



ABLV

BANKING / INVESTMENTS \ ADVISORY

ABLV Bank, AS
public quarterly report
for the period ended on
30 September 2011

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Bank's management report

Ladies and Gentlemen,
Dear Shareholders, Customers and Business Partners of ABLV Bank, AS!

In Q3 2011, global economy was marked by several negative trends – growth of the world economy continued to decline and instability in global financial markets increased.

In the reporting period, a landmark decision was made by credit rating agency Standard & Poor's – the US credit rating was decreased from maximum AAA to AA+. This decision led to even larger fluctuations of financial markets, and drops in stock prices sometimes resembled the situation observed at the end of 2008. Moreover, in the last quarter, debt crisis in euro area continued to grow – it also affected Italy, and probability of default in Greece increased significantly.

However, those facts have not considerably affected real economy yet. Although growth rate has declined, most of the world leading countries ended the quarter with GDP increases.

Economic and financial situation in Latvia was stable. In Q2 2011, Latvian GDP increased by 5.6%. This economic growth is the largest one since the end of 2007. Economic development still is mainly based on the growth of export-related areas. Commercial banks sector also shown noticeable financial results – growing number of Latvian commercial banks reported profits.

As early as at the end of 2010, ABLV management announced its plans to make profit in 2011, and those plans are being successfully implemented. Due to growing amount of deposits, commission and fee income and excellent investment activities, the Group's profit totalled LVL 20.7 million as at 30 September 2011, whereas the Bank's profit was equal to LVL 19.6 million. At the beginning of the year, the Bank's overall profit in 2011 was planned to be LVL 17.8 million.

All the Bank's major performance indicators remained high, including capital adequacy and liquidity ratios. As at 30 September 2011, the Bank's liquidity equalled 70.75%. Whereas the Bank's capital adequacy ratio was 11.99%, as at 30 September 2011.

We deeply regret that we cannot share our highest achievements since the bank's foundation with our Chairman of the Council Aleksandrs Bergmanis, who died suddenly on the 23rd of August. Aleksandrs Bergmanis was one of the bank's founders and our first Chairman of the Board. Afterwards, he has been chairing the Council for a long time. Colleagues respected Aleksandrs Bergmanis for his understanding, composure and even temper, as well as rational approach to solving difficult problems. We will always remember him being friendly, sociable and humane.

Due to the above on the 23rd of September this year, extraordinary general meeting of the Bank's shareholders was held. The general meeting appointed new Council of the Bank, and the Council started its work on the 4th of October. The Council will be led by Oleg Fil, former Deputy Chairman of the Board. Janis Krigers and Igors Rapoport will continue to be the members of the Council.

Due to the above changes, starting on 17th of October, the Bank's Board consists of the following members:

- Ernest Bernis, Chairman of the Board, Chief Executive Officer (CEO)
- Vadim Reinfeld, Deputy Chairman of the Board, Deputy Chief Executive Officer (dCEO)
- Maris Kannenieks, Member of the Board, Chief Financial Officer (CFO), Procurator
- Alexander Pazhe, Member of the Board, Chief Compliance Officer (CCO)
- Edgar Pavlovich, Member of the Board, Chief Risk Officer (CRO)
- Roland Citajev, Member of the Board, Chief Information Officer (CIO)
- Roman Surnachov, Member of the Board, Chief Operating Officer (COO).

Almost all members of the Board continued their membership. The only newly appointed member of the Board is Roman Surnachov, who joined the Bank's team in 1999 and was the Head of Product Development Department during the last several years.

In the reporting period, ABLV Bank, AS established ABLV Luxembourg, S.A., the aim of which is to explore financial market of Luxembourg and prepare everything necessary for obtaining banking license. ABLV Bank, AS, subsidiary bank in Luxembourg is supposed to start its operations in the middle of next year, and it will offer private banking and investment services to customers – advisory investment management, brokerage services, and other banking services. Initial paid-in share capital of ABLV Luxembourg, S.A. equals EUR 2'000'000.

It should be noted that on the 16th of July this year, the Bank launched new Internetbank version to improve customer service via Internet. The new Internetbank version was developed considering all customers' needs and engaging both employees and a group of customers in testing. In the new Internetbank the completely new sections and useful functions were introduced to enable customers to perform virtually all bank transactions remotely.

In the reporting period, ABLV Bank, AS entered into cooperation agreement and opened securities accounts with Euroclear Bank SA/NV for keeping securities of the Bank and its customers. Cooperating with the sector's largest companies and building close relationships with them without intermediaries, the Bank ensures fast and efficient processing of purchase and sales of securities and settlement. Number of Euroclear customers exceeds 2000 – they are financial institutions from about 90 different countries, including largest securities holders and state central banks.

Financial results

The Bank's financial performance in Q3 2011 also demonstrated successful implementation of the financial plan for 2011. Amount of the Bank's deposits and assets continued to grow. Since the beginning of 2011, the amount of deposits of the Bank has increased by LVL 216 million, i.e. 17.3%, and reach LVL 1.46 billion. The overall deposit increase in 2011 was planned to be 14.4%.

