognize this investment in its balance sheet.

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**14 FINANCIAL LIABILITIES AT AMORTISED COST**

In thousands of lats	<u>The Group</u>		<u>The Bank</u>	
	<u>30.06.2011</u>	<u>31.12.2010</u>	<u>30.06.2011</u>	<u>31.12.2010</u>
Due to credit institutions	100	27	100	27
Due to customers	172 565	174 928	172 954	174 929
Subordinated liabilities	5 689	4 673	5 689	4 673
Debt securities issued	2 809	2 809	3 513	3 513
	<b>181 163</b>	<b>182 437</b>	<b>182 256</b>	<b>183 142</b>

**15 OTHER LIABILITIES**

In thousands of lats	<u>The Group</u>		<u>The Bank</u>	
	<u>30.06.2011</u>	<u>31.12.2010</u>	<u>30.06.2011</u>	<u>31.12.2010</u>
Suspense accounts <sup>1</sup>	2 958	953	2 958	953
Spot foreign exchange liabilities (Note 13)	157	84	157	84
Money in transit	594	825	594	825
Unpaid dividends of previous periods	1 767	1 767	1 767	1 767
Other liabilities	143	117	131	106
	<b>5 619</b>	<b>3 746</b>	<b>5 607</b>	<b>3 735</b>

<sup>1</sup> Suspense accounts represent payments received by the Bank where the beneficiary is not clearly identified. After clarification they are credited to customer accounts.

**16 OFF-BALANCE SHEET ITEMS**

**Off-balance liabilities**

In thousands of lats	<u>The Group</u>		<u>The Bank</u>	
	<u>30.06.2011</u>	<u>31.12.2010</u>	<u>30.06.2011</u>	<u>31.12.2010</u>
Contingent liabilities	<b>6 054</b>	<b>6 128</b>	<b>6 054</b>	<b>6 423</b>
<i>including guarantees</i>	314	138	314	433
<i>including rent commitments</i>	5 740	5 990	5 740	5 990
Commitments to customers	<b>13 438</b>	<b>6 544</b>	<b>14 888</b>	<b>8 625</b>
<i>including unused credit limits</i>	8 554	6 415	10 004	8 496
<i>including letters of credit</i>	0	35	0	35
<i>including other liabilities</i> <sup>1</sup>	4 884	94	4 884	94
	<b>19 492</b>	<b>12 672</b>	<b>20 942</b>	<b>15 048</b>

<sup>1</sup> Other liabilities include Bank's liabilities for the acquisition of fixed assets and securities as well as future costs related to long-term projects.

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**17 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 conducted on normal business terms.

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

In thousands of lats	<u>30.06.2011</u>				<u>31.12.2010</u>			
	Shareholders	Other related parties <sup>1</sup>	Council and board	Total	Shareholders	Other related parties <sup>1</sup>	Council and board	Total
<b>Assets</b>								
Loans	292	3 937	355	<b>4 584</b>	141	2 502	434	<b>3 077</b>
<i>Allowance for loans</i>	(7)	(5)	(17)	<b>(29)</b>	(3)	(2)	(14)	<b>(19)</b>
Loans, net	285	3 932	338	<b>4 555</b>	138	2 500	420	<b>3 058</b>
<b>Liabilities</b>								
Deposits	14	1 307	217	<b>1 538</b>	7	1 139	144	<b>1 290</b>
<b>Non-balance items</b>								
Unused credit lines	15	9	20	<b>44</b>	39	8	35	<b>82</b>
<b>Comprehensive income report</b>								
	<u>30.06.2011</u>				<u>30.06.2010</u>			
Interest income	2	16	10	<b>28</b>	5	51	4	<b>60</b>
Commissions income	4	7	3	<b>14</b>	3	12	1	<b>16</b>
Interest expense	0	(4)	(2)	<b>(6)</b>	0	(5)	(3)	<b>(8)</b>
Reserve decreasing income, net	(4)	(3)	(3)	<b>(10)</b>	12	960	(1)	<b>971</b>
Other expenses	(4)	(12)	(30)	<b>(46)</b>	(7)	(10)	(15)	<b>(32)</b>

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

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

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

In thousands of lats	30.06.2011					31.12.2010				
	Shareholders	Subsidiary companies	Other related persons <sup>1</sup>	Council and Board	Total	Shareholders	Subsidiary companies	Other related	Council and Board	Total
<b>Assets</b>										
Credits	142	4 763	3 937	349	9 191	117	5 132	2 502	424	8 175
<i>Reserves for unsecured credits</i>	(7)	0	(5)	(17)	(29)	(3)	0	(2)	(14)	(19)
Credits, net	135	4 763	3 932	332	9 162	114	5 132	2 500	410	8 156
<b>Liabilities</b>										
Deposits	14	389	1 307	217	1 927	7	1	1 139	144	1 291
<b>Non-balance items</b>										
Unused credit limits	15	1 450	9	20	1 494	39	2 081	8	35	2 163
<b>Comprehensive income report</b>										
	30.06.2011					30.06.2010				
Interest income	0	82	16	10	108	3	85	50	3	141
Commissions income	4	1	7	3	15	3	1	12	1	17
Interest expenditure	0	(9)	(4)	(2)	(15)	0	0	(5)	(3)	(8)
Reserve decreasing income, net	(4)	0	(3)	(3)	(10)	12	0	960	(1)	971
Other expenses	(4)	(114)	(12)	(30)	(160)	(7)	(39)	(10)	(15)	(71)

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

**18 EVENTS AFTER BALANCE SHEET DATE**

During the period from the last day of the reporting period until the publication date of these financial statements the Bank registered with the Commercial Register amendments to the Articles of Association. Consequently, the Bank's subscribed share capital is registered in the amount of 14 507 thousand lats. There have not been any subsequent events that could materially affect these financial statements.

\* \* \* \* \*