



TRASTA KOMERCBANKA

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

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

In the second half of 2008 the economy of Latvia saw a rapid „cooling-off“ and clear signs of stagnation in the financial market, which caused the government of Latvia to turn to the IMF for assistance.

The quick estimates of GDP published by the Bank of Latvia show that in Quarter 4 the real GDP changes achieved - 10.5%, which is a very fast contraction. The overall fall in GDP over 2008 was 4.6%. The results of survey of business conditions as well as the current data on development of industries provide evidence of further decline in the economic activity.

Both the internal processes – fall in consumption, decrease in investments and deterioration in confidence, and the unfavourable tendencies of external environment and high uncertainty degree induce the economy forecasts to be revised.

It ought to be noted, that the continuing global financial crisis which began in the US real estate market caused far-reaching consequences in the world financial sector. All the above mentioned factors were thoroughly analysed by the Bank and all contingent risks were diversified to the utmost. However, we cannot deny the impact of the said factors on activity of the Bank customers which consequently have affected the Bank's performance, particularly in the second half of 2008 when the Bank's attention was basically focused on reducing the influence of these factors.

Despite the complicated situation, the results achieved in 2008 makes it possible to conclude that the Bank has been quite well positioned so that the economic situation of the country and in the world would not have a material effect on its financial standing. In 2008, the Bank managed to retain its leading position in terms of return on equity (ROE), which was 25.09%, and in terms of ROA – 3.13%.

It should be noted that in November, 2008 the Bank repaid its syndicated loan in the amount of 16 million euros to seven European banks. The loan was contracted in 2007; its organiser was the Austrian bank *Raiffeisen Zentralbank Osterreich AG*

The amount of Bank's assets as at 31 December 2008 reached 218.6 million lats, which is a little below the result of 2007. The amount of attracted deposits in 2008 amounted to 159.6 million lats, which is also by 73.1 million lats less as compared to 2007. In implementing the approved business plan of 2008 the Bank restructured its assets, investing cash resources in profit bearing assets thus increasing the Bank's loan portfolio to 119.2 million lats. In this connection it should be noted that in the second half of 2008 the growth of loan portfolio was halted and the main focus was made on maintaining its quality.

As at 31 December 2008, the Bank's capital and reserves amounted to 36.0 million lats. The Bank's profit in 2008 was 8.5 million lats. The Bank has taken a decision not to split the profit of 2008, but include the entire profit in the calculation of the Bank's capital adequacy. This will allow increasing of stability and activities of the Bank on financial markets.

In April 2008, the Bank acquired 9,0055% of "Misto Bank" (Ukraine, Odessa) shares and 100% of shares in the foreign investment company *Rolvenden Standart*, the assets of which include 41.2945% of *Misto Bank* shares. By acquiring the controlling stake in *Misto Bank*, *TKB* planned to strengthen its positions in the Ukrainian market and to provide more service options for its customers in this region. However, taking into account the above described situation in the world, at the end of 2008 the Bank took a decision to reclassify this investment into the category "financial assets held for sale" and initiated the process of searching a purchaser.

Year 2008 was quite satisfactory for *TKB Līzings Ltd.*, a subsidiary of the Bank; despite the fact that the targeted results were not achieved due to the above mentioned crisis. The assets of *TKB Līzings Ltd.* as at the end of the year amounted to 6.1 million lats. The profit of *TKB Līzings Ltd.* for the reporting year reached 102 thousand lats and it will be used to offset the losses incurred over the previous years.

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

The results shown by TKB *Nekustamie īpašumi* Ltd., the second subsidiary of the Bank, in 2008 are also viewed positively. The profit of TKB *Nekustamie īpašumi* Ltd. amounted to 4.8 million lats, which is intended to be invested in further development of the company, and its assets reached 58 thousand lats.

Therefore, the Bank's profit in 2008 was 9.0 million lats, and the amount of assets as at the end of the reporting year amounted to 300.1 million lats.