As at 30 September 2011, the amount of the Bank's gross assets totalled LVL 1.62 billion. Since the beginning of the year, the amount of assets increased by 17.1%. The Bank continued investing in securities. The total amount of the securities portfolio was equal to LVL 468 million, as at 30 September 2011. In the reporting period, annual yield of the securities portfolio amounted to 4.96%.

It should be mentioned that in the reporting period the Bank gained extraordinary profit of LVL 9.5 million as a result of investing in the US treasuries.

The Bank's net loan portfolio equalled LVL 483 million, as at the end of September.

As at 30 September 2011, the Bank's operating income, before allowances for credit losses, totalled LVL 56 million. ROE reached 30.90%, and ROA – 1.69%, as at 30 September 2011.

For society

This year, the Bank also organized yearly ABLV Charity Golf Tournament 2011, which was held at Viesturi golf club on the 20th of September. The tournament participants were the Bank's customers and employees. The funds donated during the tournament will be used to support 'Schoolbag' fund drive. This project has been implemented for several years already, and its objective is to help to families with low-income to buy school goods for their children. The total amount of funds raised during ABLV Charity Golf Tournament 2011 provides for supporting 45 first formers.

Also, the exhibition named "From mini to maxi. The fashion of 1960s" took place in Riga Museum of Decorative Arts and Design, and it was very popular among visitors. The dress collection exhibited there was brought by world famous fashion historian Alexander Vassiliev from Paris, and this was already third exhibition of his dress collection in Riga supported by ABLV Bank, AS.

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

Chairman of the Council
Oleg Fil

Chairman of the Board
Ernest Bernis

Riga, 21 November 2011

General information

ABLV Bank, AS (hereinafter – the Bank) was registered in Aizkraukle, Republic of Latvia, on 17 September 1993, as a joint stock company, under unified registration number 50003149401. At present, the legal address of the Bank is Elizabetes Street 23, 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 Group's and Bank's main scope of activity is investment services, settlement products, asset management, financial consultations, and real estate management.

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

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

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

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

Members of the consolidation group

This public quarterly report contain the financial information about the Bank and its subsidiaries (jointly – the Group), as well as separately about the Bank. The Bank is the parent entity of the Group.

Members of the consolidation group as at 30 September 2011:

No	Name of the company	Registration number	Code of registration state and address	Type of activities*	Interest in share capital (%)	Share of voting rights (%)	Motivation for inclusion in the group**
1	ABLV Asset Management, IPAS	40003814724	LV, Elizabetes iela 23, Rīga, LV-1010	IPS	100	100	MS
2	ABLV Capital Markets, IBAS	40003814705	LV, Elizabetes iela 23, Rīga, LV-1010	IBS	100	100	MS
3	ABLV Consulting Services, AS	40003540368	LV, Elizabetes iela 23, Rīga, LV-1010	CKS	100	100	MS
4	ABLV Corporate Services, SIA	40103283479	LV, Elizabetes iela 23, Rīga, LV-1010	CKS	100	100	MS
5	ABLV Corporate Services, LTD	HE273600	CY, 1 Apriliou, 52, P.C.7600, Larnaca, Athienou	CKS	100	100	MS
6	ABLV Luxembourg, S.A.	B 162048	LU, Montee du Grund, 6, L-1645, Luxembourg	CKS	100	100	MS
7	ABLV Transform Partnership, KS	40103260921	LV, Elizabetes iela 23, Rīga, LV-1010	CFI	99.9997	99.9997	KS
8	AB.LV Transform Investments, SIA	40103191969	LV, Elizabetes iela 23, Rīga, LV-1010	CKS	100	100	MS
9	Transform 1, SIA	40103193211	LV, Elizabetes iela 23, Rīga, LV-1010	CKS	100	100	MS
10	Transform 2, SIA	40103193033	LV, Elizabetes iela 23, Rīga, LV-1010	CKS	100	100	MS
11	Transform 3, SIA	40103193067	LV, Elizabetes iela 23, Rīga, LV-1010	CKS	100	100	MS
12	Transform 4, SIA	40103210494	LV, Elizabetes iela 23, Rīga, LV-1010	CKS	100	100	MS
13	Transform 6, SIA	40103237323	LV, Elizabetes iela 23, Rīga, LV-1010	CKS	100	100	MS
14	Transform 7, SIA	40103237304	LV, Elizabetes iela 23, Rīga, LV-1010	CKS	100	100	MS
15	Transform 8, SIA	40103240484	LV, Elizabetes iela 23, Rīga, LV-1010	CKS	100	100	MS
16	Transform 9, SIA	40103241210	LV, Elizabetes iela 23, Rīga, LV-1010	CKS	100	100	MS
17	Transform 10, SIA	50103247681	LV, Elizabetes iela 23, Rīga, LV-1010	CKS	100	100	MS
18	Transform 11, SIA	40103258310	LV, Elizabetes iela 23, Rīga, LV-1010	CKS	100	100	MS
19	Transform 12, SIA	40103290273	LV, Elizabetes iela 23, Rīga, LV-1010	CKS	100	100	MS
20	Transform 13, SIA	40103300849	LV, Elizabetes iela 23, Rīga, LV-1010	CKS	100	100	MS
21	Transform 14, SIA	50103313991	LV, Elizabetes iela 23, Rīga, LV-1010	CKS	100	100	MS
22	Transform 15, SIA	40103344858	LV, Elizabetes iela 23, Rīga, LV-1010	CKS	100	100	MS
23	Transform 17, SIA	40103424617	LV, Elizabetes iela 23, Rīga, LV-1010	CKS	100	100	MS
24	Elizabetes 21a, SIA	50003831571	LV, Elizabetes iela 23, Rīga, LV-1010	CKS	91.6	91.6	MS
25	New Hanza City, SIA	40103222826	LV, Elizabetes iela 23, Rīga, LV-1010	CKS	100	100	MS
26	ABLV Private Equity Management, SIA	40103286757	LV, Elizabetes iela 23, Rīga, LV-1010	CKS	100	100	MS
27	ABLV Private Equity Fund 2010, KS	40103307758	LV, Elizabetes iela 23, Rīga, LV-1010	CFI	100	100	KS
28	SIA Gas Stream	42103047436	LV, Elizabetes iela 23, Rīga, LV-1010	CKS	49	49	MS
29	SIA Bio Future	42103047421	LV, Elizabetes iela 23, Rīga, LV-1010	CKS	49	49	MS

