



JSC AIZKRAUKLES BANKA
PUBLIC QUARTERLY REPORT
FOR THE PERIOD ENDED ON 30 JUNE 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 Group and the Bank operate two lending centres and two payment centres in Riga, and three representation offices of the Bank in Minsk, Kyiv, and Almaty, as well as five representation offices of AS AB Konsultācijas in Moscow, St. Petersburg, Minsk, Baku, and Kyiv, as well as a branch in 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.

The Bank and Group interim consolidated financial statement for the first half of 2008 are prepared in accordance with IAS 34 *Interim Financial Reporting*, adopted in EU, audited by SIA "Ernst & Young Baltic"(reg. No 40003593454 licence No 17).

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MEMBERS OF THE CONSOLIDATION GROUP
AS AT 30 JUNE 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 | 100 | 100 | 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 30 JUNE 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> | 46,012 | 150 | 46.01 | 6,901,800 |
| <i>Nika Berne</i> | 1,030 | 150 | 1.03 | 154,500 |
| Total group of related shareholders | 47,042 | | 47.04 | 7,056,300 |
| Oļegs Fiļs | 47,041 | 150 | 47.04 | 7,056,150 |
| Other shareholders | 5,917 | 150 | 5.92 | 887,550 |
| 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

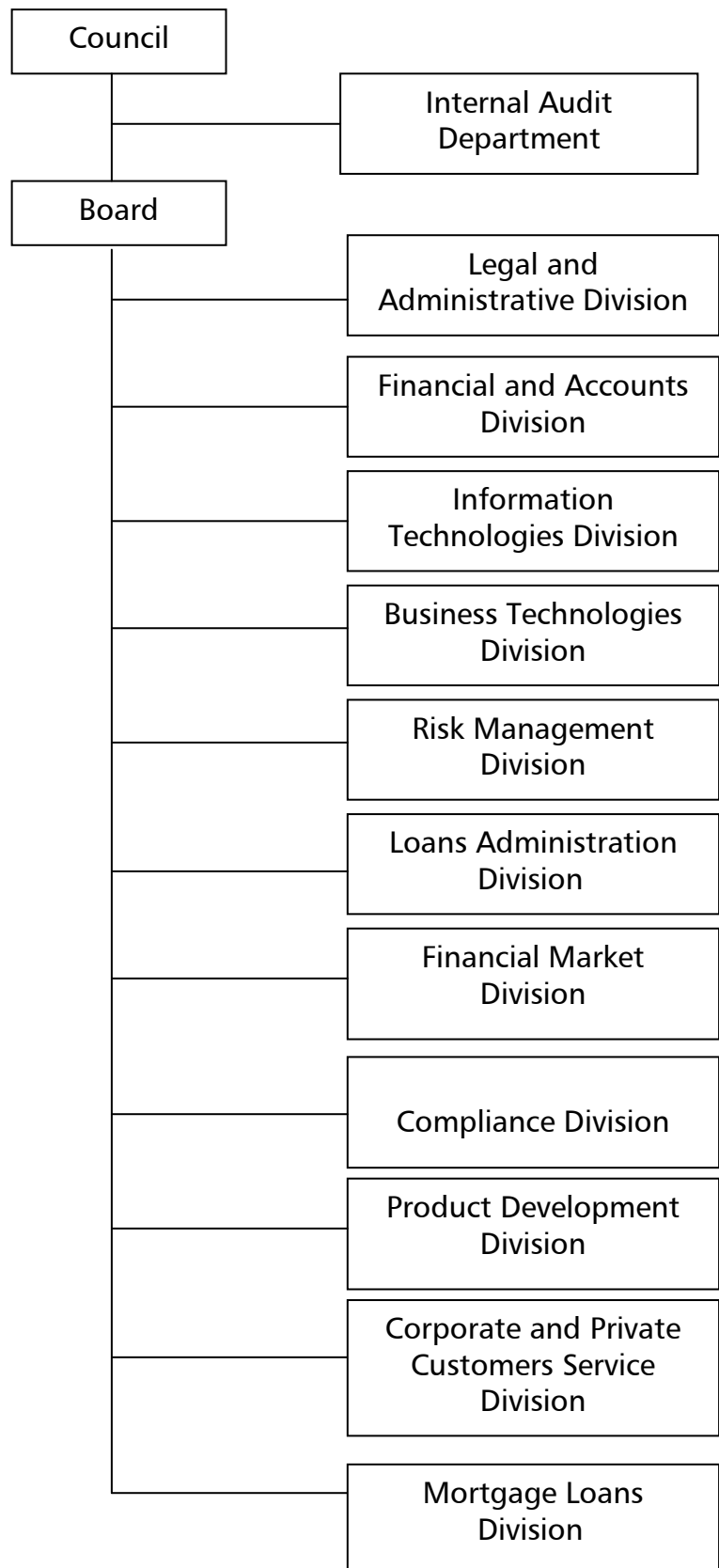
Rolands Citajevs

Vadims Reinfelds

Edgars Pavlovičs

Māris Kannenieks

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

Risk management is one of the Group's and Bank's strategic values. In the ordinary course of business, the Group and the Bank are exposed to various financial risks, the most significant of them being credit risk, liquidity risk, and market risks arising from changes in interest rates, foreign exchange rates, and other factors. The risk management policies are approved by the Board of the Bank and implemented by the structural units operating in the respective areas. The Risk Management Division and the Loan Administration Division monitor the implementation of the Group's and Bank's risk management policies.

Risk management involves identification, assessment and control of the potential risks. The Risk Management Division is an independent entity, and its functions are strictly segregated from the functions of business structural units.

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 fulfil the contractual obligations to the Group or the Bank.

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 into 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. 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 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, factoring receivables, etc. Based on the collateral type and liquidity, the Group and the Bank apply the maximum acceptable proportion of the loan to be issued.

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In the event that the Group and the Bank consider that the risk related to the loan issued to a corporate customer might have increased (payments are past due and/or the Group and the Bank obtain other information about customer's creditworthiness), the Group and the Bank review the customer's financial position and assess 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. As at 30 June 2008 and 31 December 2007, the Group's and Bank's financial assets, except for loans and advances to customers, were not past due.

