AAS BALTA
ANNUAL REPORT 2004

CONTENTS

NON-LIFE INSURANCE IN LATVIA

The year 2004 for the Latvian non-life insurances market has brought several changes. Their impact on the process of development of the area was observed already last year and it is expected that it will not decrease also in the near future. They include the Republic of Latvia Saeima (Parliament) attempts to agree effective legal enactments regulating insurance operations in Latvia with the international, especially the European Union, requirements and practice, stipulating both increased protection of policy holders, as well as regulation of insurers' work. Thus in May 2004 after long and complex development the law on compulsory motor third party liability (motor TPL insurance) came into force. This law principally changed the basic principles of this insurances service, namely, insurers' liability limits increased several times, the liability cover expanded, as a result of which insurance protection is valid in all EU member countries, simultaneously insurers should cover losses, whose indemnification was not provided by the old law. Thus, for example, insurers should provide financial support to family members (dependents) in case of loss of the person providing for the family, from January 1, 2005 the expenses of state and municipal institutions for medical treatment and social benefits to persons who have suffered in traffic accidents should be covered, but from May 1 also intangible loss caused to persons should be covered. Essential changes to the new compulsory motor TPL law were also the powers delegated to the very insurers to fix the price of compulsory motor TPL policy and the establishment of the Latvian Motor Vehicles Insurers Office. This law caused wide discussions and dissatisfaction of the public with subsequent rise of prices for compulsory motor TPL policies.

During the year, work was started on the law of insurance and reinsurance intermediaries. Although the law would be a significant step for making order in the operations of insurance intermediaries and more qualitative protection of consumer rights, from which the main beneficiary would be the user of intermediary services, the draft law caused wide comments in mass media, as a range of intermediaries insisted on their dissatisfaction with the requirements included in the law.

It should be admitted that in 2004 the government in cooperation with professional unions started work on putting order in requirements for the professional third party liability insurance. Thus the basic requirements were compiled for insurance of bailiffs, notaries and hydro buildings. Whereas, in order to protect the society against losses that might be caused by performers of construction works, the underlying requirements were worked out for compulsory third party liability of building contractors in order to include them in the Construction Law.

In 2004, the amount of gross premiums written by non-life insurance companies reached 122 million lats, which, compared to 2003, is by 4% more. But the amount of gross claims paid last year increased more rapidly, namely, compared to 2003, by 24% and reached 49.4 million lats.

In the same way as in prior years, also in the reporting year non-life insurance companies mainly concluded transactions with legal entities. These transactions made up 62% of the premiums written. It should be added that last year there was a tendency of growth in the share of contracts signed with physical persons, i.e., from 35% in 2003 to 38% in 2004. Although the total break-down of insurances claims showed the same dominating tendency that the share of claims paid to physical persons grow, the amount of insurance claims paid to legal entities made the largest part, which reached 59% of the total insurance indemnities paid out.

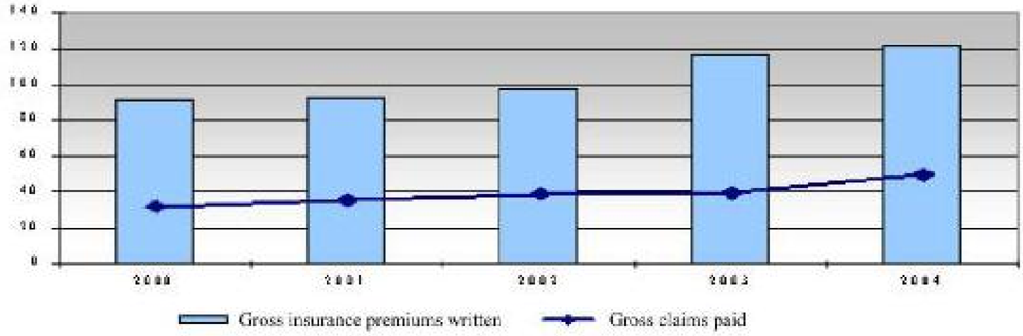
Also in 2004 there was a high market concentration observed in non-life insurance, according to gross insurance premiums written five non-life insurances companies wrote 73% of the total gross insurance premiums underwritten by non-life insurances companies last year. Thus there is a risk that successful or unsuccessful work of some of these insurances companies might essentially impact the development of non-life insurance market.

In 2004, the most part of gross premiums written in the portfolio of non-life insurance companies or 28% of total gross premiums written was attributable to voluntary motor third party liability insurance (CASCO) followed by compulsory motor TPL by 23%. The next largest part in the insurances portfolio was for the property insurance (insurance against fire and nature catastrophes and other losses) - 15%, which was followed by health insurance with 13%.

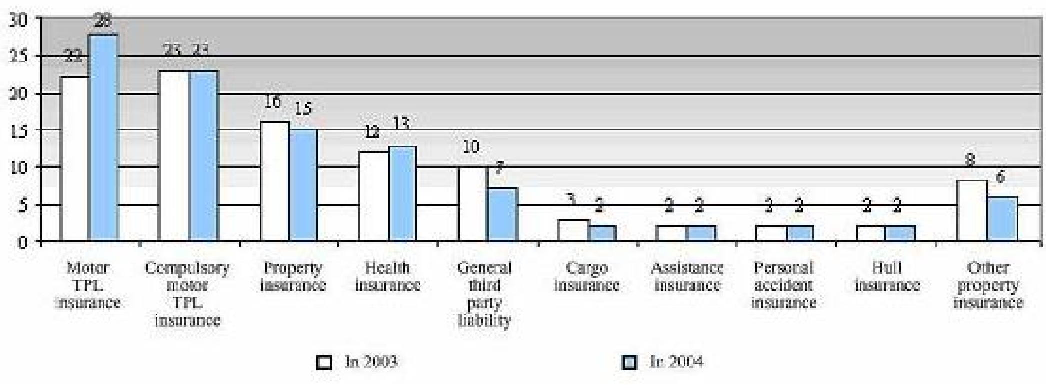
Compared to the portfolio of non-life insurances companies in 2003, the largest changes are observed in the share of voluntary motor TPL insurance portfolio from 22% in 2003 to 28% in 2004. Compared to 2003, last year the share of health insurance in the total insurance portfolio has grown by one percent, the share of compulsory motor TPL has remained constant, i.e., 23%, but the part of property insurance portfolio has decreased by one percent.

In 2004, compared to 2003, upon growth of the number of personal accidents, as well as upon increase of the number of car thefts and thefts from cars, it is a logical that the large share of claims paid out in motor TPL insurance retained the same share for non-life insurances companies, namely, 30% for CASCO and 25% for compulsory motor TPL. Health insurance gave 22% of the total amount of claims paid. It should be noted that, compared to the year 2003, the amount of claims paid in 2004 in property insurance has grown two times and makes up 13% of the total claims paid out in non-life insurance.

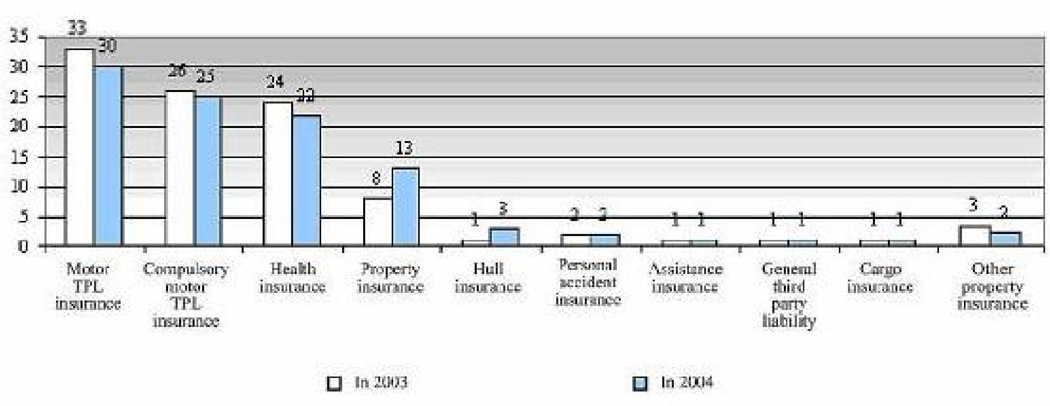
Gross insurance premiums written and claims paid by non-life insurance companies



Gross insurance premiums written by non-life insurances companies distributed according to insurance types/percentage of gross claims paid in 2004/million lats



Gross insurance claims paid by non-life insurances companies distributed according to insurance types/percentage



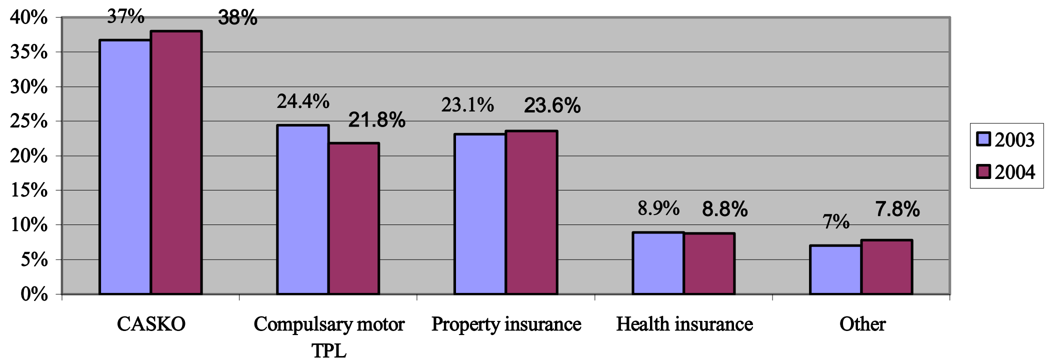
A STABLE YEAR OF GROWTH FOR AAS BALTA

In 2004, AAS BALTA wrote gross insurances premiums of 27,566,844 lats, ensuring a 5% growth adequate for average market development. One of the company's strategic goals is to be the leading insurance company. This AAS BALTA successfully realized last year by comprising 22.94% of non-life insurance market in Latvia.