*BNK – bank, APS – insurance company, IBS – investment brokerage company, IPS – asset management company, CFI – other financial institution, CKS – other corporate company.

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

Shareholders and groups of related shareholders of the Bank

As at 30 September 2011 the shareholders of the Bank and the groups of related shareholders are as follows:

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

The Council and the Board

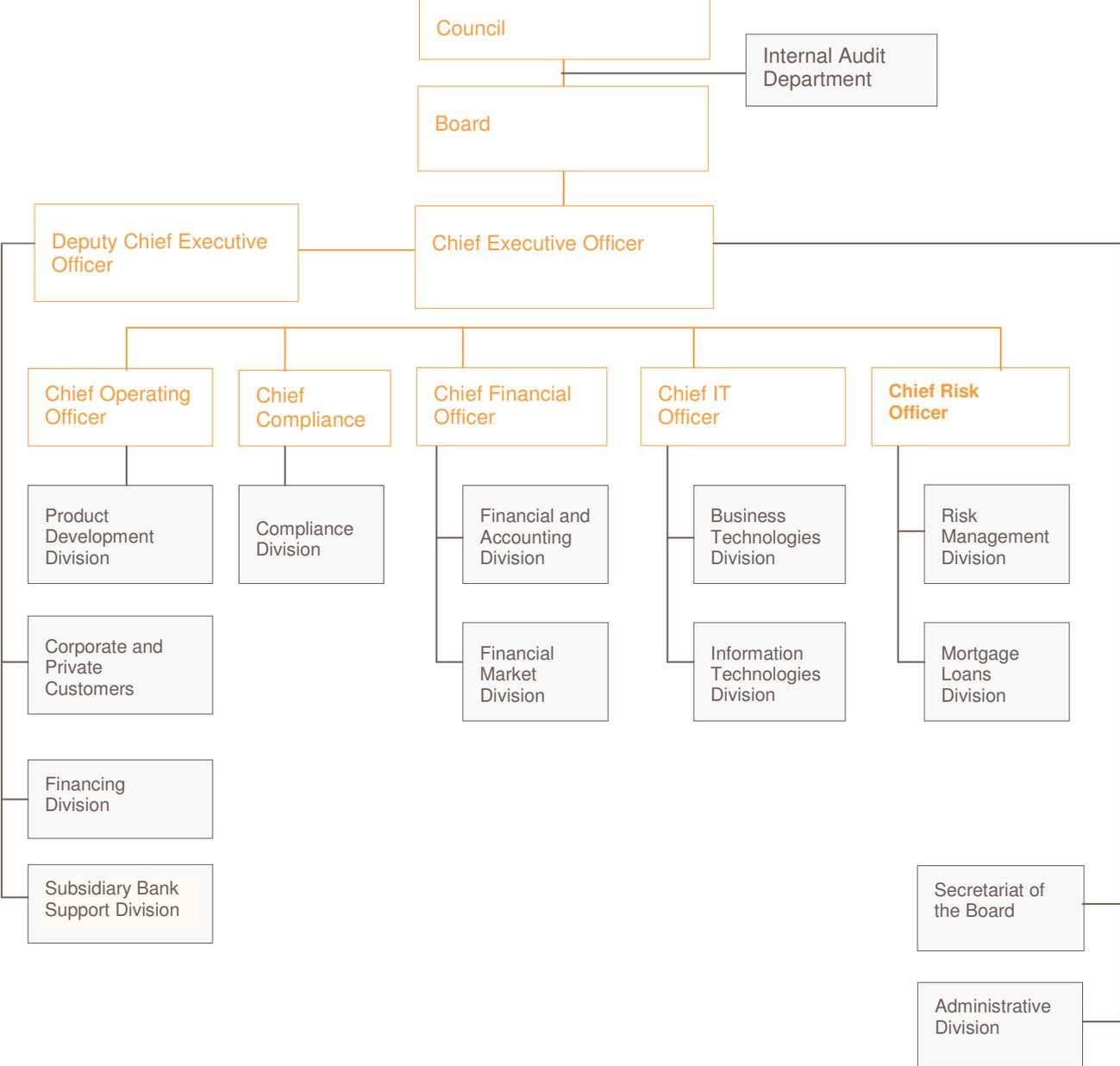
The Council of the Bank:

Chairman of the Council: Oleg Fil	Date of election: 04/10/2011
Deputy Chairman of the Council: Janis Krigers	Date of re-election: 04/10/2011
Council Member: Igor Rapoport	Date of re-election: 04/10/2011
Resigned as Chairman of the Council: Aleksandrs Bergmanis	Date of resignation: 23/08/2011
Resigned as Council Member: Vladimir Kutovoy	Date of resignation: 13/12/2010

The Board of the Bank:

Chairman of the Board: Ernest Bernis - Chief Executive Officer (CEO)	Date of re-election: 17/10/2011
Deputy Chairman of the Board: Vadim Reinfeld - Deputy Chief Executive Officer (dCEO)	Date of re-election: 17/10/2011
Resigned as Deputy Chairman of the Board: Oleg Fil - Deputy Chief Executive Officer (dCEO)	Date of resignation: 03/10/2011
Board Members: Aleksander Pazhe – Chief Compliance Officer (CCO) Edgar Pavlovich – Chief Risk Officer (CRO) Maris Kanneieks – Chief Financial Officer (CFO) Roland Citajev – Chief IT Officer (CIO)	Date of re-election: 17/10/2011 17/10/2011 17/10/2011 17/10/2011
Roman Surnachov – Chief Operating Officer (COO)	Date of election: 17/10/2011
Resigned as Board Member: Vadim Reinfeld	Date of resignation: 16/10/2011

Bank's structure*



* Structure of the Bank is valid from 17 October 2011. More detailed information about the customer's service offices are available on the Bank's website <http://www.ablv.com/lv/about/offices>.

Strategy and aim of the bank's activities

The Group's and Bank's main scope of activity are investment services, settlement products, asset management, financial consultations, and real estate management. The business model aimed at supplying individual services to wealthy individuals and their businesses.

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' vision

The Group and the Bank offer the most highly valued private banking experience, based on a unique understanding of our clients.

Bank's mission

The Group and the Bank mission is to preserve and increase your capital, providing financial and advisory services necessary for achieving this aim.

Bank's values

Collaborative

We listen attentively and respond intelligently. We are always ready for a change. We don't rest, we act.

Intuitive

We know what's important to our customers. We understand peculiarities of their business, law and culture of their countries, and offer tailored solutions.

Valued

We work to bring success to our customers. Our key target is to be useful for our customers.

Bank's aim

According to the strategy approved in 2008, ABLV Bank, AS aim is to become a leader in rendering banking services, private wealth management, and financial advisory in Eastern Europe.

Risk management

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

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

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

The risk management process includes the following:

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

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

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

The goal of the risk management policies is to ensure efficient risk management, identify and analyze the risks inherent to the Group's and the 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.

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 Bank has set up the permanent Assets Evaluation Committee which performs a regular analysis of assets and memorandum items, i.e., their recoverability. Depending on the results of such analysis,

the amount of the allowance for credit losses (impairment) is determined. For the purposes of such analysis, both specific and collective (portfolio) risks are considered.

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

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

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

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

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

Credit risk concentration

To mitigate concentration risk, the Group and the Bank apply diversification and a system of limits. The Group and the Bank place limits on the amount of risk for individual borrowers, and for geographical and industry concentrations as well as exposures having only one type of collateral, etc. The exposure to any single borrower, including banks and brokers, is further restricted by sub-limits.

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

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

Ten major exposures as at 30 September 2011 amounted to 13.2% (14.2%) of the total Group's and the Bank's net loan portfolio.

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

The most significant part of the Bank's loan portfolio affected by economic processes in the country is the real estate development project portfolio. The Group and the Bank review this part of the loan portfolio on a regular basis. Although the 1H2011 there is observed of the real estate market activity improved, the potential for development can not be assessed precisely which affected customer financing in this sector. No financing options for new real estate development projects are being considered at present.

Apart from the effective management of credit risk concentration, the Bank has set limits for credit institutions and financial companies in order to restrict balances held with one institution as well as defined the limit control regulations specifying the independent procedure for controlling compliance with the limits.

The Group's and Bank's securities portfolios are well-diversified and portfolio diversification is based on issues, credit rating classes, issuers and maturities.

