

**JSC Aizkraukles banka
public quarterly report
for the period ended on
30 September 2010**

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Bank's managements report

Ladies and Gentlemen,

Dear Shareholders, Customers and Business Partners of Aizkraukles Banka,

The Bank's management is satisfied with performance in three quarters of 2010. Likewise the first two quarters of 2010, in the reporting period the Bank's business has essentially grown in most important areas of operations – providing services to private and corporate customers, asset management, securities transactions, and lending to corporate customers.

In the reporting period, Aizkraukles Banka performed third issue of subordinated bonds. The applications for purchasing bonds exceeded the issue amount by 16%, standing for high level of the Bank's customers trust to the Bank. The overall amount issued this time was equal to 200 000 bonds, face value of each bond being USD 100. Therefore, total issue amount was USD 20 million. The funds raised through the issue have been included in the Bank's Tier II equity, thus strengthening the Bank's capital base.

Continuing implementation of cautious policy in making allowances, the Bank ended the reporting period with losses. Considering signs of recovery in the world's and Latvian economy, as well as increasing paying capacity of people, newly made allowances are reduced. Consequently, the Bank's management is sure that Aizkraukles Banka will make profit in 2011.

It should be noted that the Bank's performance indicators remain high, including capital adequacy and liquidity values. As of 30 September 2010, the Bank's liquidity reached 66.49%, exceeding that planned by the Bank. Whereas the Bank's capital adequacy was equal to 15.18%, as of 30 September 2010.

Financial results

The amount of the Bank's deposits and assets continues to grow. Since the beginning of 2010, the amount of deposits has increased by LVL 189 million, i.e. 21.7%, to reach LVL 1.058 billion. This value considerably exceeds the amount planned at the beginning of the year and has been achieved due to acquisition of new customers and active cooperation with existing ones. As of 30 September 2010, the Bank's assets equalled LVL 1.2 billion.

As of 30 September 2010, the Bank's operating income, before allowances for credit losses, totalled LVL 31 million.

The Bank's gross loan portfolio was equal to LVL 579 million, as of 30 September 2010. 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 57 million, which is almost 10% of the gross loan portfolio. Given consistent implementation of the above allowance policy, the Bank's losses for the nine-month period ended 30 September 2010 totalled LVL 3 million.

Given considerable increase of deposits during the reporting period and the overall optimism in the world's securities markets, the Bank continued investing in securities. As of 30 September 2010, the total value of securities portfolio was equal to LVL 261 million. The securities of highest investment grade constitute 61% of the Bank's total securities portfolio, which is another evidence of the Group's and the Bank's cautious investment policy. Annual yield of the securities portfolio amounted to 6.2% in the reporting period.

Bank for society

In Q3 2010, the Bank informed its customers of the results of fund drive "Help Children Hear!", started at the end of 2009. The amount of donations made allows us to help 11-12 children, buying them necessary hearing devices.

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Also, in August 2010, the Bank held AB.LV Charity Golf Tournament 2010 for the Bank's customers, inviting them to participate in "Schoolbag" fund drive, making donations for buying school goods for junior schoolchildren from low-income families. The funds raised during the tournament were used to support 52 schoolchildren.

In August, *Art Deco – the fashion style of interwar period* exhibition was opened in Riga Museum of Decorative Arts and Design, where dress collection of famous fashion historian Alexandre Vassiliev was presented. This was the second time Alexandre Vassiliev's dress collection has been exhibited in Riga. First exhibition, *Victorian Fashion*, took place in 2009 and was extremely popular among visitors. That exhibition has also been supported by our Bank.

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!

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, and asset management.

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

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Members of the consolidation group