If looking upon BALTA'S insurances portfolio for 2004, we can conclude that there are similar tendencies observed in the portfolio as for the whole market. Namely, the highest share in BALTA'S portfolio is CASCO - 38%. The second largest part is compulsory motor TPL – 21.8%, which is followed by property insurance with 23.6% large part of insurance portfolio. Compared to the year 2003, last year the share of main insurance classes in AAS BALTA insurance portfolio has not

materially changed. Largest changes have occurred in the amount of compulsory motor TPL, which last year has decreased by almost 3%. Minor decrease can be observed in health insurance, but the share of CASCO and property insurance in BALTA'S insurance portfolio has slightly increased, respectively by 1% and 0.5%.

AAS BALTA insurance portfolio/%



Whereas, in gross insurance claims AAS BALTA in 2004 paid out 11,436,574 lats, which is 24.2% of all gross insurance claims paid out in non-life insurance market.

LIFE INSURANCE IN LATVIA

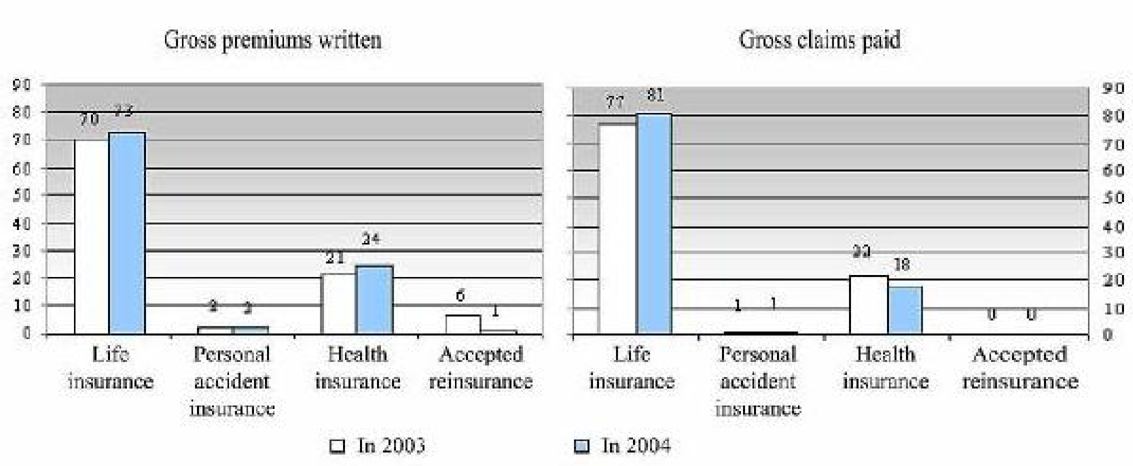
The main tendency, which characterizes development of life insurance market in recent years, is the rapid growth. Last year the companies operating in this segment wrote insurance premiums in huge amounts totally of 8.99 million lats by reaching a growth of 27%. However, irrespective of the high development speed, Latvian life insurance market is still the smallest in the Baltic States by lacking behind considerably from the neighboring countries. We can still conclude that the Latvian life insurance market is not mature andwith large potential of growth. Given these aspects, as well as the options granted by Latvia's accession to the EU, more and more foreign life insurance companies show interest about launching of business in the Latvian life insurance area.

A significant drive of the rapid development of life insurance market was the favorable legislation, which provides tax reliefs for clients of endowment insurance. Also the increasing understanding of society and responsibility for ensuring well-being in the old age has forced more and more people to involve in the third pension level by signing endowment insurance long-term agreements. A driving force of the same power for development of insurance area is the increasing liability of parents for their children's future, under which endowment insurance for education of children and accrual for their future becomes more demanded.

In 2004, also new cooperation forms have appeared between banks and life insurance companies, which will certainly increase the popularity and spread of life insurance products. During the last year Latvian also the first *unit-link* products have been introduced in the life insurance market, which have considerably speeded up the development dynamics in Estonia and Lithuania.

It should be added that in 2004 the most part of gross premiums written by life insurance companies or 73% were written in life insurance. Compared to the year 2003, the amount of gross insurance premiums written in this insurance last year grew by 24% and reached 6,554 thousand lats. In the prior year the clients of life insurance companies more and more purchased also health insurance policies – the amount of gross premiums written in this class of insurance grew by 33% reaching 2,127 thousand lats, and the share of this insurance class in the portfolio of gross premiums written by life insurance companies was 24%.

In 2004 life insurance companies have paid out claims for several large endowment insurance contracts whose period expired last year. Under this influence, the amount of insurance claims paid by life insurance companies, compared to the year 2003, grew two times. It is characteristic that upon rapid growth of gross premiums written in health insurance, also the amount of claims paid in health insurance grew by 42% and reached 1,319 thousand lats.



Gross insurance premiums written by life insurance companies and insurance claims paid by life insurance companies according to insurance classes in percentage.

BALTA LIFE BECOMES A LEADER

Having assessed AAS BALTA Life operations and financial results in 2004, it should be noted that the last year was a very successful year for the company and the set objectives and tasks have been met.

The amount of premiums written by BALTA Life in 2004 reached 2.2 million lats considerably exceeding the planned amount of premiums written. This has been reached thanks to purposeful and reasoned activities of sales and marketing structures throughout the whole year. In the same way, during the year 2004 BALTA Life continued realizing the strategic investment plan for establishment of its specialized pension and life insurance salesmen network in Riga and Latvian regions. BALTA Life is aware that a team of highly professional, trustworthy and well motivated employees will make the company's success for the future.

The premium result reached in 2004 placed BALTA Life in the first place in the Latvian pension and life insurance market (without personal accident and health insurance), which was the company's long-term strategic goal.

At the beginning of 2004, BALTA Life started a very significant project for the Company's future development – establishment of a new IT business accounting system LIITS. This is both financially and resourcefully largest realized project in 2004.

Year 2004 was significant for the Company also with the large amount of claims paid. In the last year 1,767 million lats were paid, which is by 159% more than in 2003.

AAS BALTA Life in 2004 realized a stable and safe investment policy by ensuring its clients additional profit, which every year is added to accruals in insurance contracts. A successful investment result has been reached, irrespective of the general investment income reduction tendencies in Latvia and worldwide.

BALTA Life closed the year 2004 with a loss of 106,976 lats. These results were previously planned and are compliant with the shareholders' prescribed long-term Company's development plan. Losses are connected with the rapid growth of the number of insurance contracts, which cause cost concentration exactly in the first years of operational run of the contracts.

INVESTMENT ACTIVITIES OF LATVIAN INSURERS

A significant role in ensuring successful operation of insurance companies is the investment policy followed by them.

As at December 31, 2004 total investments of Latvian non-life insurance companies reached 88.1 million lats, which, compared to the end of 2003, is by 18.6% or 13.8 million lats more.

Comparing the non-life insurers' investment structure at the end of 2003 and 2004, we can conclude that it does not materially differ. At the end of 2004 investment amounts of non-life insurers have increased in debt securities and other securities with fixed income, which in the total investment portfolio reached 30.7 million lats or 35% of total investment amount of non-life insurance companies, and at the end of 2003 they made up 30.8%. They were followed by term deposits in credit institutions, which as at December 31, 2004 reached 27.9 million lats or 31.7%. In the same way, non-life insurers in 2004 invested resources in land properties and buildings (11.3%), as well as in investment funds (8.4%). Other type of investments made by non-life insurers at the end of 2004 were much less in respect of their scope.

It should be added that at the end of 2004 the most significant part of investments of non-life insurance companies or 90% of the total investments was placed in Latvia, 3% were placed in Lithuania, 2% - in the United States of America, but the rest 5% - in sixteen other countries, as well as securities issued by international financial institutions.

In 2004 investment return of non-life insurance companies was 4.1%, for comparison - in 2003 it was 2.7%.

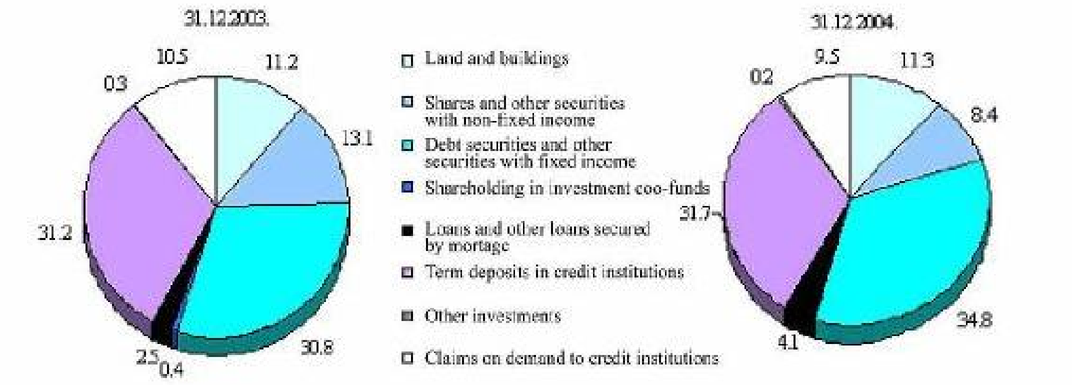


Exhibit 1. Investment structure of non-life insurance companies

In its turn, total investments of life insurance companies as at December 31, 2004 were 26.3 million lats, which, compared to the end of 2003, is by 14.1% or 4.3 million lats less.
Most part of investments is still investments with high liquidity and low investment risk level. Thus, for example, investments debt securities and other securities with fixed income reached 16.4 million lats or 63% of total investments of life insurance companies. Whereas, the amount of investments in term deposits in credit institutions was 7.1 million lats or 27% of all investments of life insurance companies. It should be admitted that in 2004 the investment policy of life insurance companies was more conservative than at the end of 2003, namely, investments in shares and other securities with non-fixed income at the end of 2004 decreased by 75%, forming 6% of total investments of life insurance companies or 1.6 million lats.