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

Credit ratings	Group/Bank 30/09/2011						Group/Bank 31/12/2010				
	At fair value	Liquidity portfolio	Investments held for undefined period portfolio	Held-to- maturity	Loans and receivables	At fair value	Liquidity portfolio	Investments held for undefined period portfolio	Held-to- maturity	Loans and receivables	
	LVL`000	LVL`000	LVL`000	LVL`000	LVL`000	LVL`000	LVL`000	LVL`000	LVL`000	LVL`000	
AAA to AA-	-	238,919	-	61,179	-	19,362	106,985	2,840	111,604	-	
A+ to A-	-	-	-	-	-	-	-	-	164	-	
BBB+ to BBB-	-	-	55,988	46,578	-	-	-	20,590	27,484	606	
BB+ to BB-	-	-	18,199	16,957	-	-	-	18,447	6,795	3,652	
B+ to B-	-	-	14,067	11,471	-	5	-	16,325	9,003	4,451	
below B-	-	-	549	890	-	-	-	784	62	2,133	
No rating	-	-	905	176	-	-	-	460	-	219	
Shares and investments in funds	420	-	2,149	-	-	674	-	2,226	-	-	
Securities portfolio, net	420	238,919	91,857	137,251	-	20,041	106,985	61,672	155,112	11,061	

Liquidity risk

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

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

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

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

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

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

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

Contingency liquidity risk

Contingency liquidity risk relates to the organization 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, as well as preparation of management information on timely manner.

According to the internal classification of the Group and the Bank, several liquidity crisis stages are distinguished: potential liquidity crisis, short-term and long-term liquidity crisis. Each stage has set quantitative and qualitative indicators which, if observed, also require certain actions to enhance liquidity of the Group and the Bank.

The Bank performs regular liquidity stress tests to identify the sources of potential liquidity problems, determine when the mandatory ratios may be breached or the crisis indicators listed in the Liquidity Crisis Manual may emerge as well as establish whether the Bank's liquidity management documents need to be revised.

The management of the Group and the Bank continued to focus specifically on liquidity issues. Owing to the adequate liquidity risk management policy and internal control and communication system, the Bank managed to ensure and maintain a high liquidity ratio - as at 30 September 2011 the liquidity ratio reached 70.75% (68.10%). The FCMC stipulates that the Bank has to maintain the sufficient amount of liquid assets to meet its contractual liabilities, but no less than 30% of the Bank's total current liabilities.

Liquidity ratios of the Group and the Bank:

	Group/ Bank 01/01/2011 - 30/06/2011			Group/ Bank 01/01/2010 - 30/06/2010		
	Highest %	Lowest %	Average %	Highest %	Lowest %	Average %
Liquidity ratio						
on demand	55.0	21.0	43.8	44.9	17.7	37.9
less than 30 days (as required by the FCMC)	76.5	67.0	72.4	66.8	56.8	62.5
less than 90 days	76.8	68.9	72.3	69.4	55.0	62.5

Market risks

Market risk is exposure to potential losses due to the revaluation of assets and liabilities and memorandum items caused by changes in the market prices of financial instruments resulting from the fluctuations of currency exchange rates, interest rates and other factors. Market risk identification, assessment and management are prescribed by several regulations, i.e., the Interest Rate Risk Management Policy, the Derivative Financial Instrument Policy, and the Bank's Securities Portfolio Policy.

The "loss" indicator is used by the Bank as one of the instruments to manage market risk inherent in the securities portfolio in order to identify any reductions in the securities prices below the mandatory level in a timely fashion. Based on the above, the heads of responsible structural units may decide whether the affected securities should be sold or kept in the portfolio.

The exposure of the trading portfolio to market risk and the capital charge for market risk is determined according to the standardised approach described in the FCMC Regulations for Calculation of Minimum Capital Requirement, calculating the general position risk of debt securities under the maturity method.

Currency risk

The Group and the Bank are exposed to negative effects of fluctuations in the foreign currency exchange rates on their financial position and cash flows. The exposure to currency risk is calculated for each separate currency and includes assets and liabilities denominated in foreign currencies, as well as cash flows arising from derivatives. The Bank has major open positions in EUR (euros) and USD (US dollars). Considering that the lat is pegged to the euro, the currency risk related to the Bank's open position in EUR is minimal. The Bank's open currency position in USD is hedged by using currency forwards/ futures. As at 30 September 2011, the Bank's open currency position in USD was 0.46% of the Bank's equity. The Bank controls this risk by applying the limits specified in the Limits Policy. As at 30 September 2011, all the above limits were met.

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

The Law on Credit Institutions requires that Bank's open positions in each foreign currency may not exceed 10% of equity and that the total Bank's foreign currency open position may not exceed 20% of equity. As at 30 September 2011, the Bank was in compliance with the above requirements of the Law on Credit Institutions.

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 control for both trading and non-trading portfolios. The Financial Market Division is responsible for maintaining interest rate risk within specified limits.

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

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

For the purposes of hedging interest rate risk, the limits of acceptable reduction in economic value and modified duration of the investments' held for undefined period portfolio are fixed. Derivative financial instruments are 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 the next contractual repricing date or interest rate repricing date.

Derivatives are presented 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.