In 2008, the Bank continued to expand the scope of its services and to develop its financial products. The Bank increased the capacity of its information systems, with special attention paid to the functionality of the Trast.Net internet banking system by adding new functions to it and continued to develop projects related to the use of advanced information technologies. Thus, a new international security service - MasterCard SecureCode, which was developed by MasterCard to guarantee extra security for payment cards when making transactions online, now is available to customers of the Bank. Besides; the Bank has concluded an agreement on introduction of the accounting and financial management system Microsoft Dynamics NAVISION.

The reporting year saw continued successful operation of the Bank within the framework of the international factoring association Factors Chain International (FCI). In the annual assessment of FCI for 2008 the rating of the Bank as an Export Factor was raised to "Good", and the Bank therefore ranked in 100th position among 244 participants.

In the Communication Seminar of FCI which took place in Germany, February 2008, participants' knowledge and skills were tested in applying the FCI systems and regulations to the operation of the two-factor system. In this Seminar Edgars Niedra, senior specialist of the Trade Finance Division in a team with a representative from the USA Company GMAC achieved the best result among 82 participants from 50 companies and 26 countries. Their score was the highest ever in the history of such seminars and they were accordingly awarded a prize of FCI.

In 2008, the Bank was yet again awarded the annual prize *Deutsche Bank's 2007 STP Excellence Award*, which testifies to the excellent quality of Bank's transfers and high qualification of Bank specialists.

By ensuring strict compliance with the requirements laid down by the Law on the Prevention of Laundering of Proceeds from Crime, Financial and Capital Market Commission Regulations "On the Development of an Internal Control System to Prevent the Laundering of Proceeds From Crime and the Financing of Terrorism", as well as observing international requirements for banking operation and best general practice, the Bank continued in 2008 to streamline its internal control procedures with the aim of reducing to a minimum the possibility of cooperating with such customers that might be involved in the laundering of proceeds from crime. Training of the Bank employees was set as a priority in 2008 to ensure that they obtain the knowledge required for the issues referred to above. In 2008, employees of the Bank were regular participants in the training programmes on the prevention of money laundering, organised by the Association of Commercial Banks of Latvia, they passed relevant tests and obtained certificates. There are a total of 36 employees at the Bank issued with this certificate. Special attention was also paid in 2008 to improving the Bank information systems and technologies to provide for timely and efficient supervision and analysis of the Bank customers and their transactions, by making the process automated to the utmost. In order to even stricter comply with the provisions of the law on the Prevention of Laundering of Proceeds from Crime the Bank in 2009 is going to introduce the automated transaction monitoring system ERASE (NetEconomy), which will enable to maintain transparently and together all the data and information obtained in the course of supervision. The Bank Board has been analysing the efficiency of the internal control system on a regular basis and is confident that the system operates efficiently and that the risk of compliance and reputation is managed adequately.

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

The Bank Management confirms that the consolidated and individual financial statements set out on pages 4 to 25 for the period from 1 January 2008 to 31 December 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 31 December the Bank has prepared financial statements which were audited by "Ernst & Young Baltic", Ltd (Licence No.17). As on the date of publication of the financial statements the audit was not completed. These public quarterly financial statements have been prepared based on unaudited financial statements for the same period.