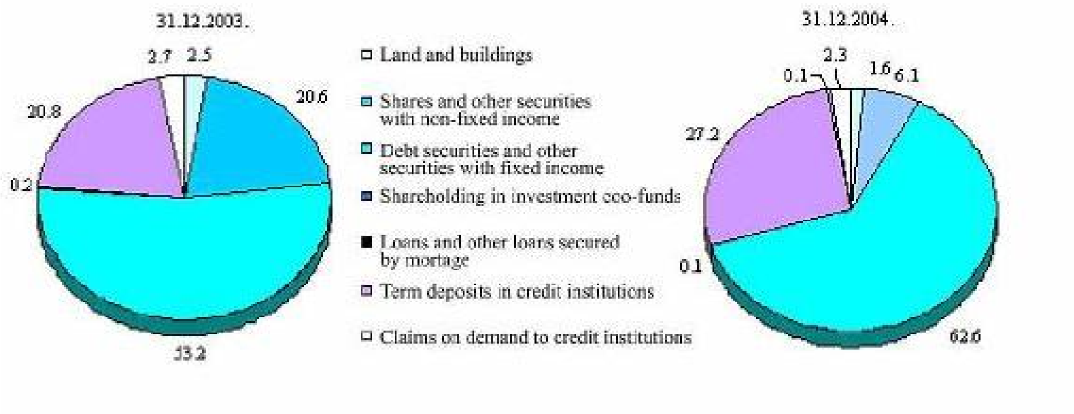


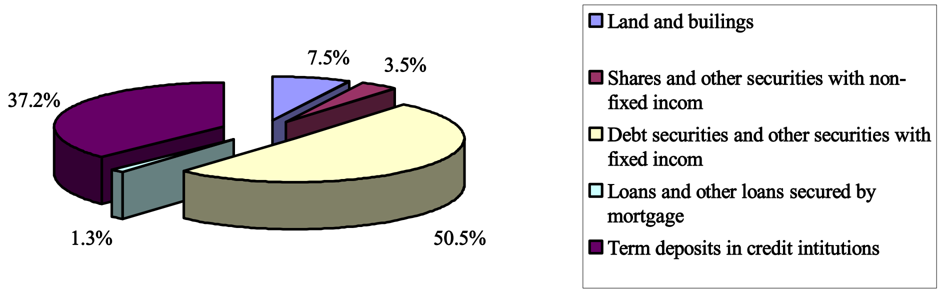
Exhibit 2. Investment structure of life insurance companies

AAS BALTA CONSOLIDATED INVESTMENT RATIOS

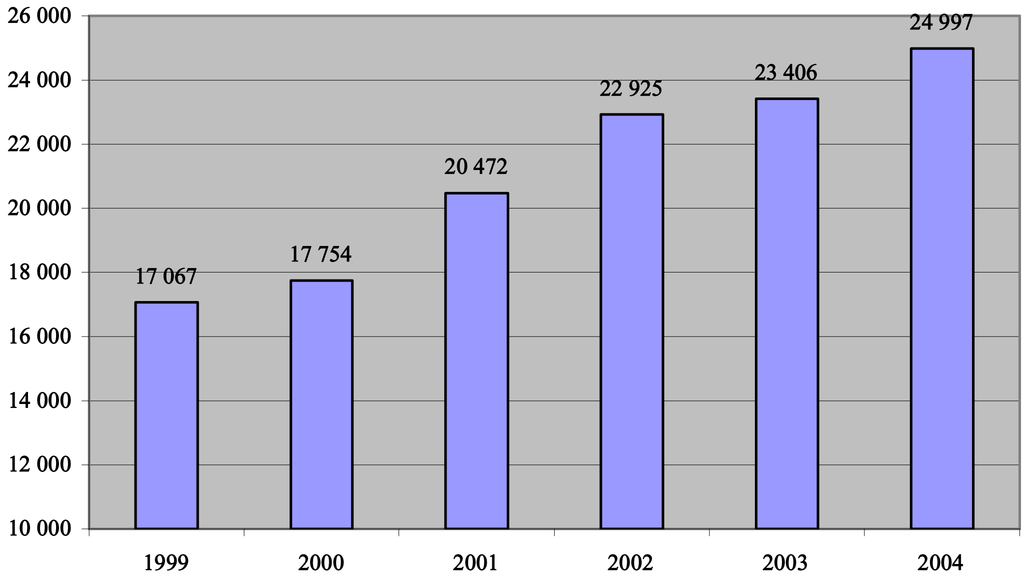
During 2004 AAS BALTA and its subsidiary company AAS BALTA Dzīvība continued following the investment policy, according to which a conservative investment portfolio with stable investment return guarantees was established. During last year the scope of BALTA'S consolidated investment portfolio increased by 1,591 thousand lats and at the year-end reached the amount of 24,997 thousand lats. Investment net income in 2004 was 1,420 thousand lats, whereas investment management expenses reached 50 thousand lats. It overall ensured the profitability of consolidated investment portfolio of AAS BALTA in 2004 in the amount of 5.7%.

Last year investment securities with non-fixed income in AAS BALTA consolidated investment portfolio essentially decreased, namely, from 4,345 thousand lats at the end of 2003 down to 878 thousand lats at the end of 2004, under this impact term deposits in credit institutions essentially increased, their total amount reached 9,307 thousand lats. In the same way, the share of Latvian treasury bonds in the consolidated investment portfolio slightly increased, their amount reached 10,172 thousand lats. The total amount of fixed income debt securities during the year increased up to 12,612 thousand lats. Thereby at the end of 2004, AAS BALTA investment fixed income debt securities made up 50.5% of the consolidated investment portfolio. Total income from fixed income debt securities reached 782 thousand lats, which ensured the average profitability for this part of portfolio 6.6% per annum. The total AAS BALTA and its subsidiary company's investments in deposits made up 37.2% of the investment portfolio. Whereas, interest income from deposits last year was 408 thousand lats, which makes up 5.4% profitability and against the average deposit rate in the country can be assessed as a good achievement.

AAS BALTA investment portfolio in 2004



AAS BALTA investments/thous. Ls



DEVELOPMENT OF INFORMATION TECHNOLOGIES

In 2004 AAS BALTA has carried out a huge and financially resourceful work in order to improve and update the Company's information technologies. During the year, not only new computer hardware has been bought, but also its fastness has been significantly improved and communication improved between the Company's central office and regional branch offices. Similarly, huge work has been carried out for development of a new information technology system called TIA.

Together with coming into force of the new law on compulsory motor third party liability insurance (motor TPL), AAS BALTA essentially changes approach to distribution of this product and the procedure of price calculation for compulsory motor TPL policies by adapting it to the actual business situation. Namely, BALTA was one of the first insurance companies, which, when calculating the price for compulsory motor TPL policies, analyzed a client's history since introduction of compulsory motor TPL insurance, thus ensuring the clients individual service and payment for services according to their driving style. This step of BALTA promoted also the rest of insurance companies to develop the software associated with this insurance area started to think about a common solution for all insurance companies. With its approach AAS BALTA popularized the principle "You pay as you drive", intending to show that by means of compulsory motor TPL policies rates it is possible to improve the driving culture in Latvia.

Together with changes in legal enactments, new information systems or new versions of the existing system started to function in AAS BALTA, which ensured differentiated approach to calculation of insurance premiums by taking into account information not only about the given motor vehicle, but also about its owner. It should be added that the calculation of policy prices became publicly available after the calculator was inserted in BALTA'S internet home page. By means of this calculator clients can clarify the amount of insurance premium to be payable for insurance policy. This service was offered also to cooperation partners, so that a client could receive a policy on similar principles in any AAS BALTA policy distribution point.

In July 2004, the IT service standard for BALTA'S structural units was introduced. It comprises 20 insurance basic functions and provision and services of business supporting system. The standard prescribes also the scope of IT services, system availability and operational quality. Based on this, BALTA'S IT Department ensured users' support, technical support, information systems administration and software development and implementation functions.

In 2004, the TIA project was started –development and implementation of TIA (the insurance application), which will provide a possibility for BALTA to develop and implement new insurance business procedures for purposes of raising effectiveness of BALTA'S operations, its competitiveness and further development in the Latvian insurance market.

A respective system development infrastructure has been developed for TIA project, thus essentially supplementing AAS BALTA data centre, purchasing average class data base servers and terminal servers.

At the beginning of the year, the TIA project initial research was made. According to the project scope fixed during the research, the project resources defined for its realization, work plan and expected budget, in April the first phase of TIA project was started. Additionally, demands were defined for the first products implemented in TIA system, they are personal accident insurance, general third party liability insurance and business interruption insurance. It can be added that the demands defined were successfully implemented during the year by implementing the above mentioned products into TIA. Similarly, the TIA system testing work was carried out, which at the beginning of 2005 completed transfer of the first stage of TIA to the hands of sellers.

Meanwhile, during 2004 insurance sales, insurance claims, accounting, underwriting directions demands and future business processes were defined, the work was done on DWH direction and critical reports, development of TIA internet solution, user and system administration issues and implementation of accounting system for official forms.

It should be noted that at the end of 2004 AAS BALTA upgraded its data transmission network, which improves the speed, quality and safety of data transmission. Meanwhile, it guarantees uninterrupted operation of the centralized software and centralized data processing.

PERSONNEL MANAGEMENT IN 2004

In 2004, there was an essential turn in personnel management by highlighting it to the business strategic partner in order to realize successfully the planned changes in the business area. Together with other issues improvements in the personnel management system last year was one of AAS BALTA operating priorities. During the year, a personnel management development program was developed for 2005-2008 and the main short-term and long-term objectives defined.

Together with changes of organizational development, business processes and new technologies in BALTA, a need arose for new personnel competencies. For ensuring new competences work was started at implementation of an integral personnel selection system and expansion of training centre. Given the fact that it is not possible to get professional education about insurance area in Latvia, the Company has worked out a multi-level training program for the new employees to successfully learn and strengthen the necessary knowledge, skills and abilities.

Last year the leveling of insurance intermediaries was continued, as started in 2003. The Company's management paid special attention to improvement of employees' achievements and their motivation in long-term in order to connect their professional career with BALTA. Therefore, last year we started establishing business achievement assessment and personnel development system – proper software was adapted and implemented and the first personnel appraisal and development negotiations were carried out.

In order to ensure that employees feel belonging and satisfied with their work in BALTA, that their work performance is as good as possible, at the end of 2004 the work was started at preparation of research on employee satisfaction. The aim of the research is to identify the factors promoting employee satisfaction and the areas to be improved, according to which work life quality improvement measures were taken. It is planned to carry out an employee survey each year starting already from the spring of year 2005 when the first such survey was carried out.