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

The following table presents the Group's and Bank's sensitivity to changes in interest rates and the effect of such changes on equity and profit in the six-month periods ended 30 September 2011 and 2010:

		Group/ Bank		Group/ Bank	
		01/01/2011-30/09/2011	01/01/2011-30/09/2011	01/01/2010-30/09/2010	01/01/2010-30/09/2010
		+100bps	-100bps	+100bps	-100bps
		LVL'000	LVL'000	LVL'000	LVL'000
Total for all currencies	Effect of changes on equity	(2,867)	2,867	(1,227)	1,227
	Effect of changes on profit/ loss	693	(693)	3,260	(3,260)
USD	Effect of changes on equity	(2,867)	2,867	(1,225)	1,225
	Effect of changes on profit/ loss	(927)	927	1,513	(1,513)
EUR	Effect of changes on equity	-	-	(2)	2
	Effect of changes on profit/ loss	1,735	(1,735)	1,282	(1,282)
LVL	Effect of changes on equity	-	-	-	-
	Effect of changes on profit/ loss	(115)	115	465	(465)

Non-financial risks

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

Operational risk

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

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

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

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

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

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

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

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

Information is registered and categorized in the database following the good practice principles defined by the Operational Risk data 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.

In the reporting period, an operational risk stress test was carried out to assess the related potential loss. The test was based on external and internal events registered in the risk event database. Individual risk assessment models were designed for low-risk events and low-probability (rare) events having a significant effect (potential losses). The scenarios included changes in the Bank's operational environment affected by both internal and external factors and the Bank assessed a potential effect on its income and ability to continue as a going concern in the event of any material deterioration of circumstances in the sectors having the highest operational risk concentration for the Bank's risk profile.

The risk of money laundering and terrorism financing

The risk of money laundering and terrorism financing (hereinafter ML&TF) is the risk of possible involvement of the Bank in money laundering or terrorism financing.

The Chief Compliance Officer (CCO) is responsible for ML&TF risk management and control.

The Compliance Department specialists manage ML&TF risk, develop and implement measures for ML&TF risk management and risk prevention, in order to comply with the relevant laws, regulations and standards adopted and approved in the area of prevention of ML&TF and to exclude the use of the Bank and the Group companies in money laundering and terrorism financing.

For effective monitoring of the customer operations and ML&TF risk management, a permanent Customer Control Committee has been established in the Bank, which approves procedures and instructions in matters of customer identification, acceptance and due diligence, examines the results of the investigation of suspicious transactions and takes the relevant decisions, in accordance with its competence examines the results of customer monitoring (due diligence) and decides on refusal to starting/terminating or continuing of business relations with customers, gives recommendations to the Board for improvement of the ML&TF risk prevention system.

The principles of attracting and servicing customers that conform to the strategy of the Bank's and the Group's, which are proceed in accordance with the regulation requirements of Latvia, as well as the banks` best practice are set forth in the Customer Policy.

To mitigate ML&TF risk, a ML&TF risk management and prevention internal system has been established and documented in the Bank, which covers actions and measures aimed at ensuring that the requirements of the Law on the Prevention of Money Laundering and Terrorism Financing, the regulations issued by the Cabinet of Ministers, the regulations of Financial and Capital Market Commission and other regulation requirements should be met. All employees and authorized representatives of the Group involved in the customer servicing and the monitoring of their transactions, as well as business/personal operations, shall comply with the procedures specified therein and the relevant internal regulatory documents.

The Bank's ML&TF risk management regulatory documents set forth:

- criteria for starting the co-operation with customers and business partners;
- the range of potential customers;
- the procedure of starting business relations;
- the procedure of customer identification and determining the beneficiary;
- the indicators of unusual and suspicious transactions, their identification and investigation;
- the procedure of how the Bank refrains from execution of suspicious transactions and reports them to the Control Department;
- determining risk of the customer;
- understanding of the customer's business operations;
- monitoring of the customer's transactions and due diligence.

Reputation risk

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

Information system risk

The Bank has formulated the Information Technology Security Policy, the Information System Risk Analysis Regulations, the Security Requirements for Information Systems Being Designed, and other regulations dealing with information system risk management. Information system risk is included in operational risk based on the Operational Risk Management Policy adopted by the Bank and, therefore, for capital adequacy purposes it was resolved not to segregate it from the capital charge for operational risk. The Bank analyses the data of the operational risk event and loss database to identify whether it is possible and necessary to establish a separate capital charge for information system risk.

Income statements

Title of entry	Notes	01/01/2011 - 30/09/2011 (audited)*		01/01/2010 - 30/09/2010 (unaudited)	
		Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Interest income		28,355	28,304	26,154	26,150
Interest expense		(11,896)	(11,831)	(14,478)	(14,465)
Income from dividends		1	707	3	51
Commission and fee income		19,263	17,053	16,148	14,313
Commission and fee expense		(2,444)	(2,102)	(2,501)	(2,265)
Net realised gain/ (loss) from financial assets at amortised cost		9,480	9,480	(1,843)	(1,843)
Net realised gain/ (loss) from available-for-sale financial assets		2,423	2,423	361	361
Net realised gain/ (loss) from financial assets and liabilities held for trading		-	-	-	-
Net gain/ (loss) from financial assets and liabilities at fair value through profit or loss		(4,502)	(4,502)	8,897	8,897
Changes in fair value hedge accounting		-	-	-	-
Net result from foreign exchange trading and revaluation		15,929	15,919	(973)	(1,143)
Gain/ (loss) from sale of tangible and intangible fixed assets		(9)	(15)	101	(10)
Other income		2,556	892	1,733	1,076
Other expense		(1,755)	(2,817)	(884)	(1,526)
Administrative expense	1	(22,668)	(19,886)	(14,457)	(12,910)
Depreciation		(1,253)	(1,161)	(1,265)	(1,189)
Change in allowances for credit losses		(11,384)	(11,384)	(18,627)	(18,627)
Impairment expenses		(1,389)	(1,495)	-	-
Net profit/ (loss) for the period		20,707	19,585	(1,631)	(3,130)
Attributable to:					
Equity holders of the Bank		20,901		(1,613)	
Non-controlling interests		(194)		(18)	