Group and the Bank believe 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.

The maximum exposure to credit risk is assessed without taking into account collateral and other credit enhancements. The maximum exposure of the Group's and Bank's assets and memorandum items is shown in the credit risk concentration analysis.

The minimum exposure to credit risk is assessed considering collateral and other risk mitigation techniques.

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 the allowance for credit losses (impairment) (hereinafter – impairment allowance) is determined. Both specific and collective (portfolio) risks are considered in analysing assets and memorandum items. The impairment allowance for credit losses is established to represent the estimated amounts of probable losses incurred at the reporting date.

The individual impairment allowance is determined after individual review of all credits that individually have objective evidence of impairment.

The collective impairment allowance is estimated based upon historical pattern of losses in the loan portfolio, as well as taking into account changes in collateral values, credit concentration risk, general economic and market conditions or events that have occurred prior to the reporting date and that indicate an adverse impact on the future cash flows from certain loans and receivable balances outstanding.

During the reporting period, i.e. the six month period ended 30 June 2008, the Bank changed its impairment allowance policy. Allowance rates for mortgage loans issued to private individuals have been re-introduced, and the methods for establishing collective impairment allowances for business loans have been improved. Allowance rates for housing loans issued to private individuals (having indications of impairment) have been determined considering the decrease in the collateral value. For business loans, homogeneous loan pools have been determined, which permits identification of non-performing loans, and the collective impairment allowance is established on the basis of such pools.

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 30 June 2008 and 31 December 2007, the Group and the Bank were in compliance with this requirement. Ten major exposures as at 30 June 2008 amounted to 9.6 % (9.9 %) of the total Group's and Bank's gross 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 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.

Low activity was still observed on the real estate market in the first half of 2008, which affected customer financing in this sector. Currently, loans issued under programmes related to real estate development have less liquid collaterals. Measures taken by the Bank in this connection include property revaluation and assessment of alternative sources of income for customers and, if any of these factors is inadequate for loan security or servicing purposes, respective allowances are established. No financing options for new real estate development projects are being considered at present. Loans issued for projects that have been completed and are being on sale have liquid collaterals and reliable sources of repayment.