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

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



Gundars Grieze
Chairman of the Board

Riga,
26 February 2009

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>2007</u>	<u>2008</u>	<u>2007</u>
Interest income	15 822	16 263	15 582	16 059
Interest expense	(2 901)	(1 939)	(2 946)	(1 951)
Net interest income	12 921	14 324	12 636	14 108
Allowance for impairment, net	(2 830)	(85)	(2 753)	18
Net interest income after allowance for impairment	10 091	14 239	9 883	14 126
Commission income	8 143	6 580	8 141	6 577
Commission expense	(1 415)	(1 780)	(1 415)	(1 780)
Net commission income	6 728	4 800	6 726	4 797
Dividends	16	19	16	19
(Loss)/profit from financial assets held for trading, net	(4 653)	198	(4 653)	198
Realised profit from available-for-sale financial assets, net	154	29	154	29
Foreign currency trading and revaluation gain	8 014	8 532	8 016	8 535
Other income	665	478	593	401
Other non-interest income	4 196	9 256	4 126	9 182
Salaries and benefits expenses	(5 617)	(5 330)	(5 505)	(5 237)
Administrative expenses	(3 265)	(3 437)	(3 282)	(3 467)
Tangible and intangible assets amortisation and depreciation	(529)	(475)	(521)	(472)
Other expenses	(146)	(159)	(133)	(116)
Other release of allowance (expenses)	(56)	21	(160)	21
Other non-interest expense	(9 613)	(9 380)	(9 601)	(9 271)
Profit before corporate income tax	11 402	18 915	11 134	18 834
Corporate income tax	(2 643)	(2 946)	(2 611)	(2 928)
Profit for the period from continuing operations	8 759	15 969	8 523	15 906
Profit/(loss) after tax for the year from discontinued operations	6	246	-	-
Profit for the period	9 005	15 969	8 523	15 906

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TRASTA KOMERCBANKA

The logo for Trasta Komercbanka (TKB) consists of the letters 'TKB' in a white serif font, centered within a dark olive-green square.

Attributable to equity holders of the Bank	8 880	15 964	8 523	15 906
Attributable to minority interest	125	5	-	-
Earnings per share (basic and diluted) in lats	70.06	139.25	-	-

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BALANCE SHEETS AND CONSOLIDATED BALANCE SHEETS

In thousands of lats	Note	<u>The Group</u>		<u>The Bank</u>	
		<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
ASSETS					
Cash and balances due from the Bank of Latvia and other Central Banks		19 235	17 993	19 235	17 993
Due from credit institutions with a maturity of less than 3 months		47 561	150 832	47 562	150 832
<i>On demand</i>		37 945	115 927	37 946	115 927
<i>Other</i>		9 616	34 905	9 616	34 905
Held for trading financial assets		2 410	8 345	2 410	8 345
<i>Fixed income securities</i>		1 972	5 918	1 972	5 918
<i>Equity shares and other non-fixed income securities</i>		360	2 380	360	2 380
<i>Derivatives</i>		78	47	78	47
Available for sale financial assets		334	6 257	12 709	6 257
<i>Fixed income securities</i>		285	6 192	285	6 192
<i>Equity shares and other non-fixed income securities</i>		49	65	12 424	65
Due from credit institutions with a maturity of more than 3 months		8 756	6 432	8 755	6 432
Loans	5	118 523	91 561	119 221	92 290
Accrued income and deferred expenses		132	268	133	257
Long-term projects costs		2 282	2 217	2 282	2 217
Tangible assets		3 953	2 148	3 932	2 142
Intangible assets		8 742	205	222	205
Investments in share capital of subsidiary	6	-	-	52	2
Corporate income tax receivable		425	-	422	-
Deferred tax assets		14	24	14	25
Other assets		1 856	3 218	1 659	3 130
Assets of disposal group classified as held for sale	6	85 898	-	-	-
TOTAL ASSETS		300 121	289 500	218 608	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>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
LIABILITIES				
Due to credit institutions	10 562	16 561	10 562	16 561
<i>On demand</i>	10 512	4 850	10 512	4 850
<i>Term deposits with a maturity of less than 3 months</i>	-	500	-	500
<i>Term deposits with a maturity of more than 3 months</i>	50	11 211	50	11 211
Held for trading financial liabilities	-	2	-	2
<i>Derivatives</i>	-	2	-	2
Due to customers	159 595	232 651	159 599	232 697
<i>On demand</i>	131 311	204 764	131 315	204 810
<i>Term deposits</i>	28 284	27 887	28 284	27 887
Debt securities issued	2 814	2 812	3 520	3 518
Accrued expenses and deferred income	603	711	591	698
Provisions for contingent liabilities	54	-	209	-
Corporate income tax liabilities	20	779	5	766
Other liabilities	2 962	3 393	2 928	3 360
Liabilities directly associated with the assets classified as held for sale	6	-	-	-
Liabilities before subordinated liabilities	252 682	256 909	177 414	257 602
Subordinated liabilities	5 172	1 208	5 172	1 208
TOTAL LIABILITIES	257 854	258 117	182 586	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>2008</u>	<u>2007</u>	<u>2008</u>	<u>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	(1)	17	(1)	17
Retained earnings	26 182	21 102	25 771	21 048
Reserves of disposal group classified as held for sale	6	1907	-	-
Equity and reserves attributable to shareholders of the Bank	38 340	31 371	36 022	31 317
Minority shareholder interest	3 927	12	-	-
Total equity and reserves	42 267	31 383	36 022	31 317
TOTAL LIABILITIES AND EQUITY AND RESERVES	300 121	289 500	218 608	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 recognized directly in equity	-	-	-	(86)	-	(86)	-	(86)
<i>Net profit for the period</i>	-	-	-	-	15 964	15 964	5	15 969
Total income recognised for the period	-	-	-	(86)	15 964	15 878	5	15 883
New ordinary share issue	800	-	-	-	-	800	-	800
Dividends paid	-	-	-	-	(5 000)	(5 000)	-	(5 000)
BALANCE AS AT 31 DECEMBER 2007	6 337	111	3 804	17	21 102	31 371	12	31 383
BALANCE AS AT 31 DECEMBER 2007	6 337	111	3 804	17	21 102	31 371	12	31 383
<i>Changes in equity and reserves</i>	-	-	-	-	-	-	3 790	3 790
<i>Changes in reserves, classified as held for sale</i>	-	-	1 907	-	-	1 907	-	1 907
<i>Changes in fair value of available for sale securities</i>	-	-	-	(18)	-	(18)	-	(18)
Total income recognised directly in equity	-	-	-	(18)	-	(18)	-	(18)
<i>Net profit for the period</i>	-	-	-	-	8 880	8 880	125	9 005
Total income recognised for the period	-	-	-	(18)	8 880	8 862	125	8 987
Dividends paid	-	-	-	-	(3 800)	(3 800)	-	(3 800)
BALANCE AS AT 31 DECEMBER 2008	6 337	111	5 711	(1)	26 182	38 340	3 927	42 267