* - information has been prepared based on data that are available at audited financial statements for the nine-month period ended 30 September 2011.

Balance sheet

	Notes	30/09/2011 (audited)*		31/12/2010 (audited)*	
		Group	Bank	Group	Bank
Assets		LVL '000	LVL '000	LVL '000	LVL '000
Cash and demand deposits with central banks		81,173	81,173	82,120	82,120
Demand deposits from credit institutions		453,839	453,368	266,967	266,941
Financial assets held for trading		-	-	-	-
Financial assets at fair value through profit or loss		5,945	5,945	23,372	23,372
Available-for-sale financial assets		330,776	330,776	168,657	168,657
Loans and receivables	2	510,764	512,405	587,257	586,946
Held to maturity		137,251	137,251	155,112	155,112
Change of fair value of hedge portfolio		-	-	-	-
Prepaid expense and accrued income		300	206	339	292
Tangible fixed assets		10,110	5,150	7,954	5,253
Investment properties		21,377	16,529	20,658	16,670
Intangible fixed assets		3,385	3,261	3,701	3,548
Investments in subsidiaries		304	62,369	-	58,661
Current taxes receivables		3,857	3,771	6,002	5,894
Other assets		48,809	2,822	45,388	5,099
Total assets		1,607,890	1,615,026	1,367,527	1,378,565
Liabilities					
Liability due to central banks		-	-	-	-
Demand deposits from credit institutions		1,629	1,629	1,906	1,906
Financial liabilities held for trading		-	-	-	-
Financial liabilities at fair value through profit or loss		128	128	226	226
Financial liabilities at amortised cost	3	1,503,904	1,510,633	1,287,176	1,295,623
Financial liabilities arising from financial asset transfer		-	-	-	-
Change of fair value of hedge portfolio		-	-	-	-
Deferred income and accrued expense		4,039	3,780	2,769	2,460
Reserves		-	-	-	-
Deferred income tax		164	-	171	-
Other liabilities		11,666	9,337	4,333	2,973
Total liabilities		1,521,530	1,525,507	1,296,581	1,303,188
Total shareholders' equity		86,360	89,519	70,946	75,377
Total liabilities and shareholders' equity		1,607,890	1,615,026	1,367,527	1,378,565
Memorandum items					
Funds under trust management		110,683	79,299	116,823	84,167
Contingent liabilities		19,157	19,157	21,125	21,125
Financial commitments		9,723	9,723	12,934	12,934

* - information has been prepared based on data that are available at audited financial statements for the nine-month period ended 30 September 2011 and at audited financial statements of the 31/12/2010.

Performance indicators*

Title of entry	01/01/2011 - 30/09/2011 (audited)	01/01/2010 - 30/09/2010 (unaudited)
Return on equity (ROE) (%)	30.90	-5.45
Return on assets (ROA) (%)	1.69	-0.34

* - indicators are calculated according to principles of the Regulations on Preparation of Public Quarterly Reports of Banks approved by the Financial and Capital Market Commission.

Note 1

Administrative expense

In accordance with the Regulations on the Preparation of Public Quarterly Reports of Banks, approved by the Financial and Capital Market Commission, in this public quarterly report the corporate income tax is included in the administrative expenses:

Title of entry	01/01/2011 - 30/09/2011		01/01/2010 - 30/09/2010	
	Group	Bank	Group	Bank
	LVL '000	LVL '000	LVL '000	LVL '000
Corporate income tax	(3,279)	(3,083)	693	730
Other administrative expenses	(19,389)	(16,803)	(15,150)	(13,640)
Total	(22,668)	(19,886)	(14,457)	(12,910)

Note 2

Loans and receivables

Title of entry	30/09/2011		31/12/2010	
	Group	Bank	Group	Bank
	LVL '000	LVL '000	LVL '000	LVL '000
Loans	480,941	482,582	528,872	528,561
Loans to credit institutions	29,823	29,823	58,385	58,385
Total	510,764	512,405	587,257	586,946

Note 3

Financial liabilities at amortized cost

Title of entry	30/09/2011		31/12/2010	
	Group	Bank	Group	Bank
	LVL '000	LVL '000	LVL '000	LVL '000
Deposits	1,454,580	1,463,851	1,236,791	1,248,190
Issued securities	23,806	23,806	22,921	22,921
Subordinated deposits	22,976	22,976	23,962	23,962
Term deposits from credit institutions	2,542	-	3,502	550
Total	1,503,904	1,510,633	1,287,176	1,295,623