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;

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- 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.

To ensure liquidity, the Bank has established a securities liquidity portfolio which includes the securities that comply with the following requirements: high market liquidity, high credit ratings, floating (variable) interest rate or fixed interest rates for the period not exceeding one year. Liquidity of other securities portfolios is estimated at least on a quarterly basis.

The Group and the Bank have prepared these consolidated and separate financial statements on a going concern basis notwithstanding the fact that they have a significant negative net liquidity gap in the "on demand" maturity range of assets and liabilities. The Group's and Bank's management closely monitor and manage the Group's and Bank's liquidity position on a daily basis in accordance with the Group's and Bank's liquidity risk management framework. The negative liquidity gap in "on demand" assets and liabilities as at 30 June 2008 and 31 December 2007 is substantially due to significant "on demand" amounts due to customers. According to the past history of the Group and the Bank, customers' deposits are normally held with the Group and the Bank for periods significantly exceeding their stated maturity. The Group and the Bank have considered the risk of being adversely affected by liquidity issues and have taken actions to minimise the negative impact on the Group and the Bank. The Group's and the Bank's ability to avoid adverse changes in their liquidity position is depending on management's effectiveness in the continuing execution of the actions taken.

Long-term loans and overdraft facilities are generally not available in Latvia except for programmes set up by international financial institutions. However, in Latvian marketplace, many short-term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above. In addition, the maturity gap analysis does not reflect the historical stability of current accounts. These balances are included in amounts due "on demand". The Group and the Bank have reviewed the historical stability of their current accounts and concluded that half of the balances have the ultimate maturity of more than one year.

The maturity profile of assets, liabilities and memorandum items is determined on the basis of the following criteria:

- Assets are stated according to their remaining period to repayment.
- Assets invested with an option to be received on demand are classified under the category "On demand".
- Assets more than 14 days overdue are stated as "Overdue".
- Assets as well as all debit balances on settlement cards and current account overdrafts less than 14 days overdue are presented as "On demand".
- Assets for which, according to the substance of the transactions, maturity is not defined, or assets whose maturity cannot be precisely determined, are considered to be undated.

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- All debt securities within the liquidity portfolio are deemed highly liquid securities and presented under the caption "Up to 1 month".
- To assess the period during which debt securities at fair value through profit or loss portfolio and included in the investments' held for undefined period portfolio may be disposed of without material loss, the spreads between purchasing and selling prices, as well as the prices of respective securities and historical fluctuations thereof are considered. The distribution into maturity bands is based on such assessment.
- Liabilities and memorandum items are stated according to the remaining period to their contractual settlement.
- Liabilities without any defined maturity or with commitments to exercise them on demand are presented under the caption "On demand".
- Issued guarantees or commitments arising from other types of guarantees secured by deposit placement with the Bank are excluded.

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**INCOME STATEMENT
AS AT 30 JUNE 2008**

| Title of the entry | Accounting period (audited) | | Corresponding period of the previous accounting year (audited) | |
|---------------------------------------------------------------------------------------------------------|--------------------------------|------------------|----------------------------------------------------------------------|------------------|
| | Group LVL '000 | Bank LVL '000 | Group LVL '000 | Bank LVL '000 |
| Interest revenue | 31,674 | 31,674 | 26,112 | 26,112 |
| Interest expense | (15,053) | (15,024) | (11,501) | (11,447) |
| Revenue from dividends | 12 | 453 | 15 | 15 |
| Commission and fee revenue | 6,546 | 5,917 | 5,435 | 5,073 |
| Commission and fee expense | (1,095) | (1,039) | (704) | (686) |
| Net (loss)/ profit from financial assets and liabilities at fair value through profit or loss | (1,690) | (1,690) | 359 | 359 |
| Net realised profit from available-for-sale financial assets | 162 | 162 | 433 | 433 |
| Profit from foreign exchange trading and revaluation | 8,928 | 8,935 | 8,185 | 8,192 |
| (Loss) from derecognition of property, plant and equipment, investment properties and intangible assets | (42) | (42) | (178) | (178) |
| Other income | 1,157 | 1,135 | 480 | 481 |
| Other expense | (412) | (573) | (1,087) | (1,202) |
| Administrative expense | (11,602) | (10,989) | (9,221) | (8,814) |
| Depreciation | (830) | (815) | (767) | (754) |
| Change in allowances for credit losses | (4,042) | (4,042) | (147) | (147) |
| Corporate income tax | (2,236) | (2,236) | (2,451) | (2,450) |
| NET PROFIT FOR THE PERIOD | 11,477 | 11,826 | 14,963 | 14,987 |
| Attributable to: | | | | |
| Bank's shareholders | 11,492 | | 14,974 | |
| Minority interest: | (15) | | (11) | |
| SIA Elizabetes 21a | (12) | | - | |
| AS AB Konsultācijas | (3) | | (11) | |