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 iela 23, Rīga, LV-1010	IPS	100	100	MS
IBAS "AB.LV Capital Market"	40003814705	Elizabetes iela 23, Rīga, LV-1010	IBS	100	100	MS
AS "AB Konsultācijas"	40003540368	Elizabetes iela 23, Rīga, LV-1010	CKS	100	100	MS
SIA "AB.LV Corporate Services"	40103283479	Elizabetes iela 23, Rīga, LV-1010	CKS	100	100	MS
SIA "Elizabetes 21a"	50003831571	Elizabetes iela 23, Rīga, LV-1010	CKS	90.67	90.67	MS
SIA "New Hanza City"	40103222826	Elizabetes iela 23, Rīga, LV-1010	CKS	100	100	MS
SIA "AB.LV Private Equity Management"	40103286757	Elizabetes iela 23, Rīga, LV-1010	CKS	100	100	MS
KS "AB.LV Private Equity Fund 2010"	40103307758	Elizabetes iela 23, Rīga, LV-1010	CFI	100	100	KS
SIA "Gas Stream"	42103047436	Elizabetes iela 23, Rīga, LV-1010	CKS	60	60	MS
SIA "Bio Future"	42103047421	Elizabetes iela 23, Rīga, LV-1010	CKS	60	60	MS
KS "AB.LV Transform Partnership"	40103260921	Elizabetes iela 23, Rīga, LV-1010	CFI	99.9997	99.9997	KS
SIA "AB.LV Transform Investments"	40103191969	Elizabetes iela 23, Rīga, LV-1010	CKS	100	100	MS
SIA "AB.LV Transform 1"	40103193211	Elizabetes iela 23, Rīga, LV-1010	CKS	100	100	MS
SIA "AB.LV Transform 2"	40103193033	Elizabetes iela 23, Rīga, LV-1010	CKS	100	100	MS
SIA "AB.LV Transform 3"	40103193067	Elizabetes iela 23, Rīga, LV-1010	CKS	100	100	MS
SIA "AB.LV Transform 4"	40103210494	Elizabetes iela 23, Rīga, LV-1010	CKS	100	100	MS
SIA "AB.LV Transform 6"	40103237323	Elizabetes iela 23, Rīga, LV-1010	CKS	100	100	MS
SIA "AB.LV Transform 7"	40103237304	Elizabetes iela 23, Rīga, LV-1010	CKS	100	100	MS
SIA "AB.LV Transform 8"	40103240484	Elizabetes iela 23, Rīga, LV-1010	CKS	100	100	MS
SIA "AB.LV Transform 9"	40103241210	Elizabetes iela 23, Rīga, LV-1010	CKS	100	100	MS
SIA "AB.LV Transform 10"	50103247681	Elizabetes iela 23, Rīga, LV-1010	CKS	100	100	MS
SIA "AB.LV Transform 11"	40103258310	Elizabetes iela 23, Rīga, LV-1010	CKS	100	100	MS
SIA "AB.LV Transform 12"	40103290273	Elizabetes iela 23, Rīga, LV-1010	CKS	100	100	MS
SIA "AB.LV Transform 13"	40103300849	Elizabetes iela 23, Rīga, LV-1010	CKS	100	100	MS
SIA "AB.LV Transform 14"	50103313991	Elizabetes iela 23, Rīga, 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.

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Shareholders and groups of related shareholders of the bank

Shareholders	Number of voting shares	Par value of shares in lats	% of the Bank's total paid-in share capital	The Bank's paid-in share capital in lats
Ernests Bernis group of related shareholders				
<i>Ernests Bernis</i>	46,212	150	42.01	6,931,800
<i>Nika Berne</i>	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:

Vladimirs Kutovojs

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)