In 2004, BALTA'S Training centre organized internal and external training. By taking part in 12311 training lessons, during the year the training lectures and seminars were attended by 450 AAS BALTA employees. 164 BALTA'S central office and 286 regional office employees were trained. In connection with implementation of a new integral insurance information technology system TIA, last year intensive personnel training was continued in the information technology area. For acquire of knowledge about TIA system, training was organized in the amount of 9700 hours, they were attended by 103 central office, 199 branch office employees and 104 insurance salesmen.

At the end of 2004, a tradition was established – a competition on the Annual Employee and Annual Manager prize. The Company's employees nominated the best candidates, which in their opinion, suited for this prize, by sending a motivated letter to the competition commission. Whereas, the commission, having analyzed the submitted motivation letters, selected the winners. In BALTA'S general meeting of employees, thirteen Annual employees and eight Managers were awarded prizes from the Company's central office, regional centres and branch offices.

Events of the same significance in AAS BALTA personnel life were the informal events organized last year. An old and stable tradition is the employee reunion, which last year was held the 21st time in succession and near city Rēzekne brought together almost 900 BALTA'S staff and their family members from the whole Latvia. During the reunion, almost 40 teams fought in different sport-related and sport-not related prizes and titles.

CONTENTS

MEMBERS OF THE COUNCIL AND THE BOARD, THE AUDITORS

Council

Name, Surname	*Position*	
Jesper Rasmussen	Chairman of the Council	
Mogens Kaj Andersen	Member of the Council	(since 27.08.2004)
	Deputy of Chairman of the Council	(until 27.08.2004)
Søren Theilgaard	Member of the Council	(until 27.08.2004)
	Deputy of Chairman of the Council	(since 27.08.2004)
Sven Staffan Eberhard Crona	Member of the Council	
Svend Jorgen Heineke	Member of the Council	
Jan Per Jensen	Member of the Council	

Board

Name, Surname	*Position*	
Jānis Abāšins	Chairman of the Board	
Ilze Cīrule	Member of the Board	
Uldis Dzintars	Member of the Board	
Uģis Vorons	Member of the Board	
Nastasja Frīdmane	Member of the Board	(since 06.04.2004)
Andris Ņikitins	Member of the Board	(until 29.03.2004)

Name and address of the auditor and responsible certified auditor:

PricewaterhouseCoopers SIA
Audit company licence No. 5
Kr. Valdemāra 19
Riga LV-1010
Latvia

Responsible certified auditor:

Juris Lapshe
Certified auditor
Certificate No. 116

REPORT OF THE COUNCIL AND THE BOARD

Upon growth of the general level of welfare and solvency in the country, the insurance market continues to grow. Insurance traditions are more and more strengthening in the Latvian society, understanding of population about the meaning and preferences of insurance is growing. In 2004, compared to 2003, the insurance market has grown by 6%, gross premiums written reaching 129.15 million lats. Already for several years the Latvian insurance market is characterized of a tendency that life insurance is developing more rapidly than the non-life insurance. So in life insurance the amount of gross insurance premiums written increased by 27% and reached 8.99 million lats, whereas in non-life insurance the amount of gross insurance premiums, by reaching 120.15 million lats, has increased only by 4%.

Insurance market development has had several favourable factors. The demand for non-life insurance services was promoted both by the development of real estate market, and the ever-increasing use of mortgage loans. Also the circumstance that inhabitants use more and more leasing services in purchase of their cars has had a positive impact on insurance. It should be noted that upon continuation of disorder in the health care area, the demand for health insurance is also increasing, which today has become a popular benefit for employees and a part of bonus system. Whereas, an essential drive in life insurance market development is the favourable legislation, which provides tax benefits for purchasers of endowment insurance. Also the growing understanding of society and liability for ensuring welfare in the old age has required more and more people to apply for the third pillar pension system by entering into long-term endowment insurance contracts. At least the same drive for development of this type of insurance is the increasing parents' liability for the future of their children, which leaves impact on endowment insurance for education of children and provision for their future.

The amount of gross insurance claims paid in 2004 has grown considerably more rapidly than the premiums written, namely, in claims to their customers 55.97 million lats have been paid out and, in comparison with the payments last year, it is by 28% more. From these, non-life insurance has paid in gross claims 48.68 million lats, which, compared to the year 2003, is by 24% more. But life insurance companies have paid in gross claims 7.28 million lats and it is by 70% more than last year. The rapid growth in claims of life insurance can be explained by the fact that last year a large number of five-year period endowment contracts expired, according to which insurers paid accrual and profit interest payments to customers.

Year 2004 was a successful and stable growth for AAS BALTA. The most significant budget ratios have been fulfilled, including gross premiums written and the combined ratio*.

In 2004 AAS BALTA has worked much in order to improve the work effectiveness for the Company and raise its competitiveness in the Latvian insurance market. Firstly, we have regularly identified the client needs and wishes, according to which we have adapted our insurance services. We have taken care that our offer would be easily understandable and perceivable to our clients. During a year we have modified the voluntary motor insurance proposal, it has become one of the friendliest and competitive products in the market. Together with the new compulsory motor TPL law coming into force, we have reassessed our compulsory motor TPL proposal. Now our clients have access to flexible discount system, which is based on each driver's driving experience and insurance history. Secondly, last year AAS BALTA started reorganization of its sales processes. Within its framework we have worked on rising of insurance salesmen qualification and improvement of distribution channels. During the year we have also opened new client service points, several branch offices have been moved to more comfortable premises.

An essential part of insurance activities is disbursement of insurance claims. We have improved our claims settlement process, which has allowed decreasing the time of disbursement of insurance claim and the period of repair works significantly. Simultaneously, last year the claims regulation centralization was started.

However, the most important and financially most considerable project was the new insurance IT system – TIA. Its development involved a large part of AAS BALTA employees and specialists were invited from servicing companies. During the year the first stage of TIA system was developed, but the work on it will continue even until the beginning of 2006 when the final putting into operation is planned. Together with implementation of TIA system, AAS BALTA will be able to put in order and substantially activate effectiveness of insurance process, as well as essentially decrease the Company's costs.

AAS BALTA branch offices and affiliates are acting in one unified IT network. In 2004 we have taken care about improvement of its quality, its high speed of operation has been increased in order to allow more operative contacting The specialists of various structural units, but the clients receive insurance services (proposals) or insurance claims in a faster manner.

REPORT OF THE COUNCIL AND THE BOARD (continued)

Insurance works are carried on and the real services performed by certain people – AAS BALTA employees. In 2004 we have paid special attention to improving the client service culture level. Therefore we attempt to ensure that our employees acquire new skills and capabilities in work with clients. During the year, we have invested more than 47 thousand lats in personnel training. Last year also more effective use of man resources was developed. In order to reach the Company's strategic aims, we have developed and improved personnel training system, which resulted in regular possibility for employees to receive training for improving the necessary skills and competences.

AAS BALTA operations, especially the activities of investment management, are subject to various financial risks, including the credit risk, foreign currency exchange rate risk and interest rate risk. In order to minimize the adverse effect of potential financial risk on the Company's financial position, BALTA'S management limits (hedges) the allowable risk level.

By assuming credit risk – a risk that a transaction partner will not be able to pay its financial commitments timely, BALTA observes the set limitations in respect of one borrower or a group of borrowers. Such risks are reviewed at least once per annum, in the same way a regular comparison is being made between the actual and the allowable risk level. The amount of credit risk is managed by performing regular analysis over the borrowers and potential borrowers' possibilities to pay interest and the principal amount of loan and, where necessary, the limitations are changed. Partially the credit risk is limited by requesting collateral, as well as personal or companies' guarantees. Except or investments in Latvian state treasury bonds and investment funds, AAS BALTA has not made investments whose risk amount would exceed 10% of the Company's capital and reserves.

AAS BALTA regularly receives claims for payment of insurance indemnities. In order to sustain liquidity and reduce cash flow risk, BALTA performs certain actions, namely, the Company's management manages cash flow from direct insurance activities by balancing it with cash flow generated from investing activities. Thus the minimum amount of cash is ensured, which is necessary for making insurance claim payments.

All these activities have promoted the Company's development, which resulted in gross insurance premiums written in 2004 by AAS BALTA in the amount of 27,566,844 lats ensuring an adequate growth of 5% for the average market development. One of the Company's strategic aims is to be the insurance market leader. AAS BALTA has successfully realized it by embracing 22.94% of non-life insurance market in Latvia. In gross insurance claims AAS BALTA in 2004 paid 11,436,574 lats, which makes up 24.2 % of the gross claims paid out in the non-life insurance market.

AAS BALTA subsidiary company AAS BALTA Dzīvība in 2004 has written gross insurance premiums of 2,228,126 lats, but in gross claims paid out 1,766,948 lats. Also AAS BALTA Dzīvība has successfully realized the budget planned at the beginning of the year. It should be noted that the Company during 2004 has increased its business volume by 62%. In order to improve the client service and effectiveness of insurance work, also AAS BALTA Dzīvība has started a considerable work on development and gradual implementation of new insurance IT system - LIITS.

In reaching AAS BALTA consolidated profit ratios, a substantial role was played by reinsurance policy, which allows quick and qualitative servicing of large policy holders. However, AAS BALTA conservative and prudent investment activities have ensured the annual average investment yield of 6.06 % and income of 925,525 lats. At the year-end AAS BALTA investment portfolio without investments in land, buildings and subsidiaries reached 16,992,182 lats.

It can be added that in 2004 AAS BALTA has ensured the level of combined ratio being at* 95.8%, which at the beginning of the year in the budget was planned to be at 98.9%. The good result of the combined ratio has been reached thanks to reduction of the Company's costs and favourable insurance claims level in 2004.

Hereby we would like to inform that the operations performed in 2004 have brought a consolidated profit for AAS BALTA of 1,875,574 lats, which after tax payment is 1,502,844 lats. The Company's Board of Directors is planning to propose the shareholders to pay dividends in the amount of 50% from the profit for 2004.

In the year 2005 AAS BALTA is planning a considerable growth in insurance premiums written. It is based on the Company's wide sales network, insurance products adapted to clients' interests and the enforced reinsurance policy.
In 2005, we will continue making substantial investments in information technologies development. Under its influence, a rise in expenses is expected, which will affect the combined ratio level. Irrespective of the considerable investments, AAS BALTA is planning to operate with profit, which complies with the shareholders' interests.