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**BALANCE SHEET
AS AT 30 JUNE 2008**

| Title of the entry | Accounting period (audited) | | Previous accounting year (audited) | |
|------------------------------------------------------------|--------------------------------|---------------------|---------------------------------------|---------------------|
| | Group 30.06.2008. | Bank 30.06.2008. | Group 31.12.2007. | Bank 31.12.2007. |
| ASSETS | LVL '000 | LVL '000 | LVL '000 | LVL '000 |
| Cash and demand deposits with central banks | 85,862 | 85,862 | 63,684 | 63,684 |
| Balances due from credit institutions | 186,087 | 186,083 | 223,772 | 223,765 |
| Financial assets at fair value through profit or loss | 5,011 | 5,011 | 4,952 | 4,952 |
| Available-for-sale financial assets | 74,033 | 74,033 | 92,625 | 92,625 |
| Loans and advances to customers | 697,676 | 697,674 | 686,677 | 686,674 |
| Prepaid expense and accrued income | 245 | 157 | 195 | 96 |
| Tangible fixed assets | 8,965 | 8,804 | 8,663 | 8,542 |
| Investment properties | 16,504 | 16,504 | 16,514 | 16,514 |
| Intangible fixed assets | 2,751 | 2,677 | 2,061 | 1,988 |
| Investments in subsidiaries | - | 2,745 | - | 2,432 |
| Current corporate income tax receivables | 429 | 397 | 590 | 590 |
| Deferred income tax | 913 | 578 | 580 | 245 |
| Other assets | 2,743 | 1,003 | 2,507 | 757 |
| TOTAL ASSETS | 1,081,219 | 1,081,528 | 1,102,820 | 1,102,864 |
| LIABILITIES | | | | |
| Demand deposits from credit institutions | 14,209 | 14,209 | 5,598 | 5,598 |
| Financial liabilities at fair value through profit or loss | 6,465 | 6,465 | 9,429 | 9,429 |
| Financial liabilities at amortised cost | 962,967 | 961,291 | 997,874 | 996,442 |
| Deposits | 799,788 | 801,116 | 823,777 | 825,351 |
| Term deposits from credit institutions | 143,510 | 140,506 | 152,976 | 149,970 |
| Subordinated liabilities | 19,669 | 19,669 | 21,121 | 21,121 |
| Deferred income and accrued expense | 2,738 | 2,700 | 4,379 | 4,312 |
| Current corporate income tax liabilities | 18 | - | 101 | - |
| Deferred income tax | 3 | - | 1 | - |
| Other liabilities | 5,667 | 5,662 | 1,863 | 1,820 |
| TOTAL LIABILITIES | 992,067 | 990,327 | 1,019,245 | 1,017,601 |
| TOTAL SHAREHOLDERS' EQUITY | 89,152 | 91,201 | 83,575 | 85,263 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | 1,081,219 | 1,081,528 | 1,102,820 | 1,102,864 |
| MEMORANDUM ITEMS | | | | |
| Contingent liabilities | 21,039 | 21,039 | 19,190 | 19,190 |
| Financial commitments | 40,636 | 40,636 | 69,428 | 69,428 |

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PERFORMANCE INDICATORS
AS AT 30 JUNE 2008

| Title of the entry | Accounting period | Corresponding period of the previous accounting year |
|----------------------------|-------------------|------------------------------------------------------------|
| Return on equity (ROE) (%) | 26.68 | 41.00 |
| Return on assets (ROA) (%) | 2.21 | 3.33 |