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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>	-	-	-	-	15 906	15 906
Total income recognised for the period	-	-	-	(86)	15 906	15 820
New issue of ordinary shares	800	-	-	-	-	800
Dividends paid	-	-	-	-	(5 000)	(5 000)
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>	-	-	-	(18)	-	(18)
Total loss recognised directly in equity	-	-	-	(18)	-	(18)
<i>Net profit for the period</i>	-	-	-	-	8 523	8 523
Total income recognised for the period	-	-	-	(18)	8 523	8 505
Dividends paid	-	-	-	-	(3 800)	(3 800)
BALANCE AS AT 31 DECEMBER 2008	6 337	111	3 804	(1)	25 771	36 022

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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>2007</u>	<u>2008</u>	<u>2007</u>
Cash flow as a result of basic activity:				
Profit before corporate income tax	11 400	18 910	11 134	18 834
Profit/(loss) before tax for the year from discontinued operations	191	-	-	-
Amortisation and depreciation	529	475	521	472
Change in allowance for impairment	2 426	(30)	2 353	(132)
Change in other provisions	-	-	(50)	-
Foreign currency revaluation profit	128	(292)	127	(312)
(Profit)/ loss from revaluation of financial assets held-for-trading	3 370	465	3 370	465
Gain on disposal of fixed and intangible assets				
Increase in cash and cash equivalents from operating activities before changes in assets and liabilities	18 044	19 528	17 455	19 327
Increase in financial assets held for trading	2 565	(3 681)	2 565	(3 681)
Increase in available-for-sale financial assets	5 905	(2 642)	(5 270)	(2 642)
Decrease in balances due from credit institutions	(2 324)	2 137	(2 323)	2 137
Increase in loans and receivables	(29 388)	(48 038)	(29 284)	(48 678)
Decrease/(increase) in accrued income and deferred expense	136	(61)	124	(50)
(Increase)/decrease in other assets	1 375	(202)	283	(113)
Increase/(decrease) in balances due to credit institutions	1	(97)	1	(97)
(Decrease/increase in deposits from customers	(73 056)	7 324	(73 098)	7 338
Decrease in financial liabilities held for trading	(2)	(1)	(2)	(1)
Increase in accrued expense and deferred income	(108)	262	(107)	245
Increase/(decrease) in other liabilities	(349)	(6 728)	(195)	(6 721)
	(77 201)	(32 199)	(89 851)	(32 936)
Corporate income tax paid	(3 898)	(3 068)	(3 795)	(3 059)
(Decrease)/ increase in cash and cash equivalents from operating activities	(81 099)	(35 267)	(93 646)	(35 995)
Cash flows from investing activities				
Purchase of fixed and intangible fixed assets, net	(2 352)	(1 373)	(2 328)	(1 371)
Purchase of assets of disposal group classified as held for sale	(12 523)	-	-	-
Investments in subsidiaries, net	(65)	(44)	(65)	(44)
Sale of long-term projects	-	2 531	-	2 531
(Decrease)/increase in cash and cash equivalents from investing activities	(14 940)	1 114	(2 393)	1 116

