



JSC AIZKRAUKLES BANKA
PUBLIC QUARTERLY REPORT
FOR THE PERIOD ENDED ON 31 MARCH 2008

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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 two lending centres and two customer service offices in Riga, as well as four representation offices in Saint Petersburg, Minsk, Kiev and Almaty, and three AB.LV Konsultācijas representative offices in Moscow, Baku and Odessa.

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.

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MEMBERS OF THE CONSOLIDATION GROUP
AS AT 31 MARCH 2008

No	Name of the business company	Registration number	Registered address	Type of the business company's activities*	Interest in share capital (%)	Share of voting rights in the business company (%)	Motivation for inclusion in the group**
1.	IBAS "AB.LV Capital Markets"	40003814705	23 Elizabetes, Riga, LV, LV-1010	IBS	100	100	MS
2.	IPAS "AB.LV Asset Management"	40003814724	23 Elizabetes, Riga, LV, LV-1010	IPS	100	100	MS
3.	SIA "Elizabetes 21a"	50003831571	23 Elizabetes, Riga, LV, LV-1010	CSK	85	85	MS
4.	AS AB Konsultācijas	40003540368	23 Elizabetes, Riga, LV, LV-1010	CSK	30	30	MS

* BNK – bank, APS – insurance company, PAP – re-insurer, APP – insurance holding company, IBS – investment broker company, IPS – investment management company, PFO – pension fund, CFI – other financial institution, FPS – financial holding company, CKS – other business company.

** MS – subsidiary; KS – joint venture; MAS – parent company.

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SHAREHOLDERS AND GROUPS OF RELATED SHAREHOLDERS OF THE BANK
AS AT 31 MARCH 2008

	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
<i>Group of related shareholders</i>				
<i>Ernests Bernis</i>	45,991	150	45.99	6,898,650
<i>Nika Berne</i>	1,030	150	1.03	154,500
Total group of related shareholders	47,021		47.02	7,053,150
Oļegs Fiļs	47,021	150	47.02	7,053,150
Other shareholders	5,958	150	5.96	893,700
Total	100,000		100.00	15,000,000

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:

Vladimirs Kutovojs

The Board of the Bank:

Chairman of the board:

Ernests Bernis

Deputy chairman of the board:

Oļegs Fiļs

Members of the board:

