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BANKING / INVESTMENTS \ ADVISORY

JSC Aizkraukles Banka public quarterly report

for the period ended on
31 march 2011

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Bank's management report

Ladies and Gentlemen,

Dear Shareholders, Customers and Business Partners of Aizkraukles Banka,

First quarter of 2011 was an evidence of upward trend in Latvian and global economic recovery. It has a positive effect on financial markets and enables the Bank to achieve and even surpass its financial plans set at the beginning of the year.

Main task of the Bank's and the Group's management set for 2011 is to expand the Bank's and the Group's operations and to increase profitability, alongside continuing improvement of operations risks management methods. We are glad to conclude that results of first quarter of 2011 stand for success in performing this task. This is another evidence of efficiency of the bank's business strategy.

Considering planned growth of the loan portfolio, amount of deposits and commission income, in the financial report 2010, the Group's and the Bank's management expressed their confidence in generating profit in 2011. The Group ended the reporting period with profit of LVL 5 million.

It should be noted that the Bank's key performance indicators, including capital adequacy and liquidity, remain high. As of 31 March 2011, the Bank's liquidity reached 71.53%, exceeding that planned by the Bank. Whereas the Bank's capital adequacy ratio was equal to 12.28%, as of 31 March 2011.

Financial performance

The Bank's financial performance in first quarter of 2011 stands for the bank's rapid development and improvement of financial indicators.

Amount of deposits with the Bank, as well as amount of the Bank's assets, continued to grow. Since the beginning of 2011, the amount of deposits has increased by LVL 40.4 million, i.e. 3.2%, to reach LVL 1.29 billion. Overall growth of deposit amount in 2011 is planned to achieve 15%. Since 2009, the Bank is leading in terms of deposits made by companies with Latvian credit institutions.

As of 31 March 2011, the amount of the Bank's assets equalled LVL 1.4 billion. Since the beginning of the year, the amount of assets has grown by 4.4%, thus the total amount has increased by LVL 60 million.

The Bank continued investing in securities. As of 31 March 2011, total amount of securities portfolio was equal to LVL 401.8 million. In the reporting period, annual yield of the securities portfolio was 4.4%.

As at the end of March, the Bank's gross loan portfolio was equal to LVL 572.8 million. Applying caution in evaluating quality of the loan portfolio, the Bank continued making allowances for credit losses. The total amount of allowances for non-bank loans equalled LVL 63.8 million, which is 11% of the gross loan portfolio.

The Bank's operating income, before allowances for credit losses, equalled LVL 13 million, as of 31 March 2011.

As of 31 March 2011, ROE equalled 20.03%, and ROA amounted to 1.05%.

We express our gratitude to our shareholders and customers for their loyalty and to the Bank's employees for their contribution in the Bank's growth!

Chairman of the Council

Aleksandrs Bergmanis

Chairman of the Board

Ernests Bernis

General information

The JSC Aizkraukles banka (hereinafter referred to as the Bank) was registered as a joint stock company in Aizkraukle, Republic of Latvia on 17 September 1993, under reg. No 50003149401. At present, the legal address of the Bank is 23 Elizabetes Street, Riga.

The Bank operates in accordance with the legislation of the Republic of Latvia and the licence issued by the Bank of Latvia that allows the Bank to render all the financial services specified in the Law on Credit Institutions.

The Bank's main scope of activity is investment services, settlement products, asset management, consulting and real estate management.

The Group and the Bank operate the central office and two lending centres in Riga, as well as three foreign representation offices in Azerbaijan - Baku, in Belarus- Minsk, in Kazakhstan - Almaty, in Russia – Moscow, St. Petersburg and Jekaterinburg, in Ukraine - Kyiv with its branch in Odessa, in Uzbekistan - Tashkent and Tajikistan – Dushanbe.

The Group's and the Bank's financial statements, who prepared in consistently applying IFRS as adopted in the EU and the FCMC Regulations on the Preparation of Annual Reports and Consolidated Annual Reports of Banks, Investment Brokerage Companies, and Investment Management Companies, were audited by Ernst & Young Baltic SIA, unified registration number Nr. 40003593454, Latvijas Republika, Muitas str.1.

This quarterly report is prepared in accordance with the Regulations on Preparation of Public Quarterly Reports for Banks approved by the Financial and Capital Market Commission for the purpose of providing information on the financial standing and performance indicators of the Group and the Bank.

Financial statements are reported in thousands of lats (LVL '000), unless otherwise stated.