On behalf of the insurance company BALTA and its subsidiary company's management we express gratitude to all our clients, shareholders and employees for the trust manifested towards the Group.

* Proportion of net insurance claims incurred and company's costs against net insurance premiums earned.

Jesper Rasmussen	Jānis Abāšins
Chairman of the Council	Chairman of the Board

9 March 2005

STATEMENT OF THE RESPONSIBILITY OF THE MANAGEMENT

The Council and the Board of the AAS BALTA confirm that the consolidated annual accounts for the year ended 31 December 2004 are prepared in accordance with the statutory requirements of the Republic of Latvia, based on relevant accounting methods that have been applied in a consistent manner, and give a true and fair view of the financial position of the Group, as well as the results of its operations and cash flows as at the end of the reporting year.

Management decisions and assumptions in preparing the consolidated financial statements were prudent and reasonable. The management of Group's companies are responsible for maintaining Group company's accounting records in accordance with the statutory requirements, for safeguarding of the Group's assets and immediate prevention of any fraud and other illegal activity.

Jesper Rasmussen	Jānis Abāšins
Chairman of the Council	Chairman of the Board

9 March 2005

CONSOLIDATED INCOME STATEMENT

TECHNICAL ACCOUNT

	Note	2004 LVL	2003 LVL
Written premiums			
Gross premiums	1	30,366,717	28,156,007
OMTPL mandatory deductions	1	(571,748)	(626,521)
Outward reinsurance premiums	1	(1,395,812)	(1,125,246)
Change in gross provision for unearned premiums and unexpired risk	4	(1,570,320)	(615,055)
Change in provision for unearned premiums, reinsurers' share	4	125,416	(239,460)
Earned premiums, net of reinsurance		**26,954,253**	**25,549,725**
Other technical income, net	3	**89,481**	**207,288**
Claims paid, net			
Gross amount			
Claims paid		(13,755,731)	(12,621,245)
Claims settlement expense		(497,193)	(704,964)
Surrenders		(70,210)	(72,644)
Recovered loss amount		1,119,612	863,916
Gross amount in total	2	(13,203,522)	(12,534,937)
Reinsurers' share	2	57,089	105,234
Change in the provisions for claims			
Gross amount	5	(729,118)	(417,103)
Reinsurers' share	5	32,149	50,559
Claims incurred, net of reinsurance		**(13,843,402)**	**(12,796,247)**
Change in provision for life insurance			
Gross amount	7	(136,732)	(361,111)
Reinsurers' share	7	2,593	769
Change in provision for life insurance, net		**(134,139)**	**(360,342)**
Net operating expense			
Client acquisition costs	8	(5,048,095)	(5,661,823)
Change in deferred client acquisition costs		(337,595)	191,154
Administrative expense	9	(7,185,045)	(6,578,106)
Reinsurance commission income		76,636	65,065
Net operating expense total		**(12,494,099)**	**(11,983,710)**
Other technical expense, net	10	**(91,709)**	**(96,191)**
Change in equalisation provision	6	**-**	**180,000**
Result of technical account		**480,385**	**700,523**

Notes on pages 25 to 42 are an integral part of these financial statements.

Jesper Rasmussen
Chairman of the Council

Jānis Abāšins
Chairman of the Board

9 March 2005

CONSOLIDATED INCOME STATEMENT (Cont'd)

NON-TECHNICAL ACCOUNT

	Note	2004 LVL	2003 LVL
Technical account		**480,385**	**700,523**
Investment income			
Income from investments in land and buildings		36,032	36,865
Income from other financial investments	11a	1,173,318	1,317,382
Profit on value adjustments of investments	11b	391,287	117,282
Profit on disposal of investments		236,699	191,210
Total investment income		**1,837,336**	**1,662,739**
Investment charges			
Investment management costs, including interest paid	12a	(49,950)	(67,407)
Loss from investments in affiliated and associated companies in accordance with equity method		-	(9,857)
Loss from value adjustments of investments	12b	(415,385)	(577,800)
Loss from disposal of investments		(1,587)	(6,623)
Total investment charges		**(466,922)**	**(661,687)**
Other income	13	**60,585**	**104,935**
Other expense, including revaluation	14	**(35,810)**	**(72,742)**
Profit before tax		**1,875,574**	**1,733,768**
Corporate income tax	15	**(345,625)**	**(409,912)**
Other taxes		**(27,105)**	**(28,573)**
Minority share in profit		**-**	**2,532**
Net profit		**1,502,844**	**1,297,815**
Earnings per share (in lats)	16	**0.32**	**0.28**

Notes on pages 25 to 42 are an integral part of these financial statements.

Jesper Rasmussen
Chairman of the Council

Jānis Abāšins
Chairman of the Board

9 March 2005

CONSOLIDATED BALANCE SHEET

ASSETS

	Note	31.12.2004 LVL	31.12.2003 LVL
Intangible assets			
Goodwill		11,548	-
Other intangible assets		1,931,368	661,341
Total intangible assets	17	**1,942,916**	**661,341**
Investments			
Land and buildings	25	1,874,338	1,905,343
Investments in associates	18	-	107,000
Other financial investments			
Shares and other variable income securities	19	887,286	4,344,929
Fixed income securities	20	12,612,047	11,004,619
Mortgage loans	21	244,165	170,128
Other loans	22	72,813	53,009
Deposits with banks		9,306,838	5,821,383
Total investments		**24,997,487**	**23,406,411**
Debtors			
Debtors from direct insurance operations			
Due from policyholders		4,961,065	4,173,248
Due from intermediaries		5,299	6,189
Reinsurance debtors	23	39,510	100,222
Other debtors	24	475,449	274,053
Total debtors		**5,481,323**	**4,553,712**
Other assets			
Tangible fixed assets	26	1,574,599	1,004,639
Cash		9,307	10,174
Demand deposits with banks		1,396,257	1,509,339
Other assets		4,316	1,429
Total other assets		**2,984,479**	**2,525,581**
Accrued income and deferred expense			
Accrued interest and rent		498,245	365,415
Deferred client acquisition costs		1,475,336	1,812,931
Other accrued income and deferred expense	27	87,142	17,454
Total accrued income and deferred expense		**2,060,723**	**2,195,800**
Total assets		**37,466,928**	**33,342,845**

Notes on pages 25 to 42 are an integral part of these financial statements.

Jesper Rasmussen
Chairman of the Council

Jānis Abāšins
Chairman of the Board

9 March 2005

CONSOLIDATED BALANCE SHEET

LIABILITIES

	Note	31.12.2004 LVL	31.12.2003 LVL
Capital and reserves			
Share capital	28	4,652,067	4,652,067
Share premium		1,121,332	1,121,332
Reserve capital and other reserves		3,062,205	3,062,205
Retained earnings		2,002,943	1,170,275
Current year profit		1,502,844	1,297,815
Total capital and reserves		**12,341,391**	**11,303,694**
Minority interests		**-**	**55,435**
Technical reserves			
Provisions for unearned premiums and unexpired risks			
Gross amount	4	12,430,986	10,860,666
Reinsurers' share	4	(331,518)	(206,102)
Provisions for life insurance			
Gross amount	7	4,213,439	4,076,707
Reinsurers' share	7	(4,278)	(1,685)
Provisions for claims			
Gross amount	5	5,831,083	5,101,965
Reinsurers' share	5	(792,917)	(760,768)
Equalisation provisions	6	20,000	20,000
Total technical provisions		**21,366,795**	**19,090,783**
Provisions			
Provisions for taxes	29	225,021	128,483
Other provisions	30	411,591	256,173
Total provisions		**636,612**	**384,656**
Creditors			
Liabilities from direct insurance operations			
Due to policy holders		910,255	789,508
Due to intermediaries		-	29,986
Reinsurance creditors		477,669	390,557
Liabilities to credit institutions	31	286,995	803
Taxes and social insurance	32	496,427	486,462
Other creditors	33	678,671	566,453
Total creditors		**2,850,017**	**2,263,769**
Total accrued expense and deferred income	34	**272,113**	**244,508**
Total liabilities		**37,466,928**	**33,342,845**

Notes on pages 25 to 42 are an integral part of these financial statements.

Jesper Rasmussen
Chairman of the Council

Jānis Abāšins
Chairman of the Board

9 March 2005

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Reserve capital and other reserves	Retained earnings	Total
	LVL	LVL	LVL	LVL	LVL
Balance as at 31 December 2002	**4,652,067**	**1,121,332**	**3,062,205**	**2,147,209**	**10,982,813**
Dividends paid	-	-	-	(976,934)	(976,934)
Profit for the year	-	-	-	1,297,815	1,297,815
Balance as at 31 December 2003	**4,652,067**	**1,121,332**	**3,062,205**	**2,468,090**	**11,303,694**
Dividends paid	-	-	-	(465,147)	(465,147)
Profit for the year	-	-	-	1,502,844	1,502,844
Balance as at 31 December 2004	**4,652,067**	**1,121,332**	**3,062,205**	**3,505,787**	**12,341,391**

Notes on pages 25 to 42 are an integral part of these financial statements.