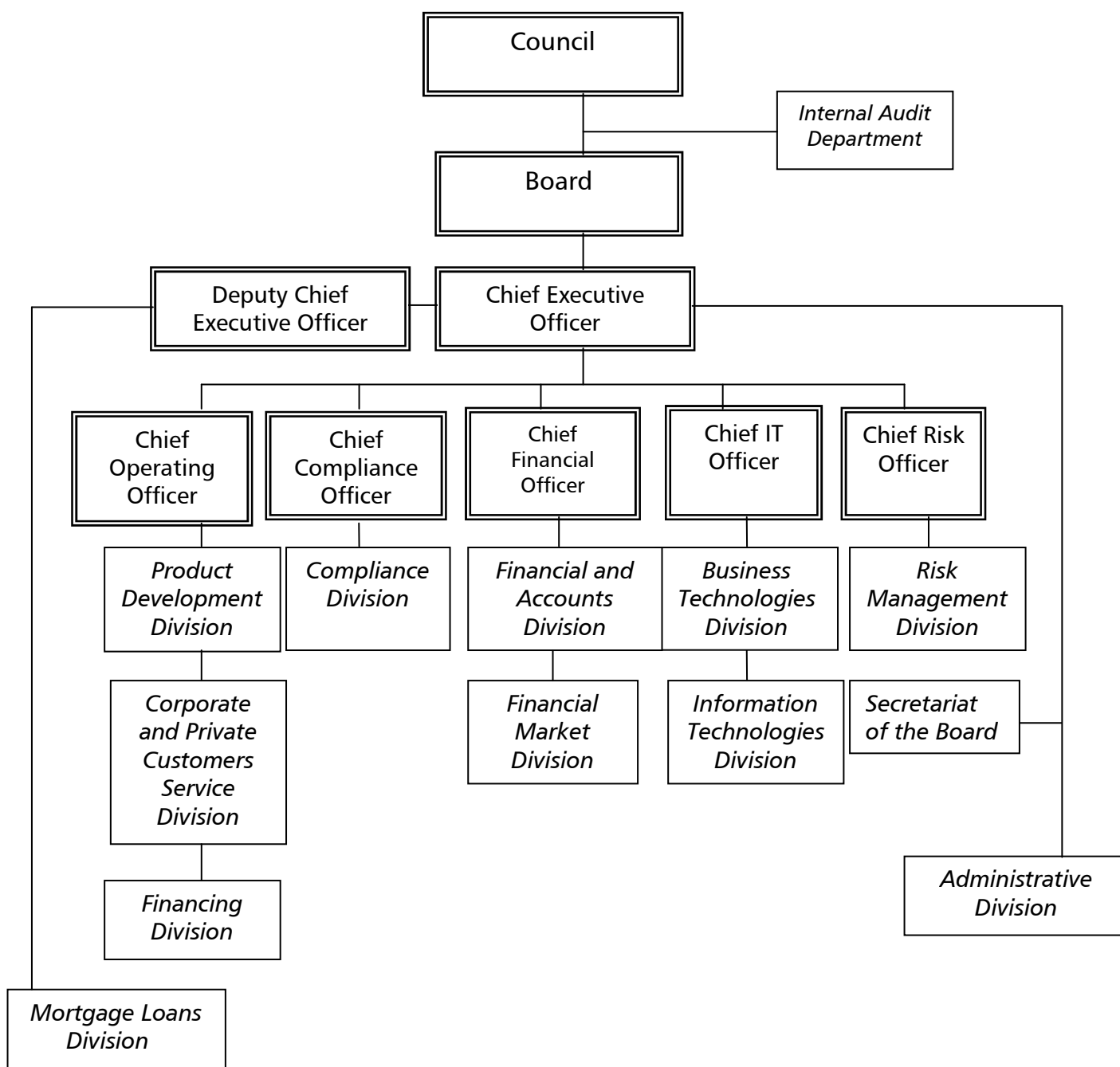
Rolands Citajevs – Chief IT Officer (CIO)

Vadims Reinfelds – Chief Operating Officer (COO)

Edgars Pavlovičs – Chief Risk Officer (CRO)

Māris Kannenieks – Chief Financial Officer (CFO)

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 business model aimed at supplying individual services to affluent and wealthy individuals and their businesses pursued by the Bank has proven to be 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

Main tasks of Aizkraukles Banka's activities result from the unique situation in which Latvia and its financial system are situated.

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:

- we 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 for monitoring and managing financial risks that allows us to identify possible problems, address them, and thus minimize the 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 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, 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. There are certain risk/ monitoring factors set for corporate customers, 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.

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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, 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.

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 September 2010 and 31 December 2009, the Group and the Bank were in compliance with this requirement. Ten major exposures as at 30 September 2010 amounted to 11.2% (7.4%) 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 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 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. 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 Markets 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 identify, analyse and control liquidity risk on a timely basis are laid down in the liquidity management policy.

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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.

Liquidity ratios of the Group and the Bank:

Liquidity ratio	Group/ Bank			Group/ Bank		
	01/01/2010 - 30/09/2010			01/01/2009 - 30/09/2009		
	Highest	Lowest	Average	Highest	Lowest	Average
	%	%	%	%	%	%
less than 30 days (as required by the FCMC)	66.8	59.1	63.0	48.8	33.8	41.6

The Group and the Bank have considered the risk of being adversely affected by liquidity issues and have taken actions to minimize the negative impact on the Group's and Bank's operations.

The Group's and Bank's ability to avoid adverse changes in their liquidity position depends on management's effectiveness in the continuing execution of the actions taken.

In order to identify potential liquidity need in a seven-day period, the Bank assesses supposed allocation of its assets, liabilities and memorandum items according to maturity.

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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 using maturity-based 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 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 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 30 September 2010, 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. 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 – re-pricing 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. If necessary, derivative financial instruments are utilized 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 re-pricing date or interest rate re-pricing 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 analyzed applying the gap analysis, i.e. analyzing 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.

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, not exceeding reasonable level of expense meanwhile. 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 centralization 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 of effective 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.