Members of the consolidation group

As at 30 March 2011

Name of the business company	Registration number	Registration address	Type of activities*	Interest in share capital (%)	Share of voting rights (%)	Motivation for inclusion in the group**
IPAS "AB.LV Asset Management"	40003814724	Elizabetes str. 23, Rīga, LV-1010	IPS	100	100	MS
IBAS "AB.LV Capital Market"	40003814705	Elizabetes str. 23, Rīga, LV-1010	IBS	100	100	MS
AS "AB Konsultācijas"	40003540368	Elizabetes str. 23, Rīga, LV-1010	CKS	100	100	MS
SIA "AB.LV Corporate Services"	40103283479	Elizabetes str. 23, Rīga, LV-1010	CKS	100	100	MS
KS "AB.LV Transform Partnership"	40103260921	Elizabetes str. 23, Rīga, LV-1010	CFI	99.9997	99.9997	KS
SIA "AB.LV Transform Investments"	40103191969	Elizabetes str. 23, Rīga, LV-1010	CKS	100	100	MS
SIA "AB.LV Transform 1"	40103193211	Elizabetes str. 23, Rīga, LV-1010	CKS	100	100	MS
SIA "AB.LV Transform 2"	40103193033	Elizabetes str. 23, Rīga, LV-1010	CKS	100	100	MS
SIA "AB.LV Transform 3"	40103193067	Elizabetes str. 23, Rīga, LV-1010	CKS	100	100	MS
SIA "AB.LV Transform 4"	40103210494	Elizabetes str. 23, Rīga, LV-1010	CKS	100	100	MS
SIA "AB.LV Transform 6"	40103237323	Elizabetes str. 23, Rīga, LV-1010	CKS	100	100	MS
SIA "AB.LV Transform 7"	40103237304	Elizabetes str. 23, Rīga, LV-1010	CKS	100	100	MS
SIA "AB.LV Transform 8"	40103240484	Elizabetes str. 23, Rīga, LV-1010	CKS	100	100	MS
SIA "AB.LV Transform 9"	40103241210	Elizabetes str. 23, Rīga, LV-1010	CKS	100	100	MS
SIA "AB.LV Transform 10"	50103247681	Elizabetes str. 23, Rīga, LV-1010	CKS	100	100	MS
SIA "AB.LV Transform 11"	40103258310	Elizabetes str. 23, Rīga, LV-1010	CKS	100	100	MS
SIA "AB.LV Transform 12"	40103290273	Elizabetes str. 23, Rīga, LV-1010	CKS	100	100	MS
SIA "AB.LV Transform 13"	40103300849	Elizabetes str. 23, Rīga, LV-1010	CKS	100	100	MS
SIA "AB.LV Transform 14"	50103313991	Elizabetes str. 23, Rīga, LV-1010	CKS	100	100	MS
SIA "AB.LV Transform 15"	40103344858	Elizabetes str. 23, Rīga, LV-1010	CKS	100	100	MS
SIA "Elizabetes 21a"	50003831571	Elizabetes str. 23, Rīga, LV-1010	CKS	91.6	91.6	MS
SIA "New Hanza City"	40103222826	Elizabetes str. 23, Rīga, LV-1010	CKS	100	100	MS
SIA "AB.LV Private Equity Management"	40103286757	Elizabetes str. 23, Rīga, LV-1010	CKS	100	100	MS
KS "AB.LV Private Equity Fund 2010"	40103307758	Elizabetes str. 23, Rīga, LV-1010	CFI	100	100	KS
SIA "Gas Stream"	42103047436	Elizabetes str. 23, Rīga, LV-1010	CKS	49	49	MS
SIA "Bio Future"	42103047421	Elizabetes str. 23, Rīga, LV-1010	CKS	49	49	MS

Shareholders and groups of related shareholders of the bank

As at 31 March 2011

Shareholders	Number of voting shares	Par value of shares in lats	% of the total paid-in the Bank's share capital	Paid-in the Bank's share capital in lats
Ernests Bernis group of related shareholders:				
Ernests Bernis	46,212	150	42.01	6,931,800
Nika Berne	1,030	150	0.94	154,500
Total of group	47,242		42.95	7,086,300
Oļegs Fiļs	47,241	150	42.95	7,086,150
Other shareholders	15,517	150	14.10	2,327,550
Total	110,000		100.00	16,500,000

The council and the board

The Council of the Bank:

Chairman of the Council:

Aleksandrs Bergmanis

Deputy Chairman of the Council:

Jānis Krīgers

Member of the Council:

Igors Rapoport

The Board of the Bank:

Chairman of the Board:

Ernests Bernis – Chief Executive Officer (CEO)

Deputy Chairman of the Board:

Oļegs Fiļs – Deputy Chief Executive Officer (dCEO)

Members of the Board:

Aleksandrs Pāže – Chief Compliance Officer (CCO)