Jesper Rasmussen
Chairman of the Council

Jānis Abāšins
Chairman of the Board

9 March 2005

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	2004 LVL	2003 LVL
Cash flow from operating activities			
Premiums received from direct insurance		28,702,360	26,873,760
Claims paid		(12,902,271)	(12,095,995)
Premiums received from co-insurance		1,037,348	489,740
Payments made for co-insurance		(305,142)	(317,433)
Payments made for ceded reinsurance		45,046	49,464
Payments received from ceded reinsurance		(1,189,940)	(877,932)
Premiums received from accepted reinsurance		22,684	22,001
Payments made for accepted reinsurance		-	(21,901)
Income tax paid		(765,254)	(314,506)
Mandatory payments	35	(773,166)	(900,182)
Other expense		(10,124,921)	(12,013,163)
Other income		134,616	568,451
Total net cash flow from operating activities:		**3,881,360**	**1,462,305**
Cash flow from investing activities			
Acquisition of investments			
Land and buildings		(6,940)	(5,528)
Associated and affiliated companies		(66,983)	(75,013)
Shares and other variable income securities		(276,611)	(506,137)
Fixed income securities		(2,596,999)	(4,595,654)
Units in investment funds		(3,731)	(323,257)
Other loans		(157,550)	-
Deposits with banks		(3,490,130)	(784,290)
Other investments		(2,631,383)	(390,683)
Total acquisition of investments:		**(9,230,327)**	**(6,680,562)**
Disposal of investments			
Land and buildings		54,273	41,000
Shares and other variable income securities		18,858	95,469
Fixed income securities		1,083,799	4,324,232
Units in investment funds		3,141,293	156,356
Mortgage loans		58,395	619,717
Other loans		3,709	17,940
Total disposal of investments:		**4,360,327**	**5,254,714**
Income from investing activities			
Land and buildings		22,801	23,227
Shares and other variable income securities		17,174	2,872
Fixed income securities		679,883	1,119,716
Units in investment funds		-	134,589
Mortgage loans		13,207	53,171
Other loans		13,430	8,248
Deposits with banks		313,726	318,782
Other investments		-	(25,860)
Total income from investing activities:		**1,060,221**	**1,634,745**
Other income		**285,056**	**936**
Other expense		**(14,864)**	**(36,797)**
Total cash flow from investing activities:		**(3,539,587)**	**173,036**
Cash flow from financing activities			
Dividends paid		(465,147)	(996,505)
Other income		-	1,345
Net cash flow from financing activities:		**(465,147)**	**(995,160)**

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

	Note	2004 LVL	2003 LVL
Net (decrease)/ increase in cash and cash equivalents		**(123,374)**	**640,180**
Foreign exchange revaluation gain		**9,425**	**5,282**
Cash and cash equivalents at the start of the year		**1,519,513**	**874,051**
Cash and cash equivalent at the end of the year		**1,405,564**	**1,519,513**

Notes on pages 25 to 42 are an integral part of these financial statements.

Jesper Rasmussen
Chairman of the Council

Jānis Abāšins
Chairman of the Board

9 March 2005

GENERAL INFORMATION

The Parent Company of the Group, BALTA Insurance Company, was incorporated in 1992 in Riga, Latvia as a joint stock company. The Parent Company was re-registered with Commercial Register on 6 June 2002. During 1998 the acquisition of controlling stake in 2 insurance companies led to the creation of the BALTA Group (the Group). On 19 February 2004 A/S Rīgas Apdrošināšanas Sabiedrība was reorganised and merged with the Group's Parent Company AAS BALTA. The Group provides non-life insurance and life insurance services to corporate clients and individuals.

Parent Company:

Full name	Insurance Joint Stock Company BALTA (AAS BALTA)
Legal address:	**Raunas street 10/12, Riga, LV-1039, Latvia**
Phone, fax numbers:	371 7082333, 371 7082345
Tax registration No	LV40003049409
State Revenue Service department:	Department of large taxpayers

Subsidiary involved in consolidation process:

Full name	Insurance Joint Stock Company BALTA
Legal address:	**Antonijas street 9, Riga, LV-1010, Latvia**
% of share capital owned:	100.00%

ACCOUNTING POLICIES

The Group maintains its accounting records in accordance with the legislation of Latvia. These financial statements have been prepared from those accounting records. Balance sheet as at 31 December 2004 reflects the financial position of the Group as at the close of business on that date.

(1) Basis of preparation of financial statements

These financial statements are prepared in accordance with the Financial and Capital Market Commission Rulings on the Preparation of Annual Accounts and Consolidated Annual Accounts of Insurance Joint Stock Companies and Mutual Co-operative Insurance Societies.

The measurement basis used is historical cost method, modified by the revaluation of certain types of investments in accordance with accounting policies set out below. All amounts presented in these financial statements are denominated in Latvian lats (LVL).

Cash flow statement has been prepared using the direct method.

The reclassification of several financial statement positions has been made in 2004. The comparatives have been reclassified accordingly.

(2) Consolidation

The consolidated financial statements have been prepared using full consolidation method. Subsidiary undertakings, those companies in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations, have been consolidated. All intercompany transactions, balances and unrealised surpluses and deficits on transactions between group companies have been eliminated. Separate disclosure is made of minority interests.

(3) Premiums

Written non-life insurance premiums consist of the premiums in contracts, which become effective during the year, irrespective of whether the premium has become due or not.

Written life insurance premiums comprise the premium attributable to insurance year commencing during the reporting year, irrespective of whether the premium has become due or not, as well as premiums, which have been received in the insurance year up to the end of the reporting year, if the agreements of life endowment insurance are concluded with free schedule of payments.

All written premiums are decreased by the amount of premiums cancelled or suspended during the year.

(4) Claims incurred

Claims incurred comprise claims attributable to the year and loss adjustment expense. Claims paid are decreased by the amount received from salvage or subrogation.

(5) Interest income and expense

Interest income and expense are recognised in the income statement for all interest bearing instruments on an accruals basis using the effective yield method based on the actual purchase price. Interest income includes coupons earned on fixed income trading securities, interest on bank deposits and other loans and accrued discounts and premiums on discounted instruments. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

(6) Loans

Loans are recognised when cash is advanced to borrowers. Loans originated by the Group by providing money directly to the borrower, are initially recognised at cost that is defined as the fair value of cash consideration given to originate those loans. Subsequently loans are carried at amortised cost, determined by effective interest method.

A provision for impairment on loans originated by the Group is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms of respective instruments. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original actual interest rate of respective instruments. Impairment charges and decreases due to an event occurring after the write-down, are included in the income statement. Review for impairment is performed at the end of each reporting period.

(7) Debtors

When amounts due from policyholders and intermediaries become overdue the policy is cancelled and respective amounts are reversed against premium written. No provisions are made with respect to amounts that have not yet become due and no portion of the premium is taken to income.

Debtor balances in non-life insurance consist of amounts that are due within one year and which are carried in the balance sheet at amortized cost less doubtful debt provisions. Taken into account that income from life insurance is recognized according to written premiums and premiums are paid according to the schedule set in the life insurance agreement, the debtor balances related to life insurance represent the difference between the written premiums and received premiums.

Other debtors are disclosed in recoverable amounts, less provision for doubtful debts.

Doubtful receivables are provided for when management identifies that the recovery of respective receivables as doubtful. Bad debts are written off when identified. The doubtful debt provision also covers losses with respect to which there is objective evidence that probable losses will occur from those debtors at the balance sheet date. These have been estimated based upon historical patterns of losses. The amount of provisions is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

(8) Sale and repurchase agreements of securities

Securities sold subject to linked repurchase agreements ('repos') are retained in the financial statements as trading securities and the counter party liability is included in liabilities to credit institutions. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

(9) Investments

a) Investments in securities

All Group's investments in securities are classified as trading investments – investments, which were acquired for generating a profit from short-term fluctuations in price.

All purchases of investments are recognized on the trade date, which is the date that the Group commits to purchase the respective investment. All investments are initially recognized at cost of purchase that includes transaction costs.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Company has transferred substantially all risks and rewards of ownership.

Trading investments are subsequently revalued at fair value. Fair value is based on quoted market prices or prices of similar financial assets, or using discounted cash flow models in cases where no market prices are available. Trading investments in investment funds that are not listed are subsequently re-measured at fair value based on net assets value of investment fund.

Realised and unrealised gains and losses arising from changes in the fair value of trading and available-for-sale investments are included in the income statement in the period in which they arise. Interest earned whilst holding investments is reported as interest income. Dividends received are included in dividend income.

b) Investments in associates

Associated companies are those in which the Group has between 20% and 50% of the voting rights, and over which the Group exercises significant influence, but which it does not control. Investments in associated companies are accounted for by the equity method, in accordance with which the Group includes in its income statement its share of associate's profit or loss during the year, excluding unrealised gains and unrealised losses on transactions between the Group and associated companies.

(10) Intangible assets and fixed assets

Fixed assets and intangible assets are stated at historical cost less accumulated depreciation. Depreciation is charged on a straight-line basis to write down each intangible and fixed asset to its estimated residual value over its estimated useful life using following rates set by management:

Buildings	2% per annum
Office equipment	20% per annum
Computer equipment	25% per annum
Transport vehicles	20% per annum
Software	25% per annum

Where the carrying amount of an intangible or a fixed asset exceeds its estimated recoverable amount, it is written down immediately to its recoverable amount. Recoverable amount is the higher of the fair value less costs to sell and the value in use of the related intangible or fixed asset.

Repairs and maintenance are charged to the profit and loss account during the period in which they are incurred.

The cost of major renovations is included in the carrying amount of the asset and is depreciated over the remaining useful life of the related asset. Capitalising the cost of mounted spare parts, the carrying value of the part replaced is written off to the profit and loss account.

Leasehold improvements are amortised on a straight-line basis over the shorter of the estimated useful life of the leasehold improvement and the term of the lease.

Gains or losses on disposals are determined by comparing carrying amount with proceeds and are charged to the profit and loss account during the period in which they are incurred.

(11) Goodwill

Goodwill represents the difference between the cost of an acquisition and the fair value of the Group's share of the net assets of the acquired subsidiaries, associated companies or joint ventures at the date of acquisition. Such goodwill is reflected as intangible assets in the balance sheet and the amortisation is recognized in the income statement.

Positive goodwill is amortised using the straight-line method over its estimated useful life. Goodwill is generally amortised over the period no longer than 5 years. The carrying value of goodwill is reviewed annually and written off for permanent impairment where it is considered necessary. Negative goodwill is recognised as income when respective losses and expense incur.

(12) Technical provisions

The unearned premiums technical provision comprises written gross premium related to period from the balance sheet date to the expiry of insurance agreement to cover all claims and expenses in accordance with insurance agreements in force.

The claims technical provision is an amount provided at the end of the reporting year in respect of estimated losses incurred but not yet settled. The claims provision includes direct loss adjustment expense, which will incur on settlement of claims incurred in the reporting and prior years. Estimated future proceeds from salvage and subrogation related to claims incurred in the reporting and prior years have been deducted from the claims provision.

The provision for life insurance comprises total obligations relating to the life insurance portfolio. The life insurance provision is stated based on actuarial calculations for each life insurance agreement. The prospective reserve valuation method is used for life insurance agreements with regular payments (reserve equals the difference between present value of insurance liability and present value of future insurance premiums). The retrospective reserve valuation method is used for life insurance agreements with irregular payments (the reserve equals the accumulated premiums and accumulated guaranteed interests less deductions defined in insurance contract).