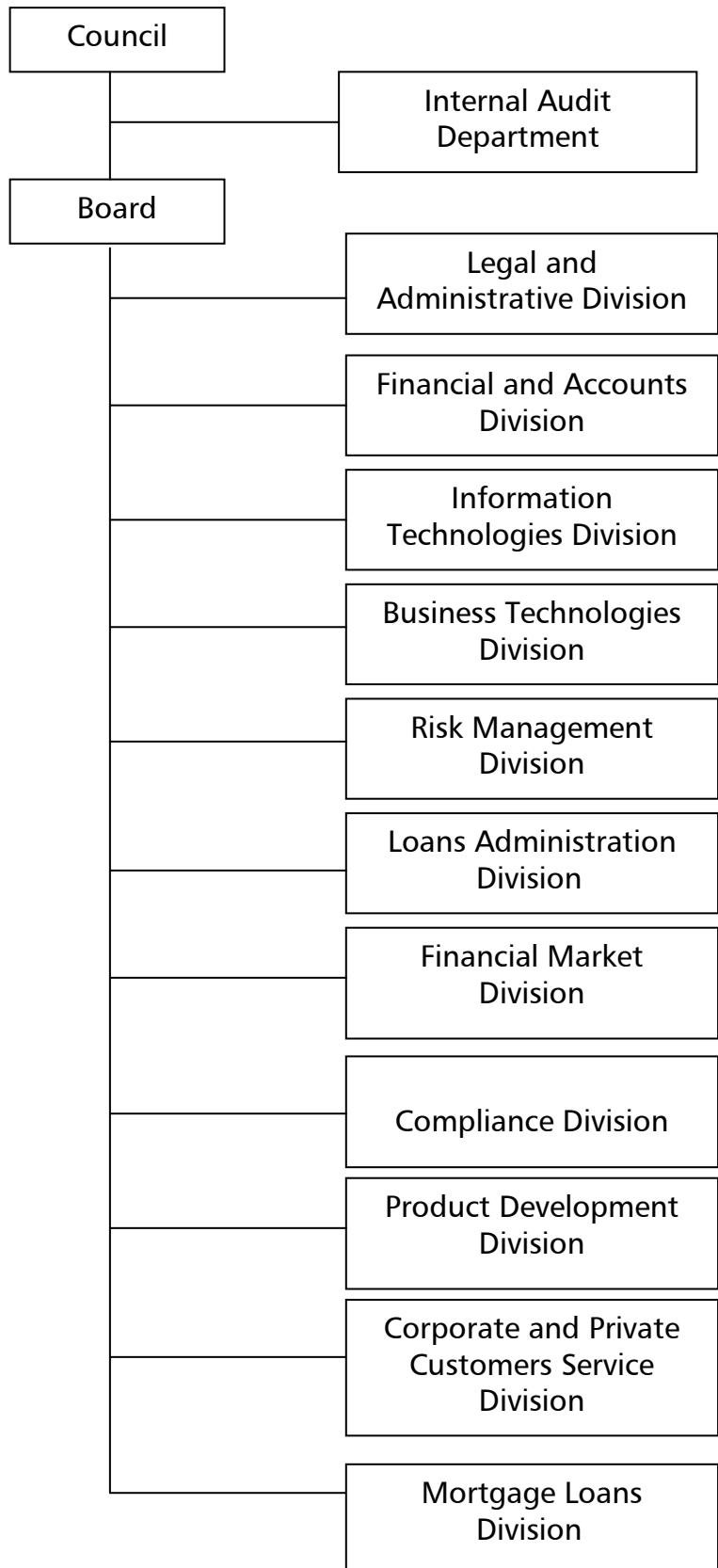
Aleksandrs Pāže

Rolands Citajevs

Vadims Reinfelds

Edgars Pavlovičs

BANK'S STRUCTURE



STRATEGY AND PURPOSE OF THE BANK'S ACTIVITIES

Main lines of the Bank's activities are lending, funds transfers, foreign currency exchange transactions and management of financial resources.

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.

The Bank's activities are aimed at stable growth of the Bank's value. The Bank plans to achieve ROE (measured as annual return on average equity) of at least 30% and ROA (measured as annual return on average amount of assets over the year) of minimum 2.2% annually.

BANK'S VALUES

That we value higher than profit?

Ethics

The Bank's business is part of our life. Our standards in business should be the same as in any other area: to be open with our customers, personnel and the society, to keep our promises, to avoid transactions of doubtful lawfulness or morals.

Customer satisfaction

The Bank's business is services. Services imply customers that use them. The Bank may only succeed in its business, provided its customers are satisfied with our services. To satisfy our customers, we need to exceed their hopes, i.e. to provide service that is of higher quality than they expect.

Risk management

The Bank's business is related to risks. We have to undertake risks in order to earn. However, to undertake risks, we need to assess them with care and diligence. One cannot undertake what one does not understand. The Bank has a system in place for supervision and lowering risks and identification of potential problems.

Independence

The Bank is proud of its status of an independent private bank. It enables us to work fast, to take decisions and to be responsible for them. It prevents the risk of conflicts of interests that would be possible if the Bank was a member of any group of companies.

RISK ANALYSIS

The Bank's business is related to risks, therefore risk management is among the values of the Group and the Bank. In their business, the Bank and the Group encounter various risks, such as credit risk, liquidity risk, market risk and operational risk. To manage such risks effectively, risk management policies have been worked out and approved by the Bank's board, which are implemented by the relevant departments.

Risk management functions in the Group and the Bank are fulfilled by the Division of Administration of Loans (credit risk) and the Risk Management Division (other financial risks and operational risk). Risk management departments are independent, and their functions are separated from those of business departments.

The risk management system improves continuously in order to reflect activities of the Group and of the Bank, as well as trends in development of the regulatory environment and financial market. The Internal Audit Department makes assessment of adequacy of the risk management system, as well as controls implementation of its required improvement.

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 Bank.

Before entering into any cooperation with the customers, the Bank performs 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 Bank assesses 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. Currently, the Bank is also working on introduction of an internal rating system for corporate customers.

Collateral is appraised by an independent appraiser accepted by 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. Collateral with a reduced value can also be accepted. 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, factoring receivables, etc. Based on the collateral type and liquidity, the Bank applies the maximum acceptable proportion of the loan to be issued.