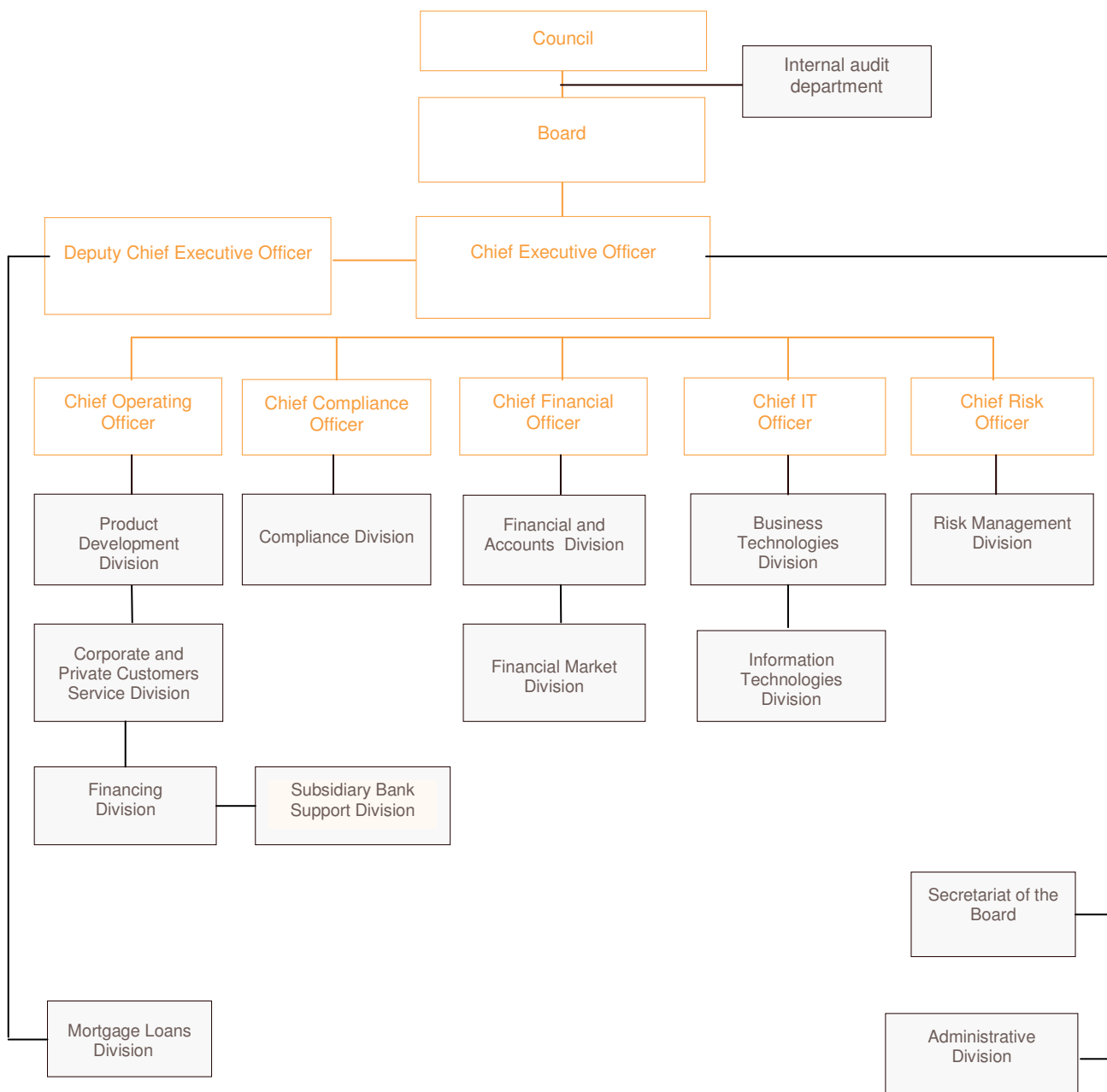
Edgars Pavlovičs – Chief Risk Officer (CRO)

Māris Kannenieks – Chief Financial Officer (CFO)

Rolands Citajevs – Chief IT Officer (CIO)

Vadims Reinfelds – Chief Operating Officer (COO)

Bank's structure



For additional information please visit our website <http://www.ablv.com/lv/about/offices>

Strategy and purpose of the bank's activities

The Bank's main scope of activity is investment services, settlement products, and asset management. The business model aimed at supplying individual services to affluent and wealthy individuals and their businesses pursued by the Bank has proven to be a successful.

The Bank operates in accordance with the laws of the Republic of Latvia and the licence issued by the Bank of Latvia, which allows the Bank to provide all financial services specified in the Law on Credit Institutions.

Mission

Our mission is to become the leading independent private bank in the Eastern Europe, combining all banking services, including asset management and advisory services, in a single customer-tailored offer.

Bank's values

What's More Important to us than Profit?

Ethics

The banking industry is a part of our lives. Our business standards are exactly the same as in other spheres of human activity: to speak openly with our clients, employees, and with society; to keep our promises; and not to take part in morally or legally shady deals.

Customer satisfaction

The banking industry is a service industry. The services offered can't happen in the absence of clients who use them. Banking business won't be successful if clients aren't satisfied with the service quality. To satisfy our customers, we need to surpass their expectations, and offer service better than they supposed to get. To satisfy our customers:

- provide only those services that are best meeting the customers' individual demands. To find out their individual demands, it is necessary to engage in a dialogue with the customer and adopt flexible and positive attitude to the customer, to be competent and proficient in providing services, so that total of these efforts encourages the customer to continue cooperation with the bank;
- we need to exceed their hopes, i.e. to provide service that is of higher quality than they expect.