The key objectives of the operational risk event database intended to manage the Group's and Bank's exposure to operational risk 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 categorized 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.

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 summarise information on the respective risk factors and develop the methodology for the quantification of compliance and reputations risks. 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.

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Income statements

Title of the entry	At 30 September 2010 (unaudited)		At 30 September 2009 (unaudited)	
	Group	Bank	Group	Bank
	LVL '000	LVL '000	LVL '000	LVL '000
Interest revenue	26,154	26,150	32,842	32,842
Interest expense	(14,478)	(14,464)	(17,463)	(17,510)
Revenue from dividends	3	51	20	219
Commission and fee revenue	16,148	14,313	10,913	10,118
Commission and fee expense	(2,501)	(2,265)	(1,940)	(1,832)
Net (loss) / profit from financial assets and liabilities at fair value through profit or loss	8,897	8,897	(4,163)	(4,163)
Net realised profit / (loss) from available-for-sale financial assets	(1,482)	(1,482)	546	546
Profit from foreign exchange trading and revaluation	(973)	(1,143)	9,210	9,280
(Loss) from derecognition of property, plant and equipment, investment properties and intangible assets	101	(10)	(123)	(123)
Other income	1,633	1,076	477	415
Other expense	(884)	(1,526)	(863)	(1,120)
Administrative expense	(15,150)	(13,641)	(14,774)	(13,810)
Depreciation	(1,265)	(1,189)	(1,404)	(1,339)
Change in allowances for credit losses	(18,627)	(18,627)	(26,581)	(26,581)
Impairment of financial instruments	-	-	(122)	(122)
Corporate income tax	693	730	2,297	2,303
(Loss)/ net profit for the period	(1,731)	(3,130)	(11,128)	(10,877)
Attributable to:				
Bank's shareholders	(1,713)		(11,119)	
Minority interest:	(18)		(9)	

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Balance sheet

Assets	At 30 september 2010 (non-audited)		At 31 december 2009 (audited)	
	Group	Bank	Group	Bank
	LVL '000	LVL '000	LVL '000	LVL '000
Cash and demand deposits with central banks	64,119	64,119	44,986	44,986
Balances due from credit institutions	278,695	278,670	203,569	203,537
Financial assets at fair value through profit or loss	4,468	4,468	9,499	9,499
Available-for-sale financial assets	137,454	137,454	104,523	104,523
Loans and receivables	536,194	536,101	550,580	553,475
Loans	521,585	521,492	531,444	534,339
Debt securities and other fixed income securities	14,609	14,609	19,136	19,136
Held to maturity	107,717	107,717	-	-
Prepaid expense and accrued income	319	244	505	451
Tangible fixed assets	7,452	5,359	6,077	5,747
Investment properties	21,010	16,687	20,371	16,622
Intangible fixed assets	3,499	3,369	3,491	3,337
Investments in subsidiaries	-	46,023	-	36,066
Current corporate income tax receivables	345	252	2,024	1,936
Deferred income tax	5,893	5,546	5,458	5,079
Other assets	41,127	3,925	26,644	6,871
Total assets	1,208,292	1,209,934	977,727	992,129
Liabilities				
Demand deposits from credit institutions	2,947	2,947	1,027	1,027
Financial liabilities at fair value through profit or loss	11,647	11,647	176	176
Financial liabilities at amortised cost	1,077,829	1,080,289	892,101	899,644
Deposits	1,052,699	1,058,112	858,503	869,017
Term deposits from credit institutions	2,953	-	4,929	1,958
Subordinated deposits	22,177	22,177	28,669	28,669
Securities issued	21,908	21,908	12,995	12,995
Deferred income and accrued expense	2,658	2,367	1,816	1,749
Current corporate income tax liabilities	7	-	15	-
Deferred income tax	22	-	22	-
Other liabilities	14,315	11,503	589	2,456
Total liabilities	1,131,333	1,130,661	908,741	918,047
Total shareholders' equity	76,959	79,273	68,986	74,082
Total liabilities and shareholders' equity	1,208,292	1,209,934	977,727	992,129
Memorandum items				
Contingent liabilities	17,843	17,843	16,884	16,884
Financial commitments	3,949	3,949	10,210	10,210

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Performance indicators

Title of the entry	Actual accounting period (non-audited)	Previous accounting period (non-audited)
Return on equity (ROE) (%)	-5.45	-18.38
Return on assets (ROA) (%)	-0.34	-1.43