JSC AIZKRAUKLES BANKA
PUBLIC QUARTERLY REPORT
FOR THE PERIOD ENDED ON
31 DECEMBER 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 the central office, two lending centres, one payment centre in Riga, three representation offices of the Bank in Minsk, Kyiv, and Almaty, as well as six representation offices of AS AB Konsultācijas in Moscow, St. Petersburg, Baku, Tashkent, Minsk and Kyiv with 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 financial statement for the 2008 are prepared in accordance with International Financial Reporting Standards requirements, adopted in EU, audited by SIA “Ernst & Young Baltic”(reg. No 40003593454 licence No 17).

MEMBERS OF THE CONSOLIDATION GROUP AS AT 31 DECEMBER 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	Elizabetes iela 23, Rīga, LV, LV-1010	CKS	100	100	MS
5.	SIA "AB.LV Transform Investments"	40103191969	Elizabetes iela 23, Rīga, LV, LV-1010	CKS	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.

SHAREHOLDERS AND GROUPS OF RELATED SHAREHOLDERS OF THE BANK AS AT 31 DECEMBER 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
Group of related shareholders				
Ernests Bernis	*46,012*	*150*	*46.01*	*6,901,800*
Nika Berne	*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

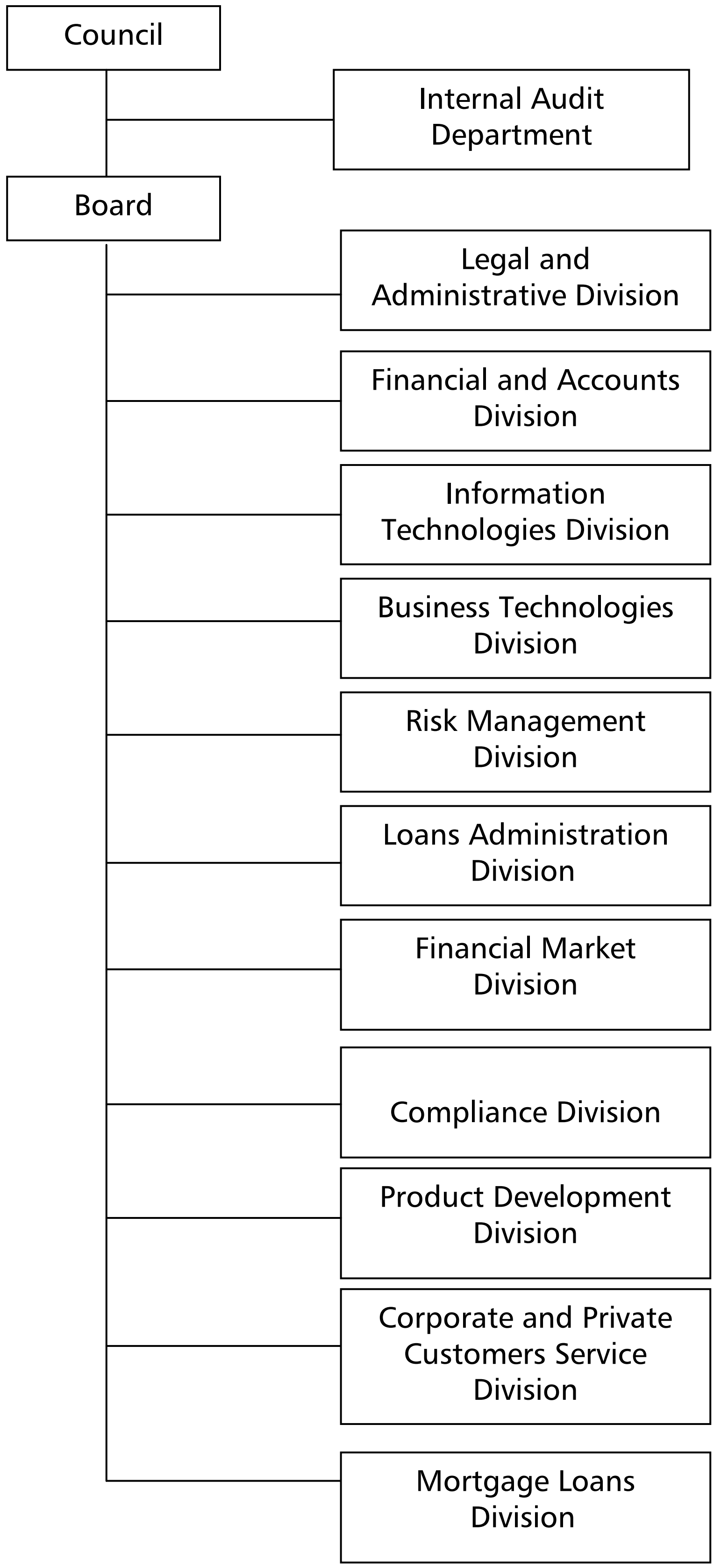
The Board of the Bank:

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

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

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.