Risk management

Banking is a high-risk business. To make a profit we need to manage risks effectively. Risks reduction requires their thorough and prudent estimation. One cannot work with what one doesn't understand. At our bank we have a system that enables us to address possible problems, identify those and minimize risks.

Independence

The Bank is proud of its status of an independent private bank. This provides us with the opportunity to work effectively, making efficient decisions and assuming full responsibility for them. This contributes to eliminating conflicts of interest probable if the bank is a part of a group of companies.

Risk management

Risks are inherent in the Group's and Bank's business and risk management is one of the Group's and Bank's strategic values, which is based on the confidence that efficient risk management is critical for the success of the Group and the Bank. Managing risks permits keeping the Group's and Bank's exposure at a level meeting their willingness and ability to undertake risks.

In the ordinary course of business, the Group and the Bank are exposed to various risks, the most significant of them being credit risk, liquidity risk, and market risks (including interest rate risk, currency risk), as well as operational risk.

Risk management stands for identification, assessment and control of potential risks.

The risk management process includes the following:

- identification, assessment and measurement of significant risks;
- setting restrictions and limits defining the maximum permissible exposure;
- regular monitoring of the compliance with the risk management policies and procedures and with any limits set;
- defining the risk assessment procedures and limits before commencing new transactions;
- quantitative risk assessment for the Group and the Bank;
- regular revision and enhancement of the policies and instructions following the market changes.

For the purpose of managing risks, risk management policies have been developed and approved by the Council. The introduction and efficiency of such policies are controlled by the Board and the Chief Risk Officer, while the practical implementation is provided by the respective business structural units, including the Risk Management Division whose functions are strictly segregated from the business functions.

To create a highly disciplined, conservative, and constructive risk management and control environment, training seminars for the staff are organised on a regular basis.

The goal of the risk management policies is to ensure efficient risk management, identify and analyse the risks inherent in the Group's and Bank's business, set relevant limits, introduce reliable control procedures, as well as control risk and exposure compliance with the applicable limits using administrative and IT resources.

The risk management system has been constantly improved following the Group's and Bank's operational and financial market development; the improvement process is controlled by the Internal Audit Department on a regular basis.

a) **Credit risk**

Credit risk is exposure to potential losses in case the Group's or Bank's counterparty or debtor will be unable to pay the contractual obligations to the Group or the Bank.

Credit risk management framework

Credit risk is managed according to the credit policy. Before entering into any cooperation with the customers, the Group and the Bank perform a comprehensive review of the customer's solvency and collateral.

To assess solvency of private individuals, the Bank has developed an internal rating system whereby customers are divided in categories on the basis of their income level and quality of their credit histories.

The Group and the Bank assess creditworthiness of corporate customers by conducting the financial due diligence for each new customer; subsequently, the borrower's financial position is reviewed on an annual basis. Corporate customers are granted risk/ monitoring factors, and any instances of non-compliance with these factors indicate that credit risk might have increased before the financial position of such customer is reviewed.

Collateral is appraised by an independent appraiser accepted by the Group and the Bank. The Bank may adjust (reduce) the value defined by the independent appraiser if, in the Bank's opinion, the appraiser has not considered certain risk factors. For the purposes of loan collateral, the Bank considers such reduced value. As collateral, the Bank may accept real estate, new and used vehicles, commercial vehicles, goods held at customs or customer's warehouse, securities, technological equipment and machinery, receivables as an aggregation of property, etc. Based on the collateral type and liquidity, the Group and the Bank apply the maximum acceptable proportion of the loan to be issued.

For effective credit risk management, the Bank has set up the permanent Assets Evaluation Committee which performs a regular analysis of assets and memorandum items, i.e., their recoverability. Depending on the results of such analysis, the amount of the allowance for credit losses (impairment) is determined. For the purposes of such analysis, both specific and collective (portfolio) risks are considered.

The Bank analyses the quality of the loan portfolio on a regular basis. The age of past due loans is used as one of the quality criteria. The criteria applied to corporate loans also include the borrower's business performance and prospects, its existing and forecasted cash flows to meet the liabilities, compliance with the monitoring/ risk factors set, collateral value, etc.

The Group and the Bank believe that their exposure to credit risk arises mainly from loans, investments in fixed income securities, and balances due from credit institutions.

Before entering into any cooperation with financial institutions, the Bank assesses each potential counterparty, analysing both its financial performance and other criteria, and further reviews these indicators on a regular basis.

The issuers incorporated in a country only for the purpose of attraction of funds are disclosed as attributable to the country or region where the guarantors of the issue are located. The credit risk inherent in the Group's and Bank's securities portfolios is reflected by the credit rating granted to respective securities and issuers.

The maximum exposure to credit risk is assessed without taking into account collateral and other credit enhancements, while the minimum exposure is assessed taking into account the fair value of the collateral at the reporting date.