In the event that the Bank considers that the risk related to the loan issued to a corporate customer might have increased (payments are past due and/or the Bank obtains other information about customer's creditworthiness), the Bank reviews the customer's financial position and assesses the risk of potential loss. The Bank analyses the quality of the respective loan portfolio. The age of past due loans is used as one of the quality criteria.

For effective credit risk management, the Assets Evaluation Committee performs a regular analysis of assets and memorandum items, i.e., their recoverability. Depending on the results of such analysis, the amount of collective (portfolio) and specific allowance is determined.

The Bank believes that their exposure to credit risk arises mainly from loans and advances to customers, investments in fixed income securities, and balances due from credit institutions.

Credit risk concentration

The Group and the Bank place limits on the amount of risk for individual borrowers, and for geographical and industry concentrations. 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. Pursuant to the statutory requirements, the total credit exposure cannot be more than eight times as large as equity. As at 31 March 2008 and 31 December 2007, the total credit exposure did not exceed the Group's and the Bank's equity.

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 limits 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 have reviewed this part of the loan portfolio.

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. Based on the assets and liabilities structure, the Board of the Bank has approved a liquidity management policy incorporating a requirement on maintaining a high level of liquidity.

The Risk Management Division ensures liquidity risk assessment and monitoring. The Financial Markets Division is responsible for ensuring liquidity and compliance with the set limits.

For ordinary liquidity risk management purposes, the Bank applies the following indicators:

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

Certain restrictions are defined with regard to the above indicators. For the purposes of assessment of extraordinary circumstances, stress tests are applied.

The Bank's securities portfolio includes a Liquidity portfolio, which is meant to ensure additional liquidity and incorporates securities that conform to the following criteria:

- high liquidity in the market;
- high credit rating;
- a variable interest rate or an interest rate fixed for not more than a year.

Liquidity of other securities is evaluated at least once a quarter and is based on the difference between the purchase and sale prices of securities, as well as historical fluctuations of such prices.

The system of management information supplies the management with updated information about the liquidity of the Group and the Bank and identified infringements, and makes it possible to take timely decisions and measures for ensuring continuous liquidity.

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. As at 31 March 2008, the Bank's liquidity ratio calculated in accordance with the FCMC requirements was 40.91% (50.98%).

c) *Currency risk*

The Group and the Bank are subject to the risk of negative impact of fluctuations of foreign exchange rates on their financial positions and cash flow. The currency risk that ensues from transactions is calculated per currency and includes assets and liabilities denominated in foreign currency, as well as cash flows generated by derivative financial instruments.

To limit currency risk, the Bank uses limits of open currency positions determined both for open positions in individual currencies, and in all currencies together. The value of limit on the open position per currency may differ according to whether the open position is short or long.

The system of management information supplies the management with updated information about the open currency positions of the Group and the Bank and identified

infringements, and makes it possible to take timely decisions and measures for management of currency risk.

d) *Interest rate risk*

Interest rate risk is possible unfavourable impact of changes in market interest rates on the Bank's income and the Bank's economic value. The term 'economic value' means the economic value of equity, i.e. the difference between economic values of claims and liabilities.

The Risk Management Division evaluates and controls interest rate risk, and the Financial Market Division is responsible for maintaining interest rate risk within the specified limits.

Interest rate risk is evaluated so as to cover as many components of interest rate (revaluation risk, the risk of yield curve, basis risk and risk of options) as possible. The following methods are used for management of interest rate risk:

- assessment of interest rate risk in terms of income;
- assessment of interest rate risk in terms of economic value;
- limit on allowed decrease of economic value;
- limit on modified duration of the investment portfolio for indefinite period;
- everyday control of observance of the specified limits;
- stress tests of interest rates and analysis of their results;
- risk limitation in using derivative financial instruments.

The system of management information supplies the management with updated information about the interest rate risk of the Group and the Bank and identified

infringements, and makes it possible to take timely decisions and measures for management of interest rate risk.

e) *Operational risk*

Non-financial risks are identified in activities of the Group and the Bank too, and may cause unexpected losses. Operational risk is the possibility of incurring losses due to non-compliance of internal processes with the relevant requirements or incomplete processes, actions of men or operation of systems, or external circumstances. Operational risk incorporates legal risk too, and excludes strategic or reputational risks.