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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>
Cash flows from financing activities				
Changes/sale of mortgage bonds issued	-	2 812	-	3 518
Chare issue	-	800	-	800
Syndicated loan	(11 162)	11 162	(11 162)	11 162
Change in subordinated capital	3 938	-	3 938	-
Dividends paid	(3 800)	(5 000)	(3 800)	(5 000)
(Decrease)/increase in cash and cash equivalents from financing activities	(11 024)	9 774	(11 024)	10 480
(Decrease)/increase in cash and cash equivalents	(107 063)	(24 379)	(107 063)	(24 399)
Cash and cash equivalents at the beginning of the year	163 475	187 562	163 475	187 562
Foreign currency revaluation profit	(128)	292	(127)	312
Cash and cash equivalents at the end of the year	56 284	163 475	56 285	163 475

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>
Due from credit institutions with a maturity of less than 3 months	47 561	150 832	47 562	150 832
Cash and balances due from the Bank of Latvia and other Central Banks	19 235	17 993	19 235	17 993
Due to credit institutions with a maturity of less than 3 months	(10 512)	(5 350)	(10 512)	(5 350)
CASH AND CASH EQUIVALENTS	56 284	163 475	56 285	163 475

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>
Interest income received during the reporting period	15 382	15 425	15 221	15 314
Interest expenses paid during the reporting period	(2 867)	(1 947)	(2 910)	(1 947)

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.

By the end of the year the Bank had 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. At the end of 2009 the Bank closed its representative Office in Bulgaria.

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 23 February 2009.

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:



NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING AND ASSESSMENT PRINCIPLES (continuation)

(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>31.12.2008</u>	<u>31.12.2007</u>
LVL 1 = EUR	1.423	1.423
USD	2.020	2.066
GBP	1.374	1.038
RUB	58.479	50.761



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>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
5 LOANS				
Private enterprises	96 476	68 097	91 914	62 590
Private persons	23 412	22 287	23 013	21 795
Related companies	-	-	5 695	6 624
Financial institutions	1 322	1 325	1 322	1 325
Employees	1 786	1 428	1 565	1 428
Public enterprises	-	-	-	-
Total gross loans	122 996	93 137	123 509	93 762
Impairment allowances, <i>individually assessed</i>	(4 007)	(1 576)	(3 822)	(1 472)
General impairment allowances	(466)	-	(466)	-
	118 523	91 561	119 221	92 290

Loans by types of loans may be specified as follows:

Commercial loans	38 050	34 235	43 744	40 859
Mortgage loans	47 591	37 532	47 424	37 257
Industrial loans	13 591	4 647	13 591	4 647
Consumer loans	320	395	147	170
Finance lease	4 841	5 499	-	-
Overdrafts	1 076	1 685	1 076	1 685
Bills of exchange	1 284	1 782	1 284	1 782
Reverse REPO	75	648	75	648
Factoring	818	346	818	346
Credit cards	151	173	151	173
Security deposits	327	315	327	315
Other	14 872	5 880	14 872	5 880
	122 996	93 137	123 509	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	2 933	163	2 816	111
Release of allowances	(103)	(78)	(63)	(129)
Writte-off of loans	-	(30)	-	(30)
Effect of changes in currency exchange rates	67	(85)	63	(84)
Balance as at 31 December	4 473	1 576	4 288	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>31.12.2008</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	6 075	50	100	50	6 904	50	100	-
SIA "TKB Nekustamie īpašumi", reg. No. 40003723143, Latvia, Riga, Palasta 7	Operācijas ar nekustamo īpašumu	58	2	75	2	51	2	75	2
		6 133	52	-	52	6 955	52	-	2

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. Taking into account the crisis situation in the world the Bank took a decision at the end of the year to reclassify this investments category to "financial assets held for sale" and started to look for a purchaser. The assets and liabilities of this subsidiary are disclosed in the Group's consolidated financial statements separated from other Group's assets and liabilities as assets of disposal group classified as held for sale.

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.

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	
	2008	2007	2008	2007
Cash	19 235	17 993	19 235	17 993
Balance from credit institutions	56 270	157 090	56 270	157 669
Loans and receivables	122 325	92 942	122 844	93 526
Other state fixed income securities	2 165	11 809	2 165	11 809
Shares and other investments	408	2 445	12 835	2 446
Fixed assets and intangible assets	14 977	4 571	6 437	4 493
Other assets	92 573	5 012	3 454	4 960
Total assets	307 953	291 862	223 240	292 896
Balances due to banks	10 561	16 643	10 561	21 694
Deposits	159 441	232 575	159 445	227 768
Issued bonds	2 802	2 798	3 504	3 501
Other liabilities	83 266	5 673	4 121	4 535
Impairment and accrued liabilities	4 530	1 582	4 501	2 619
Equity	47 353	32 591	41 108	32 779
Total equity and liabilities	307 953	291 862	223 240	292 896
Total assets per internal reporting	307 953	291 862	223 240	292 896
Reconciling items:				
<i>Impairment</i> ¹	(4 476)	(1 581)	(4 292)	(1 472)
<i>Other reconciling items</i> ²	(3 356)	(781)	(340)	(1 297)
Total assets per IFRS statements	300 121	289 500	218 608	290 127
Total liabilities per internal reporting	260 600	259 271	182 132	260 117
Reconciling items:				
<i>Impairment</i> ¹	(4 476)	(1 581)	(4 292)	(1 472)
<i>Subordinated liabilities</i> ³	5 086	1 208	5 086	1 208
<i>Other reconciling items</i> ²	(3 356)	(781)	(340)	(1 043)
Total liabilities per IFRS statements	257 854	258 117	182 586	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	<u>The Group</u>		<u>The Bank</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Interest revenue	15 738	16 059	15 536	15 902
Commission revenue	8 227	6 784	8 187	6 657
Profit from trading	3 531	8 779	3 533	8 727
Impairment	103	119	63	167
Other income	6 257	490	655	427
Total revenues	33 856	32 231	27 974	31 880
Interest expenses	2 901	1 939	2 946	2 049
Commission expenses	1 415	1 780	1 415	1 821
Administration expenses ¹	9 425	9 444	9 326	8 661
Tax expenses	2 644	2 798	2 611	3 178
Impairment	2 990	163	3 027	111
Other	5 476	138	126	22
Total expenses	24 851	16 262	19 451	15 842
Profit	9 005	15 969	8 523	16 038
Total revenues per internal reporting	23 965	22 843	23 723	22 559
Reconciling item ²	-	-	-	96
Total revenues per IFRS statements	23 965	22 843	23 723	22 655

¹ Administrative expense includes depreciation charge.