The maximum exposure of the Group's and Bank's assets and memorandum items is shown in the credit risk concentration analysis. Regular stress tests of the Bank's loan portfolio are performed to assess the credit risk exposure and identify potential critical situations.

Credit risk concentration

For minimizing concentration risk, the Group and the Bank apply diversification and limits' system. The Group and the Bank place limits on the amount of risk for individual borrowers, and for geographical and industry concentrations as well as exposures having only one type of collateral, etc.

The exposure to any single borrower, including banks and brokers, is further restricted by sub-limits.

The credit risk concentration is analysed also by estimating the credit exposure ratio to equity. According to the Law on Credit Institutions, the Group and the Bank treat as high the credit exposure exceeding 10% of equity.

Ten major exposures as at 31 March 2011 amounted to 13.5% (14.2%) of the total Group's and Bank's net loan portfolio.

In the event that any loan category is affected by economic factors deteriorating the condition of all loans belonging to this category, it is decided to place certain restrictions on lending in the specific industry, and potential credit losses are identified.

The most significant part of the Bank's loan portfolio affected by economic processes in the country is the real estate development project portfolio. The Group and the Bank review this part of the loan portfolio on a regular basis. Low activity was still observed on the real estate market in 2010, which affected customer financing in this sector. No financing options for new real estate development projects are being considered at present.

In addition to efficient management of credit risk concentration, the Bank has set limits for credit institutions and financial companies intended for limiting balances with a single credit institution and also rules for controlling the said limits, which set forth independent procedure for controlling compliance with the limits. Securities portfolios of the Group and the Bank are well-diversified, and securities portfolios are diversified according to issues, credit rating groups, issuers, and maturity.

The Group's and Bank's securities portfolios by the credit rating classes:

Credit ratings	Group /Bank 31.03.2011					Group /Bank 31.12.2010				
	At fair value	Liquidity portfolio	Investments held for undefined period portfolio	Held-to-maturity	Loans and receivables	At fair value	Liquidity portfolio	Investments held for undefined period portfolio	Held-to-maturity	Loans and receivables
	LVL`000	LVL`000	LVL`000	LVL`000	LVL`000	LVL`000	LVL`000	LVL`000	LVL`000	LVL`000
AAA līdz AA-	22,295	145,102	2,823	103,922	-	19,362	106,985	2,840	111,604	-
A+ līdz A-	-	-	539	-	-	-	-	-	164	-
BBB+ līdz BBB-	-	-	24,229	34,023	442	-	-	20,590	27,484	606
BB+ līdz BB-	-	-	22,823	9,442	-	-	-	18,447	6,795	3,652
B+ līdz B-	5	-	18,644	10,875	297	5	-	16,325	9,003	4,451
zem B-	-	-	1,337	987	265	-	-	784	62	2,133
Bez reitinga	-	-	851	13	215	-	-	460	-	219
Akcijas un ieguldījumi fondos	611	-	2,080	-	-	674	-	2,226	-	-
Securities portfolio, net	22,911	145,102	73,326	159,262	1,219	20,041	106,985	61,672	155,112	11,061

b) Liquidity risk

Liquidity is the Group's and Bank's ability to maintain or ensure sufficient cash and cash equivalents to meet the expected (everyday) or sudden (critical) legally justified claims of its creditors. This means the Group's and Bank's ability to turn their assets into cash with minimal loss or ensure reasonably priced credit facilities.

The Chief Risk Officer (CRO) is responsible for liquidity risk management. The Risk Management Division is responsible for liquidity risk evaluation and control. The Chief Financial Officer (CFO) is responsible for liquidity management and the Financial Market Division is responsible for ensuring the required liquidity level and compliance with the set limits according to the policies and instructions adopted.

The key principles and procedures to timely identify, analyse and control liquidity risk are laid down in the liquidity management policy.

For ordinary liquidity risk management purposes, the Bank applies the following indicators having certain limits and restrictions set:

- deposit coverage ratio;
- net liquidity positions by all currencies in total and by each separate currency;
- current liquidity ratio;
- major deposits on demand ratio to liquid assets on demand;
- sum of term deposits of one customer (group of related customers).

To timely identify the potential deterioration in the liquidity position, an early warning indicators system has been designed:

- substantial daily reduction of the amounts to be claimed under savings accounts and term deposits with the remaining maturities of “Less than 30 days”;
- simultaneous decrease of the weighted average duration and the total balance of term deposits;
- substantial growth of deposits claimed before their contractual maturity;
- decrease of the proportion of liquid assets in the total assets of the Bank;
- negative information reported in the mass media about the Bank or its related parties that may harm the Bank’s reputation;
- the increasingly reported instances of limits reduced or annulled by counterparties.

Contingency liquidity risk

Contingency liquidity risk relates to the organisation and planning for liquidity management in times of stress. Within the Bank a specific crisis team is responsible for the liquidity management in times of crisis. This crisis team consists of the CEO, CRO, CFO, the Financial Market Division and the Risk Management Division. The Group and the Bank have defined principles to identify liquidity crisis stages and actions to overcome crisis situations. The main objective of Bank’s contingency plans is to enable senior management to act effectively and efficiently at times of crisis. The contingency plans are established for addressing temporary and long-term liquidity disruptions caused by a general event in the market or a Bank specific event. These plans ensure that all roles and responsibilities are clearly defined and the necessary management information is in place.