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 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 assume 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 means 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 improvement 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 and the Loan Administration Division whose functions are strictly segregated from the business functions.

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.

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

Considering the prevailing market situation, in 2008 the Group and the Bank were specifically focusing on liquidity risk and credit risk, as well as proper arrangement of the operational risk management environment.

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, 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.
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) is determined. For the purposes of such analysis, both specific and collective (portfolio) risks are considered.

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.

The 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.

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 December 2008 and 2007, the Group and the Bank were in compliance with this requirement. Ten major exposures as at 31 December 2008 amounted to 8.6% (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 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.

As at 31 December 2008, the amount of those immovable properties which had been taken over during the loan restructuring process carried out by the Group/ Bank with the purpose of selling those properties to recover the debts was LVL 686 (0) thousand.

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

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:
- 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).

Contingency liquidity risk

Contingency liquidity risk relates to the organisation and planning for liquidity management in times of stress. Within Bank a specific crisis team is responsible for the liquidity management in times of crisis. This crisis team consists of the CEO, CRO, CFO, Financial Market Division and 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 Bank specific event. These plans ensure that all roles and responsibilities are clearly defined and all 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.

The main indicators of an actual or potential liquidity crisis are as follows:
- The liquidity ratio "Less than 30 days" is below 45%.
- Counterparties reduce limits applicable to the transactions with the Bank.
- Interbank refinancing has become more difficult.
- Mass media report negative information, which may cause deposit outflow from the Group and the Bank.
- Mass media report negative information, which may indicate that a significant portion of the Group's and Bank's assets might be jeopardised (funds may be frozen with insolvent banks, issuers of securities may default on the obligations listed in the issue prospectuses, etc.)

If any of the crisis stages is established, the Group and the Bank implement the following measures:
- Information available about financial institutions facing difficulties is updated daily to prevent transfers of the Group's and Bank's as well as customers' cash to accounts with such institutions.
- The Group and the Bank do not use the services of the credit institutions referred to above as payment intermediaries.
- The limits assigned to counterparties are revised to achieve concentration of the Group's and Bank's transactions and cash with credit institutions which, based on the Bank's assessment, are treated as safe.

- The distribution of assets and liabilities into maturity bands is reviewed and analysed carefully to find solutions how assets may be restructured to enhance their liquidity.
- Considering that gravest adverse consequences might be related to deposit outflow, the Group and the Bank have commenced working actively to maintain and enhance customer confidence and loyalty, as well as bring in new customers.

To assess the efficiency of the measures taken and be able to respond proactively to the changes of the situation, the Group's and Bank's internal indicators used to manage liquidity risk are controlled on a daily basis.

The last quarter of 2008 saw the global financial crisis growing all over the world, which lead to the deterioration in liquidity of the whole range of banks, including also Latvian banks. Given the existing situation, the management of the Group/ Bank were focusing specifically on liquidity issues. The Bank faced withdrawal of deposits for several weeks after the liquidity problems of AS Parex banka had been announced officially on 8 November 2008, and on 27 November 2008 the liquidity ratio of "less than 30 days" reached the historically lowest level of 32.1%. Owing to the successful implementation of the measures provided in the plan to overcome the liquidity crisis, the Bank's liquidity ratio rose to 41.32% (50.98%) at the end of 2008.

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.

c) Market risk

In the beginning of 2008, the Bank developed the following models to assess market risk: the VAR (value at risk) model for the trading portfolio and the credit spread model for the investments' held for undefined period portfolio, which is based on the assessment of credit spreads for credit rating classes of securities.
Given the existing situation on the Latvian and global financial markets, when both volatility in prices and spreads are soaring, and the correlation between spreads and ratings has dropped critically under these highly volatile circumstances, the Bank has considered these models irrelevant and does not apply these models anymore.

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 Group and the Bank have 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 Group's and Bank's open position in EUR is minimal. The Group's and Bank's open currency position in USD is also rather small (2008: 5.0% (1.7%) and 4.9% (1.7%) of equity for the Group and the Bank respectively) and, therefore, the effect of changes in the USD

exchange rate is insignificant, and the Group and the Bank do not conduct more detailed sensitivity analysis, only controlling this risk by applying the limits specified in the limits policy.
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 open positions in each foreign currency may not exceed 10% of equity and that the total foreign currency open position may not exceed 20% of equity.
As at 31 December 2008, the Group and the Bank were 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. The Financial Markets 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.

Distribution of current account balances into maturity bands is based on the Bank's historical experience about current account balance sensitivity to changes in interest rates. 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 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.

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.

In 2008, the Bank revised and optimised the operational risk management environment, defining the key efficiency principles:

- 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.