The purpose of the Group and the Bank is to limit operational risk and to keep it as low as possible, and to target at a reasonable level of costs at the same time. Internal control in departments and control of common operational risk on the part of the Risk Management Division are among the means of prevention of possible losses.

In management of operational risk, it is important to improve the automated transaction control system. Working out accounting and control procedures incorporates measures for lowering operational risk.

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**STATEMENT OF INCOME
AS AT 31 MARCH 2008**

Title of the entry	Accounting period (non-audited)		Corresponding period of the previous accounting year (non-audited)	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Interest income	15,260	15,260	12,591	12,591
Interest expense	(7,506)	(7,495)	(5,488)	(5,464)
Income from dividends	6	6	8	8
Commission and fee income	3,606	3,356	2,450	2,381
Commission and fee expense	(473)	(439)	(327)	(319)
Net profit/ (loss) from financial assets and liabilities at fair value through profit or loss	141	141	(179)	(179)
Net (loss) /realised profit from available-for-sale financial assets	(1,646)	(1,646)	236	236
Profit from foreign exchange trading and revaluation	4,597	4,601	3,899	3,899
Profit/ (loss) from derecognition of property, equipment and plant, investment property and intangible assets	20	20	(180)	(180)
Other income	415	390	221	228
Other expense	(401)	(471)	(563)	(611)
Administrative expense	(5,229)	(4,986)	(4,389)	(4,199)
Depreciation	(412)	(404)	(390)	(384)
Change of allowances for credit losses	(1,128)	(1,128)	(45)	(45)
Corporate income tax	(1,071)	(1,071)	(1,221)	(1,221)
PROFIT FOR THE ACCOUNTING PERIOD	6,179	6,134	6,623	6,741
Attributable to:				
Bank's shareholders	6,176		6,629	
Minority interest	3		(6)	
SIA Elizabetes 21a	(5)		-	
AS AB Konsultācijas	8		(6)	

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**BALANCE SHEET
AS AT 31 MARCH 2008**

Title of the entry	Accounting period (non-audited)		Previous accounting year (audited)	
	Group	Bank	Group	Bank
ASSETS	LVL '000	LVL '000	LVL '000	LVL '000
Cash and demand deposits with central banks	79,663	79,663	63,684	63,684
Demand deposits with credit institutions	146,836	146,822	223,772	223,765
Financial assets at fair value through profit or loss	5,045	5,045	4,952	4,952
Available-for-sale financial assets	81,933	81,933	92,625	92,625
Loans and receivables	703,330	703,328	686,677	686,674
Accrued income and deferred expenses	136	104	195	96
Fixed assets	8,764	8,651	8,663	8,542
Investment properties	16,510	16,510	16,514	16,514
Intangible assets	2,233	2,157	2,061	1,988
Investments in equity of subsidiaries and associates	-	2,517	-	2,432
Current corporate income tax receivables	743	743	590	590
Deferred income tax	471	471	580	245
Other assets	2,840	1,113	2,507	757
TOTAL ASSETS	1,048,504	1,049,057	1,102,820	1,102,864
LIABILITIES				
Demand deposits from credit institutions	4,587	4,587	5,598	5,598
Financial liabilities at fair value through profit or loss	17,990	17,990	9,429	9,429
Financial liabilities at amortised cost	931,351	930,085	997,874	996,442
Deposits	767,619	769,357	823,777	825,351
Term deposits from credit institutions	144,126	141,122	152,976	149,970
Subordinated liabilities	19,606	19,606	21,121	21,121
Accrued expenses and deferred income	2,430	2,394	4,379	4,312
Current corporate income tax liabilities	101	-	101	-
Deferred income tax	3	-	1	-
Other liabilities	8,647	8,643	1,863	1,820
TOTAL LIABILITIES	965,109	963,699	1,019,245	1,017,601
EQUITY AND RESERVES	83,395	85,358	83,575	85,263
TOTAL LIABILITIES AND EQUITY AND RESERVES	1,048,504	1,049,057	1,102,820	1,102,864
MEMORANDUM ITEMS				
Contingent liabilities	21,070	21,070	19,190	19,190
Contingent liabilities against customers	51,506	51,506	69,428	69,428

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PERFORMANCE INDICATORS
AS AT 31 MARCH 2008

Title of the entry	Accounting period	Corresponding period of the previous accounting year
Return on equity (ROE) (%)	28.13	37.20
Return on assets (ROA) (%)	2.30	3.06