According to the internal classification of the Group and the Bank, several liquidity crisis stages are distinguished: potential liquidity crisis, short-term and long-term liquidity crisis. Each stage has quantitative and qualitative indicators fixed which, if observed, also require certain actions to enhance liquidity. The Bank performs regular liquidity stress tests to identify the sources of potential liquidity problems, determine when the mandatory ratios may be breached or the crisis indicators listed in the Liquidity Crisis Manual may emerge as well as establish whether the Bank’s liquidity management documents need to be revised.

The management of the Group and the Bank continued to focus specifically on liquidity issues. Owing to the adequate liquidity risk management policy and internal control and communication system, the Bank managed to ensure and maintain high liquidity ratio - as at 31 March 2011, the liquidity ratio reached 71.53% (68.10%). The FCMC stipulates that the Bank should maintain the sufficient amount of liquid assets to meet its contractual liabilities, but no less than 30% of the Bank’s total current liabilities.

Liquidity ratios of the Group and the Bank:

Liquidity ratio	Group/ Bank 01.01.2011.-31.03.2011.			Group/ Bank 01.01.2010.-31.03.2010.		
	Highest %	Lowest %	Average %	Highest %	Lowest %	Average %
on demand	46.8	21.0	40.7	43.7	17.7	36.3
less than 30 days (as required by the FCMC)	76.0	68.2	73.0	61.7	56.8	59.7
less than 90 days	76.8	68.9	72.7	59.4	55.0	57.9

c) Market risk

Market risk represents the possibility of sustaining loss due to revaluation of balance and off-balance entries resulting from changes in market prices of financial instruments caused by changes in currency exchange rates, interest rates and other factors. At the Bank, identification, evaluation, and management of market risk is stipulated in several internal regulations – Interest Rate Risk Management Policy, Derivatives' Policy, and the Bank's Policy on Securities Portfolios.

One of the major securities portfolio market risk management instrument used by the Bank is "loss" indicator intended for timely identification of the financial instruments' price decreasing below a specific level. Based on the above, heads of the respective structural units may decide on selling a financial instrument or keeping it in the portfolio.

The exposure of the trade portfolio to market risk and the capital charge for market risk is determined according to the standard approach described in the Regulations for Calculation of Minimum Capital Requirement whereby the positions for general risk debt securities are calculated under term the method.

d) Currency risk

The Group and the Bank are exposed to negative effects of fluctuations in the foreign currency exchange rates on their financial position and cash flows. The exposure to currency risk is calculated for each separate currency and includes assets and liabilities denominated in foreign currencies, as well as cash flows arising from derivatives. The Bank has major open positions in EUR (euros) and USD (US dollars). Considering that the lat is pegged to the euro, the currency risk related to the Bank's open position in EUR is minimal. The Bank's open currency position in USD is also hedged by using currency forwards/ futures. As at 31 March 2011, the Bank's open currency position in USD was 6.4% of Bank's equity. The Bank controlling this risk by applying the limits specified in the Limits Policy. As at 31 March 2011, all the above limits had been met.

The Bank's Limits Policy defines major principles for limits application and control; limits for open foreign currency positions stipulate restrictions for each separate currency open position and total open position that are controlled on a daily basis.

The Law on Credit Institutions requires that Bank's open positions in each foreign currency may not exceed 10% of equity and that the total Bank's foreign currency open position may not exceed 20% of equity. As at 31 March 2011, the Bank was in compliance with the above requirements of the Law on Credit Institutions.

e) Interest rate risk

Interest rate risk represents the adverse effect of the market interest rate fluctuations on the Bank's financial performance. The Risk Management Division ensures interest rate risk assessment and management for both trading and non-trading portfolios. The Financial Market Division is responsible for maintaining interest rate risk within specified limits.

Assessment of interest rate risk is conducted striving to cover all risk elements – repricing risk, yield curve risk, basis risk, and option risk.

Interest rate risk is assessed both in terms of income and economic value. The term *economic value* means the shareholders' equity's economic value that is the difference between the economic value of assets and that of liabilities. For the purposes of assessment of extraordinary circumstances, stress tests are applied.

For the purposes of hedging interest rate risk, the limits of acceptable reduction in economic value and modified duration of the investments' held for undefined period portfolio are fixed. Derivative financial instruments are utilised to hedge interest rate risk.

The assets, liabilities and memorandum items distribution into maturity bands follows such principles:

- financial instruments with a fixed interest rate are presented by the earlier of the repayment/settlement/maturity date;
- financial instruments with a variable interest rate are presented according to next contractual repricing date or interest rate repricing date.

Derivatives are represented in two entries: the first entry describes the notional amount of the underlying assets, whereas the other one is a compensatory entry showing the opposite value.