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	<u>2008</u>		<u>2007</u>	
	<u>Latvian residents</u>	<u>Latvian non-residents</u>	<u>Latvian residents</u>	<u>Latvian non-residents</u>
Interest income	7 230	8 592	5 557	10 706
Commission income	290	7 853	274	6 306
Total income	7 520	16 445	5 831	17 012

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		2007	
	Latvian residents	Latvian non-residents	Latvian residents	Latvian non-residents
Interest income	7 041	8 541	5 381	10 678
Commission income	287	7 854	271	6 306
Total income	7 328	16 395	5 652	16 984

8 OFF-BALANCE SHEET ITEMS

(1) Off-balance liabilities

In thousand of lats	The Group		The Bank	
	2008	2007	2008	2007
Contingent liabilities	419	617	486	617
<i>including guarantees</i>	260	617	646	617
<i>including provisions for guarantees</i>	(5)	-	(160)	-
<i>including guarantees of disposal group classified as held for sale</i>	164	-	-	-
Commitments to customers	22 734	20 150	10 770	21 590
<i>including unused credit lines</i>	2 949	12 621	3 083	14 061
<i>including rent commitments²</i>	7 096	7 484	7 096	7 484
<i>including letters of credit</i>	121	32	121	32
<i>including provisions for letters of credit</i>	(49)	-	(49)	-
<i>including other liabilities¹</i>	519	13	519	13
<i>including commitments to customers of disposal group classified as held for sale</i>	12 098	-	-	-
Total off-balance sheet liabilities	23 153	20 767	11 256	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	The Bank
	2007	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	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Assets under management				
Due from corporate	24 606	9 858	24 606	9 858
Due from credit institutions registered in other countries	513	-	513	-
Due from individuals	-	148	-	148
Assets under management of disposal group classified as assets under management held for sale	2 471	-	-	-
	27 590	10 006	25 119	10 006

Customer profile on whose behalf the assets are managed

Credit institutions registered in other countries	23 933	8 131	23 933	8 131
Private enterprises	1 186	535	1 186	535
Individuals	-	1 340	-	1 340
Customers of disposal group whose assets are managed and that are classified as held for sale	2 471	-	-	-
	27 590	10 006	25 119	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	<u>31.12. 2008</u>				<u>31.12.2007</u>			
	Share-holders	Other related parties ¹	Council and board	Total	Share-holders	Other related parties ¹	Council and board	Total
Assets								
Loans	628	1 012	151	1 791	827	2 153	188	3 168
<i>Allowance for loans</i>		(35)		(35)		(17)		(17)
Loans, net	628	977	151	1 756	827	2 136	188	3 151
Liabilities								
Deposits	40	436	258	734	83	190	427	700
Non-balance items								
Unused credit lines	10	11	16	37	10	12	15	37
Profit and loss statement								
Interest income	48	66	11	125	52	40	9	101
Commissions income	1	13	3	17	-	2	2	4
Interest expense	(6)	(8)	(10)	(24)	(10)	(6)	(16)	(32)
Release of allowance, net	-	-	-	-	-	-	-	-
Other expenses	(15)	(54)	(57)	(126)	(13)	(154)	(48)	(215)

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	31.12.2008					31.12.2007				
	Shareholders	Subsidiary companies	Other related persons ¹	Council and Board	Total	Shareholders	Subsidiary companies	Other related	Council and Board	Total
Assets										
Credits	488	5 695	940	106	7 229	827	6 624	2 153	114	9 718
<i>Reserves for unsecured credits</i>			(35)		(35)	-	(5)	(17)	-	(22)
Credits, net	488	5 695	905	106	7 194	827	6 619	2 136	114	9 696
Liabilities										
Deposits	40	5	436	258	739	83	46	199	427	755
Non-balance items										
Unused credit limits	10	134	11	16	171	10	1 440	12	15	1 477
Profit and loss statement										
Interest income	44	219	62	7	332	52	160	40	7	259
Commissions income	1	1	13	3	18	-	-	2	1	3
Interest expenditure	(6)	(1)	(8)	(10)	(25)	(10)	-	(6)	(16)	(32)
Reserve decreasing income, net	-	5	-	-	5	-	34	-	-	34
Other expenses	(15)	(142)	(54)	(57)	(268)	(13)	(210)	(154)	(48)	(425)

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 publication date of these financial statements there have not been any subsequent events that could materially affect these statements or notes thereto.

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