Note 4

Analysis of concentration of the Group's/ Bank's securities portfolio

The Group's and the Bank's securities portfolio break downs by countries of issuers:

issuer					Group/ Bank
	At fair value	Available-for-sale	Held-to-maturity	Total	30/09/2011 % of sareholders' equity %
	LVL'000	LVL'000	LVL'000	LVL'000	
Russia					
Central governments	-	30,321	6,235	36,556	
Investment funds	-	2,088	-	2,088	
Credit institutions	-	18,517	21,433	39,950	
Corporate companies	29	21,432	29,648	51,109	
Total	29	72,358	57,316	129,703	129.80
Germany					
Central governments	-	13,057	7,125	20,182	
Credit institutions	-	47,011	2,768	49,779	
Total	-	60,068	9,893	69,961	70.01
Canada					
Central governments	-	7,064	14,661	21,725	
State companies	-	18,476	5,278	23,754	
Total	-	25,540	19,939	45,479	45.51
United States					
Central governments	-	25,933	-	25,933	
Total	-	25,933	-	25,933	25.95
Sweden					
Central governments	-	19,983	-	19,983	
Credit institutions	-	2,611	-	2,611	
Total	-	22,594	-	22,594	22.61
Norway					
Credit institutions	-	13,419	2,780	16,199	
Total	-	13,419	2,780	16,199	16.21
United Kingdom					
Central governments	-	3,355	-	3,355	
Credit institutions	-	7,929	169	8,098	
Total	-	11,284	169	11,453	11.46
Kazakhstan					
Financial institutions	-	103	-	103	
Credit institutions	56	4,213	3,590	7,859	
Corporate companies	-	647	1,881	2,528	
Total	56	4,963	5,471	10,490	10.50
Securities of international organizations	-	68,206	24,976	93,182	93.25
Securities of other countries	317	26,411	16,707	43,435	43.47
Total securities, net	402	330,776	137,251	468,429	

The Group's/ Bank's securities totalled LVL 468 (355) million as at 30 September 2011. Most of these assets (85.96%) have been invested by the Group/ Bank in investment-grade securities. The Group/ Bank has no investments in securities issued by the central governments of the European countries that are still struggling from the solving of their financial and budget problems, such as Greece, Ireland, Spain and Italy.

In the reporting period, impairment was recognized for the following securities of the available-for-sale portfolio:

- securities of three credit institutions of other countries – totalling LVL 989 thousand;
- securities of a Latvian credit institution – totalling LVL 56 thousand;
- securities of two companies of other countries – totalling LVL 37 thousand;
- securities of one government of other country – totalling LVL 103 thousand.

Given the above, in the reporting period the annual yield of the Bank's securities portfolio was 4.96% (6.2%), while the income earned from the securities portfolio reached LVL 14 million.

Note 5

Events after reporting date

Except as disclosed below, as of the last day of the reporting period until the date of signing these public quarterly consolidated financial statements there have been no other events requiring adjustment of or disclosure in these public quarterly consolidated financial statements or notes thereto.

On 28 October 2011, the FCMC adopted a resolution to register the base prospectus of ABLV Bank, AS for debt securities, specifying that ABLV Bank, AS may under the provisions of the base prospectus offer debt securities to the public for the total amount of LVL 140,000,000 or its equivalent in EUR or USD. Public issue was driven by large customer demand for investment products, which was demonstrated by the previous issues of private placement bonds. The strategic goal of the issue is to replace long-term deposits with customer bond investments, which will enable maintaining the required liquidity and maturity structure more efficiently, whereas customers will enjoy higher yields as compared to deposits. As opposed to deposits, bonds offer wider opportunities to engage in various transactions, i.e., to buy, sell or raise financing against bond collateral. According to the base prospectus, ABLV Bank, AS may also issue subordinated bonds, which will enhance the Bank's capital adequacy ratio, providing a strong foundation for steady growth of the Bank.

At the end of October 2011, the financial position of MF Global (an US brokerage company), which is one of the Bank's cooperation partners in financial instruments transactions, deteriorated substantially and, as a result, an application was filed to court on 31 October 2011 to initiate bankruptcy proceedings against that financial institution. In terms of volume, this cooperation partner was not significant for the Bank, as at 17 November 2011, the Bank's claims to MF Global amounted to LVL 1.4 million, and the amount of the financial instruments of the Bank's customers held with this financial institution was equal to LVL 7.2 million. The Bank's management believes that this event will not affect the related Bank's business.

Subsequent to the reporting date, in November 2011 the Bank received a letter from the FCMC stating that the Bank was expected to comply with the minimum capital requirement of 12.30% starting from 30 September 2011. At the beginning of October, a permission to include the Bank's audited profit of the first half of the year 2011 in the Bank's equity was received from the FCMC, and therefore the Bank's capital adequacy ratio equaled 13.76%, as at 30 September 2011.