The effect of interest rate risk on the economic value is calculated according to the duration method, i.e., the parallel increase in interest rates by 1 per cent (or 100 basis points), while the effect on profit/loss is analysed applying the gap analysis, i.e. analysing the maturity gaps of interest rate sensitive assets and liabilities and aggregating the effect calculated (profit or loss) for each maturity band up to one year.

The Bank performs regular interest rate stress tests aimed at assessing the effect of adverse changes in interest rates on the Bank's income and economic value in the event of a tough market situation.

The following table presents the Group's and Bank's sensitivity to changes in interest rates and the effect of such changes on equity and profit in first quarter of 2011 and in first quarter of 2010:

		Group/ Bank		Group/ Bank	
		01.01.2011.-31.03.2011.		01.01.2010.-31.03.2010.	
		+100bps LVL'000	-100bps LVL'000	+100bps LVL'000	-100bps LVL'000
<i>Total for all currencies</i>	Effect of changes on equity	(1,441)	1,441	(1,671)	1,671
	Effect of changes on profit/ loss	3,737	(3,737)	3,318	(3,318)
<i>USD</i>	Effect of changes on equity	(1,379)	1,379	(1,669)	1,669
	Effect of changes on profit/ loss	1,768	(1,768)	(597)	597
<i>EUR</i>	Effect of changes on equity	-	-	(2)	2
	Effect of changes on profit/ loss	1,541	(1,541)	3,540	(3,540)
<i>LVL</i>	Effect of changes on equity	(62)	62	-	-
	Effect of changes on profit/ loss	428	(428)	375	(375)

Non-financial risks

During the course of their operations, the Group and the Bank encounter also non-financial risks (including operational risk, reputational risk, etc.) with exposure to sudden loss. The cause of such risks may be, for instance, clerical errors or fraud, break-downs in information systems, insufficient internal control and procedures, etc. The Bank makes every effort to maintain the lowest possible risk level, meanwhile striving at not exceeding a reasonable level of expense. Internal control within the Bank's structural units and the control exercised by the Risk Management Division are one of the measures taken to prevent the potential loss.

f) Operational risk

Operational risk is a risk of direct or indirect loss caused by non-complying or incomplete internal processes, human error or systems failure, as well as external factors. Operational risk comprises legal risk but excludes strategic and reputational risk.

Operational risk is inherent in all products, activities, processes, and systems of the Group and the Bank.

The operational risk management policy is approved by the Council of the Bank. The Board of the Bank is responsible for considering the risk analysis results and setting limits and other qualitative and quantitative indicators based on such results, so defining the level of operational risk acceptable for the Group and the Bank. The Chief Risk Officer (CRO) is responsible for monitoring the operational risk management process and making related final decisions within the limits fixed in the policy. The Risk Management Division is responsible for the centralisation and coordination of the operational risk management.

Given that businesses and processes for which operational risk is being assessed are different and specific, each risk event management is a responsibility of the head of a respective structural unit, according to the relevant internal regulations.

The key principles allowing efficient operational risk management are as follows:

- setting up an adequate operational risk management system;
- employing an adequate method to identify and assess operational risk;
- monitoring operational risk on a regular basis;
- controlling and/ or mitigating operational risk adequately;
- ensuring business continuity.

To manage the Group's and Bank's exposure to operational risk, in September 2008 an operational risk event database was established. The key objectives of the database are as follows:

- collection of data about operational risk events and losses of the Group and the Bank;
- analysis of operational risk events and losses;
- assessment of the frequency of operational risk events and significance of operational risk losses;
- prevention of potential losses, based on the event assessment;
- definition of the major tendencies and making forecasts of future operational risk losses.

Information is registered and categorised in the database following the good practice principles defined by the Operational Riskdata eXchange Association (ORX). In addition to events resulting in actual losses, information about events for which no actual losses have been registered is also aggregated in the database, which enables the Bank to identify potential losses and take all required measures to prevent such losses.

During the reporting period, stress test of operational risk was performed in order to assess possible losses associated with operational risk. The operational risk stress test was based on external and internal events registered in the risk event database. Specific risk assessment models have been developed for low-risk operational events and rare events that have low probability of occurrence, but substantial impact (possible loss). The scenarios provided for changes in the Bank's operational environment that is influenced by both internal and external factors; possible impact of substantial deterioration in conditions present in the sectors where the largest operational risk concentration pertaining to the Bank's risk profile is present on the Bank's revenues and ability to continue operations has been assessed.