The equalisation provision is made to cover future risk in areas where the claims performance may fluctuate significantly from one year to the next.

(13) Operating leases

Assets that are leased out under operating lease terms are recorded within fixed assets at historic cost less depreciation. Depreciation is calculated on a straight-line basis to write down each asset to its estimated residual value over its estimated useful life using rates set for similar Group's assets. Rental income from operating lease including advances received is recognised on a straight-line basis over the period of the lease.

(14) Foreign currency translation

Group maintains its accounts in Latvian Lats. All transactions denominated in foreign currencies are converted to Lats at the exchange rate set by the Bank of Latvia prevailing on the day on which the transactions took place.

Monetary assets and liabilities denominated in foreign currencies are translated into Lats in accordance with the official Bank of Latvia exchange rate for the last day of the reporting period. The resulting profit or loss is charged to the income statement:

		31.12.2004	**31.12.2003**
1 USD	=	LVL 0.516	LVL 0.541
1 EUR	=	LVL 0.703	LVL 0.674

(15) Deferred client acquisition costs

Deferred client acquisition costs represent that part of client acquisition costs attributable to the future benefit of policies that are in-force during the following period. Client acquisition costs are expense incurred by the Group in distribution of its policies through external intermediaries or agents network of the Group.

(16) Taxation

Corporate income tax for the reporting period is included in the financial statements based on the management's calculations prepared in accordance with tax legislation of Republic of Latvia.

Deferred tax is provided for using liability method on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred tax is calculated based on currently enacted tax rates that are expected to apply when the temporary differences reverse. The principal temporary differences arise from different fixed asset depreciation rates, accrued expense, revaluation of certain investments in securities, and transferable losses from the sales of long-term securities. Where an overall deferred taxation asset arises, it is only recognised in the financial statements where its recoverability is foreseen with reasonable certainty.

(17) Related parties

Related parties are defined as shareholders of the Group, members of the Supervisory Council and Board of Directors of the Group, their close family members, and companies in which the aforementioned persons have control or significant influence.

(18) Distribution of direct and indirect income and expense by types of insurance

Administrative and client acquisition costs, which are directly attributable to a particular unit of the Group, are allocated between types of insurance proportionally to the gross premiums written and number of insurance contracts entered into during the year for the particular unit. 70% of the administrative expense and direct client acquisition costs are allocated proportionally to the gross premiums written and 30% proportionally to the number of insurance contracts in each of the types of insurance during the year.

Administrative and client acquisition costs, which are not directly attributable to a particular unit of the Group, are allocated between types of insurance proportionally to the total indirect expense ratio over total earned premiums for the year.

Other technical income and expense are allocated between types of insurance proportionally to the gross premiums written during the year.

(19) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and deposits held at call with banks.

(20) Provisions for unused annual leave

The amount of provision is determined by multiplying average daily salary in the reporting year by the amount of accrued but unused vacation days at the end of the year.

1. PREMIUMS

	2004		2003	
	Gross amount	Reinsurers' share	Gross amount	Reinsurers' share
Personal accident	922,165	(38,020)	870,462	(28,027)
Health	2,424,191	-	2,320,844	-
Motor own damage	10,462,484	(92,443)	9,572,051	(119,877)
Marine	19,281	(1,894)	18,230	(4,560)
Cargo	348,037	(124,600)	244,941	(45,515)
Property	6,519,243	(701,728)	6,024,756	(606,257)
Voluntary motor Third Party Liability (TPL)	25,921	(7,303)	62,506	(9,042)
Loan insurance	-	-	(183)	-
General TPL	552,213	(154,912)	472,852	(116,000)
Guarantees	(434)	209	7,948	(5,526)
Financial risks	142,538	-	63,195	(2,548)
Travel accident	183,268	(5,584)	157,754	(6,394)
Obligatory motor TPL	6,582,984	(259,441)	6,985,415	(176,793)
Life insurance	2,184,826	(10,096)	1,355,236	(4,707)
	30,366,717	**(1,395,812)**	**28,156,007**	**(1,125,246)**

The Group's Parent Company has signed an agreement with the Latvian insurance companies AS Parex Insurance Company and AAS ERGO Latvia to set up an insurance pool for participation in obligatory motor third party liability insurance. The policies issued within the pool are distributed through the State Traffic Security Department offices throughout Latvia. The Parent Company has a 52% share of all premium income collected within the pool and it bears the same share of risk assumed on the policies issued within the pool. The Parent Company is responsible for pool operations management and receives commissions from these operations, which are included in Other Technical Income (note 3). Respective written premium part is included in total written premiums.

According to the law "On Obligatory Motor Third Party Liability Insurance" and related regulations of the Cabinet of Ministers the Company has to make the following mandatory deductions from Obligatory Motor Third Party Liability insurance gross premiums:

OMTPL Foundation of insured interests protection - 1 %
OMTPL Guarantees Foundation – 4%;
OMTPL Guarantees Foundation – 9% for Green Cards;
State Traffic Security Foundation - 0.6% until 1 May 2004, 2% since 1 May 2004;
Motor Insurers' Bureau of Latvia - 3% until 1 September 2004;

In year 2004 mandatory deductions summed up to LVL 571,748 (LVL 626,506 in year 2003)

2. CLAIMS PAID

	2004		2003	
	Gross amount	**Reinsurers' share**	**Gross amount**	**Reinsurers' share**
Personal accident	(287,229)	1,512	(319,344)	-
Health	(1,596,322)	-	(1,553,454)	-
Motor own damage	(4,786,728)	11,361	(5,289,927)	66,220
Marine	(75)	-	(67,106)	36,326
Cargo	(47,219)	13,281	(9,203)	431
Property	(1,472,039)	4,158	(1,177,084)	116
Voluntary motor TPL	-	-	(106)	-
Loan insurance	470	-	931	-
General TPL	(108,791)	26,777	(69,521)	383
Guarantees	-	-	(4,925)	1,758
Financial risks	(2,728)	-	-	-
Travel accident	(48,541)	-	(49,105)	-
Obligatory motor TPL	(3,103,435)	-	(3,331,984)	-
Life insurance	(1,750,885)	-	(664,109)	-
	(13,203,522)	**57,089**	**(12,534,937)**	**105,234**

3. OTHER TECHNICAL INCOME, NET

	2004	**2003**
Income from pool administration (see Note 1)	51,530	20,753
Commissions for distribution of other inurace Companies' products	19,705	83,102
Other income	18,246	103,433
	89,481	**207,288**

Distribution of other technical income by type of insurance is as follows:

Motor own damage	631	1,640
Property	2,763	7,065
Obligatory motor TPL	73,335	45,324
Other types of insurance	12,752	153,259
	89,481	**207,288**

4. PROVISION FOR UNEARNED PREMIUMS AND UNEXPIRED RISK

	Gross amount	**Reinsurers' share**	**Net amount**
Balance as at 31 December 2002	**10,245,611**	**(445,562)**	**9,800,049**
Change in the year	615,055	239,460	854,515
Balance as at 31 December 2003	**10,860,666**	**(206,102)**	**10,654,564**
Change in the year	1,570,320	(125,416)	1,444,904
Balance as at 31 December 2004	**12,430,986**	**(331,518)**	**12,099,468**

Changes in provision for unearned premiums and distribution by type of insurance:

Motor own damage	671,334	6,175	677,509
Property	632,063	(27,310)	604,753
Obligatory motor TPL	108,171	(80,100)	28,071
Other types of insurance	158,752	(24,181)	134,571
	1,570,320	**(125,416)**	**1,444,904**

5. PROVISION FOR CLAIMS

	Gross amount	Reinsurers' share	Net amount
Balance as at 31 December 2002	**4,684,862**	**(710,209)**	**3,974,653**
Change in the year	417,103	(50,559)	366,544
Balance as at 31 December 2003	**5,101,965**	**(760,768)**	**4,341,197**
Change in the year	729,118	(32,149)	696,969
Balance as at 31 December 2004	**5,831,083**	**(792,917)**	**5,038,166**

Changes in provision for claims and distribution by type of insurance:

Motor own damage	(119,147)	2,038	(117,109)
Property	210,588	(77,500)	133,088
Obligatory motor TPL	673,319	42,845	716,164
Other types of insurance	(35,642)	468	(35,174)
	729,118	**(32,149)**	**696,969**

6. EQUALISATION PROVISION

Balance as at 31 December 2002	**200,000**
Change in the year	(180,000)
Balance as at 31 December 2003	**20,000**
Change in the year	-
Balance as at 31 December 2004	**20,000**

Equalisation provisions have been established for Guarantees insurance.

7. PROVISION FOR LIFE INSURANCE

	Gross amount	Reinsurers' share	Net amount
Balance as at 31 December 2002	**3,715,596**	**(916)**	**3,714,680**
Change in the year	361,111	(769)	360,342
Balance as at 31 December 2003	**4,076,707**	**(1,685)**	**4,075,022**
Change in the year	136,732	(2,593)	134,139
Balance as at 31 December 2004	**4,213,439**	**(4,278)**	**4,209,161**

8. CLIENT ACQUISITION COSTS

a) Client acquisition costs

	2004	2003
Commissions to brokers and other intermediaries	(2,639,801)	(3,497,381)
Commissions and other agent related expense	(1,902,118)	(1,730,640)
Social insurance expense	(504,295)	(421,967)
Commissions paid on reinsurance accepted	(1,881)	(11,835)
	(5,048,095)	**(5,661,823)**

8. CLIENT ACQUISITION COSTS (continued)

b) Distribution of client acquisition costs by type of insurance has been as follows:

	2004	2003
Motor own damage	(1,321,702)	(1,119,108)
Property	(1,582,527)	(1,319,427)
Obligatory motor TPL	(1,575,456)	(2,675,801)
Other types of non-life insurance	(418,028)	(415,795)
Total non-life insurance	**(4,897,713)**	**(5,530,131)**
Life insurance	(150,382)	(131,692)
	(5,048,095)	**(5,661,823)**

9. ADMINISTRATIVE EXPENSE

	2004	2003
Salaries to staff	(3,055,444)	(2,960,157)
Social insurance expense	(618,740)	(543,707)
Depreciation and amortisation	(621,500)	(543,177)
Professional services	(381,644)	(469,107)
Information and communication expense	(461,970)	(334,048)
Advertising and public relations	(415,539)	(264,968)
Rent of premises	(356,759)	(287,135)
Premise maintenance and repair expense	(222,699)	(195,948)
Office expense	(213,904)	(274,435)
Transport	(186,964)	(223,145)
Payments to Financial and Capital Market Commission	(170,740)	(151,327)
Payments to Foundation of Insured Interests Protection	(86,956)	(75,375)
Other administrative expenses	(392,186)	(255,577)
	(7,185,045)	**(6,578,106)**

In accordance with requirements of legislation of the Republic of Latvia payments to Finance and Capital Market Commission have to be made in amount of 0.2% from gross premiums collected in Obligatory Motor Third Party Liability insurance after all deductions and in amount of 0.7% from gross premiums collected in other types of insurance. Payments to Foundation of Insured Interests Protection amount to 1% of premiums collected from individuals in voluntary types of insurance.