After the introduction of the new policy, 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 will enable the Bank to identify potential losses and take all required measures to prevent such losses.

By the end of the reporting period, approximately 400 events had been registered in the database, of which only 22 events were those which resulted in actual losses in the amount of LVL 21 thousand.

INCOME STATEMENT
AS AT 31 DECEMBER 2008

	Accounting period (audited)		Corresponding period of the previous accounting year (audited)	
Title of the entry	**Group**	**Bank**	**Group**	**Bank**
	LVL '000	**LVL '000**	**LVL '000**	**LVL '000**
Interest revenue	64,550	64,550	56,568	56,569
Interest expense	(30,413)	(30,342)	(25,321)	(25,215)
Revenue from dividends	34	475	53	53
Commission and fee revenue	14,667	13,555	12,007	10,782
Commission and fee expense	(2,491)	(2,380)	(1,702)	(1,629)
Net profit / (loss) from financial assets and liabilities at fair value through profit or loss	9,276	9,276	(2,473)	(2,473)
Net (loss) /realised profit from available-for-sale financial assets	(1,038)	(1,038)	1,152	1,152
Profit from foreign exchange trading and revaluation	2,660	2,669	18,568	18,584
(Loss) from derecognition of property, plant and equipment, investment properties and intangible assets	(71)	(71)	(173)	(173)
Other income	836	696	568	542
Other expense	(1,103)	(1,406)	(1,662)	(2,112)
Administrative expense	(23,077)	(21,784)	(21,598)	(20,553)
Depreciation	(1,707)	(1,664)	(1,563)	(1,527)
Change in allowances for credit losses	(17,729)	(17,729)	(2,711)	(2,711)
Corporate income tax	(1,848)	(1,813)	(4,187)	(4,103)
Impairment of financial instruments	(2,329)	(2,329)	-	-
NET PROFIT FOR THE PERIOD	**10,217**	**10,665**	**27,526**	**27,186**
Attributable to:				
Bank's shareholders	**10,251**		**27,525**	
Minority interest:	**(34)**		**1**	
SIA Elizabetes 21a	(31)		(5)	
AS AB Konsultācijas	(3)		6	

BALANCE SHEET
AS AT 31 DECEMBER 2008

	Accounting period (audited)		Previous accounting year (audited)	
Title of the entry	**Group**	**Bank**	**Group**	**Bank**
	31.12.2008.	**31.12.2008.**	**31.12.2007.**	**31.12.2007.**
ASSETS	**LVL '000**	**LVL '000**	**LVL '000**	**LVL '000**
Cash and demand deposits with central banks	57,860	57,860	63,684	63,684
Balances due from credit institutions	174,664	174,636	223,772	223,765
Financial assets at fair value through profit or loss	4,599	4,599	4,952	4,952
Available-for-sale financial assets	35,081	35,081	92,625	92,625
Loans and receivables	669,872	669,870	686,677	686,674
Prepaid expense and accrued income	336	274	195	96
Tangible fixed assets	6,374	6,220	8,663	8,542
Investment properties	19,762	19,762	16,514	16,514
Intangible fixed assets	3,449	3,291	2,061	1,988
Investments in subsidiaries	-	3,830	-	2,432
Current corporate income tax receivables	2,427	2,363	590	590
Deferred income tax	4,185	3,850	580	245
Other assets	3,462	1,751	2,507	757
TOTAL ASSETS	**982,071**	**983,387**	**1,102,820**	**1,102,864**
LIABILITIES				
Demand deposits from credit institutions	15,690	15,690	5,598	5,598
Financial liabilities at fair value through profit or loss	19,238	19,238	9,429	9,429
Financial liabilities at amortised cost	865,768	864,504	997,874	996,442
Deposits	712,315	714,007	823,777	825,351
Term deposits from credit institutions	112,517	109,561	152,976	149,970
Subordinated liabilities	40,936	40,936	21,121	21,121
Deferred income and accrued expense	2,128	2,079	4,379	4,312
Current corporate income tax liabilities	1	-	101	-
Deferred income tax	5	-	1	-
Other liabilities	1,073	1,594	1,863	1,820
TOTAL LIABILITIES	**903,903**	**903,105**	**1,019,245**	**1,017,601**
TOTAL SHAREHOLDERS' EQUITY	**78,168**	**80,282**	**83,575**	**85,263**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**982,071**	**983,387**	**1,102,820**	**1,102,864**
MEMORANDUM ITEMS				
Contingent liabilities	19,322	19,322	19,190	19,190
Financial commitments	20,429	20,429	69,428	69,428

PERFORMANCE INDICATORS
AS AT 31 DECEMBER 2008

Title of the entry	Accounting period (audited)	Corresponding period of the previous accounting year (audited)
Return on equity (ROE) (%)	12.15	34.90
Return on assets (ROA) (%)	0.99	2.85