During the reporting period, there were 275 (447) operational risk events registered in the database, of which only 15 (30) events were those which resulted in actual losses amounting to LVL 3 (12.6) thousand. The considerable number of the identified and registered events and, at the same time, rather a small amount of loss testify to the active involvement of the Group's and Bank's employees in the operational risk management and to the effectiveness of the control environment.

g) Reputation risk

Reputation risk is non-quantifiable risk. The impact and losses related to this risk are hard to determine. The reputation risk management (assessment, applicable techniques, control) in the Bank is specified in the Reputation Risk Management Policy. The Bank is planning to determine reputation risk indicators, summarise information on the respective risk factors and develop the methodology for the quantification of reputations risk. It should also be noted that reputation risk is closely related to operational risk (incl. legal risk), therefore it is sometimes difficult to separate them. Therefore, so far the Bank has resolved not to allocate and define the necessary funds for covering the above mentioned risk.

h) IS risk

The Bank has developed Information Technology Security Policy, Regulations for Information System Risk Analysis, Security Requirements for Information Systems under Development, and other regulative acts ensuring information system risk management. According to the Operational Risk Management Policy adopted by the Bank, information system risk is included in operational risk, therefore for the purpose of capital adequacy assessment it was resolved not to separate it from operational risk capital requirement. The Bank will analyze the data compiled in the Operational Risk Event and Loss Database to determine the possibility and necessity of defining a separate capital requirement for information system risk.

Income statements

Title of entry	01.01.2011. - 31.03.2011. (non - audited)		01.01.2010. - 31.03.2010. (non - audited)	
	Group	Bank	Group	Bank
	LVL '000	LVL '000	LVL '000	LVL '000
Interest income	9,199	9,158	7,795	7,788
Interest expense	(4,243)	(4,220)	(5,155)	(5,195)
Income from dividends	1	1	1	1
Commission and fee income	6,293	5,471	4,075	3,741
Commission and fee expense	(763)	(644)	(801)	(734)
Net realized (loss)/ gain from financial assets at amortized cost	1	1	-	-
Net realized (loss)/ gain from financial assets and liabilities held for trading	-	-	-	-
Net realized gain/ (loss) from available-for-sale financial assets	23	23	(194)	(194)
Net gain/ (loss) from financial assets and liabilities at fair value through profit or loss	(5,745)	(5,745)	17,327	17,327
Changes in fair value hedge accounting	-	-	-	-
Net result from foreign exchange trading and revaluation	8,943	8,957	(15,352)	(15,385)
Gain/ (loss) from sale of tangible and intangible fixed assets	696	(12)	22	(2)
Other income	545	309	137	300
Other expense	(746)	(839)	(186)	(337)
Administrative expense	(5,309)	(4,697)	(4,761)	(4,523)
Depreciation	(416)	(389)	(385)	(364)
Change in allowances for credit losses	(2,817)	(2,817)	(5,277)	(5,277)
Impairment expenses	(453)	(453)	-	-
Corporate income tax	(144)	(144)	(2)	(2)
Net profit /(loss) for the period	5,065	3,960	(2,756)	(2,856)
Attributable to:				
Equity holders of the Bank	5,093		(2,754)	
Non-controlling interests	(28)		(2)	

Balance sheet

	At 31 March 2011 (non -audited)		At 31 December 2010 (audited)	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Assets				
Cash and demand deposits with central banks	76,272	76,272	82,120	82,120
Demand deposits from credit institutions	330,012	329,959	254,694	254,668
Financial assets help for trading	-	-	-	-
Financial assets at fair value through profit or loss	23,679	23,679	23,372	23,372
Available-for-sale financial assets	218,431	218,431	168,657	168,657
Loans and receivables	509,675	510,275	528,872	528,561
Held to maturity	182,434	182,434	225,770	225,770
Prepaid expense and accrued income	453	315	339	292
Tangible fixed assets	8,966	5,234	7,954	5,253
Investment properties	22,693	16,533	20,658	16,670
Intangible fixed assets	3,748	3,608	3,701	3,548
Investments in subsidiaries	-	61,069	-	58,661
Current taxes receivables	5,676	5,550	6,002	5,894
Other assets	49,250	5,331	45,388	5,099
Total assets	1,431,289	1,438,690	1,367,527	1,378,565
Liabilities				
Due to Central bank	-	-	-	-
Demand deposits from credit institutions	7,097	7,097	1,906	1,906
Financial liabilities help for trading	-	-	-	-
Financial liabilities at fair value through profit or loss	2,954	2,954	226	226
Financial liabilities at amortised cost	1,328,110	1,334,810	1,287,176	1,295,623
Deferred income and accrued expense	3,537	3,213	2,769	2,460
Reserves	-	-	-	-
Deferred income tax	47	-	171	-
Other liabilities	12,142	10,037	4,328	2,973
Total liabilities	1,353,887	1,358,111	1,296,576	1,303,188
Total shareholders' equity	77,402	80,579	70,951	75,377
Total liabilities and shareholders' equity	1,431,289	1,438,690	1,367,527	1,378,565
Memorandum items				
Contingent liabilities	19,458	19,458	21,125	21,125
Financial commitments	4,307	4,307	12,934	12,934

Performance indicators

Title of entry	01.01.2011. - 31.03.2011. (non - audited)	01.01.2010. - 31.03.2010. (non - audited)
Return on equity (ROE) (%)	20.03	-15.31
Return on assets (ROA) (%)	1.05	-1.00