Members of the Council and the Board have not received separate remuneration for their job in the Council and the Board of Group's companies.

566 employees (529 in 2003) and 899 (1,016 in 2003) agents were employed in the Group on average in 2004.

Distribution of administrative expense by type of insurance has been as follows:

Motor own damage	(2,388,178)	(1,217,395)
Property	(1,608,137)	(1,457,095)
Obligatory motor TPL	(1,471,183)	(2,749,227)
Other types of insurance	(1,717,547)	(1,154,389)
	(7,185,045)	**(6,578,106)**

10. OTHER TECHNICAL EXPENSE, NET

	2004	2003
Provisions for doubtful debts	(8,144)	(54,564)
Other technical expense	(83,565)	(41,627)
	(91,709)	**(96,191)**

10. OTHER TECHNICAL EXPENSE, NET (continued)

Distribution of other technical expense by type of insurance has been as follows:

	2004	2003
Motor own damage	(34,099)	(33,921)
Property	(21,248)	(21,335)
Obligatory motor TPL	(21,455)	(24,754)
Other types of insurance	(14,907)	(16,181)
	(91,709)	**(96,191)**

11. INVESTMENT INCOME

a) Income from other investments

	2004	2003
Fixed income securities	698,598	699,172
Shares and other variable income securities	17,174	219,057
Deposits with banks	408,025	318,782
Mortgage loans	20,166	51,981
Other loans	29,355	28,390
	1,173,318	**1,317,382**

b) Profit on revaluation of investments

	2004	2003
Fixed income securities	223,499	31,268
Investments in associates	21,592	4,392
Shares and other variable income securities	85,690	81,622
Positive currency translation effects in financial assets	56,695	-
Other income	3,811	-
	391,287	**117,282**

12. INVESTMENT CHARGES

a) Investment management costs, including interest paid

	2004	2003
Commissions to brokers and intermediaries*	(35,573)	(55,636)
Interest paid	(3,917)	(2,898)
Other expense	(10,460)	(8,873)
	(49,950)	**(67,407)**

* Includes salary and social insurance payments for employees of investment department.

b) Loss from revaluation of investments

	2004	2003
Shares and other variable income securities	(186,139)	(127,723)
Long-term fixed income securities	(178,092)	(330,569)
Investments in associates	-	(93,811)
Loss from currency translation in securities	(50,692)	(8,185)
Other loans	(462)	(17,512)
	(415,385)	**(577,800)**

13. OTHER INCOME

	2004	2003
Profit on sale of tangible assets	23,151	32,936
Insurance claims received	18,806	2,932
Other income	18,628	69,067
	60,585	**104,935**

14. OTHER EXPENSE, INCLUDING REVALUATION

	2004	2003
Provisions for doubtful debts	(24,954)	(6,102)
Other expense	(10,856)	(66,640)
	(35,810)	**(72,742)**

15. CORPORATE INCOME TAX

	2004	2003
Corporate income tax for the reporting year	(249,087)	(434,159)
Change in deferred corporate income tax balances (Note 29)	(96,538)	24,247
	(345,625)	**(409,912)**

Corporate income tax differs from the theoretically calculated tax amount that would arise applying the rate stipulated by the law to profit before taxation:

	2004	2003
Profit before tax	**1,875,557**	**1,733,768**
Theoretically calculated tax at a tax rate of 15% (2003 – 19%)	(281,334)	(329,416)
Expenses not deductible for tax purposes	(121,975)	(152,038)
Non-taxable income	48,610	76,383
Tax discount for donations	30,577	2,550
Adjustment to previous years corporate income tax	(21,503)	-
Tax discount to small companies	-	5,684
Effect of changes in enacted tax rates	-	(13,075)
Tax charge	**(345,625)**	**(409,912)**

16. EARNINGS PER SHARE

	2004	2003
Net profit (a)	1,502,844	1,297,815
Weighted average number of ordinary shares outstanding during the year (b)	4,652,067	4,652,067
Basic earnings per share during the year (a/b) in lats	**0.32**	**0.28**

Since there have been no transactions with potential effect on the share capital during the year, diluted earnings per share are equivalent to basic earnings per share.

17. OTHER INTANGIBLE ASSETS

	Goodwill	Software	Advances for intangible assets	Total
Cost				
At 31 December 2003	-	927,156	-	927,156
Additions	11,548	1,271,425	144,550	1,427,523
At 31 December 2004	**11,548**	**2,198,581**	**144,550**	**2,354,679**
Amortisation				
At 31 December 2003	-	(265,815)	-	(265,815)
Charge for the year	-	(145,948)	-	(145,948)
At 31 December 2004	**-**	**(411,763)**	**-**	**(411,763)**
Net Book Value at 31 December 2003	**-**	**661,341**	**-**	**661,341**
Net Book Value at 31 December 2004	**11,548**	**1,786,818**	**144,550**	**1,942,916**

18. INVESTMENTS IN ASSOCIATES

	31.12.2004		31.12.2003	
Company	**Carrying value of investment**	**% in share capital**	**Carrying value of investment**	**% in share capital**
SIA Ripo-2 (Latvia)	**-**	-	**107,000**	41,67%

During 2004 SIA Ripo-2 shares owned by AAS Balta were sold.

19. SHARES AND OTHER VARIABLE INCOME SECURITIES

	31.12.2004		31.12.2003	
	Carrying value of investment	**Historical cost value**	**Carrying value of investment**	**Historical cost value**
Latvian companies	530,787	502,934	523,103	499,251
Listed shares	356,499	287,786	-	-
LVA naudas fonds	-	-	3,784,669	3,640,016
LVA Ieguldījumu Sabiedrība (Latvia)	-	-	37,157	23,209
	887,286	**790,720**	**4,344,929**	**4,162,476**

According to the Group's policy all investments in shares and other non-fixed income securities are made for trading purposes.

20. FIXED INCOME SECURITIES

	31.12.2004		31.12.2003	
	Carrying value of investment	**Historical cost value**	**Carrying value of investment**	**Historical cost value**
Latvian government bonds*	10,172,384	10,053,146	8,764,832	8,680,946
Latvian corporate bonds	910,555	92,219	1,177,444	1,152,177
Lithuanian government bonds	-	-	395,383	386,898
Mortgage backed debt securities	1,529,108	1,516,472	666,960	686,980
	12,612,047	**11,661,837**	**11,004,619**	**10,907,001**

* According to bond reverse repo agreement, which was signed with Nordea Bank Finland Plc, 2800 Latvian government bonds with maturity date of 14 February 2013 are pledged long term investments. The received loan must be repaid on 11 January 2005.

According to the Group's policy all investments in fixed income securities are made for trading purposes.

21. MORTGAGE LOANS

According to the Group's policy, the mortgage for the loan is insured for the loan issuer's benefit.

22. OTHER LOANS

	31.12.2004	31.12.2003
Loans to employees	50,812	37,831
Loans with car pledge	22,001	15,178
	72,813	**53,009**

According to the Group's policy, the pledge for the loan is insured for the loan issuer's benefit.

23. DEBTORS FROM REINSURANCE ACTIVITIES

The Group operates with ceded reinsurance and accepted reinsurance. All balances of reinsurance debtors of LVL 39,510 (LVL 100,222 in 2003) relate to ceded reinsurance. Due from intermediaries include LVL 5,299 (LVL 16,671 in 2003) from accepted reinsurance.

24. OTHER DEBTORS

	31.12.2004	31.12.2003
Corporate income tax advance payments	240,857	123,528
Other debtors	234,592	150,525
	475,449	**274,053**

25. LAND AND BUILDINGS

	Zemes gabali un ēkas
Cost	
As at 31 December 2003	2,196,229
Additions	64,101
Disposals	(71,290)
As at 31 December 2004	**2,189,040**
Depreciation	
As at 31 December 2003	(290,886)
Charge for the year	(40,833)
Depreciation on disposed buildings	17,017
As at 31 December 2004	**(314,702)**
Net Book Value at 31 December 2003	**1,905,343**
Net Book Value at 31 December 2004	**1,874,338**

Substantially all land and buildings were for Group's own use.

26. TANGIBLE FIXED ASSETS

	Leasehold improvements	Transport vehicles	Computer equipment	Furniture and fittings	Total
Cost					
As at 31 December 2003	186,415	483,437	1,025,272	442,190	2,137,314
Additions	39,508	340,887	525,594	133,172	1,039,161
Disposals	(48,042)	(111,351)	(33,303)	(7,786)	(200,482)
As at 31 December 2004	**177,881**	**712,973**	**1,517,563**	**567,576**	**2,975,993**
Depreciation					
As at 31 December 2003	(60,255)	(203,761)	(603,560)	(265,099)	(1,132,675)
Charge for the year	(7,651)	(117,606)	(232,017)	(80,770)	(438,044)
Depreciation on disposed assets	45,545	83,360	32,945	7,475	169,325
As at 31 December 2004	**(22,361)**	**(238,007)**	**(802,632)**	**(338,394)**	**(1,401,394)**
Net Book Value at 31 December 2003	**126,160**	**279,676**	**421,712**	**177,091**	**1,004,639**
Net Book Value at 31 December 2004	**155,520**	**474,966**	**714,931**	**229,182**	**1,574,599**

All tangible assets were for the Group's own use.

27. OTHER ACCRUED INCOME AND DEFERRED EXPENSE

	31.12.2004	31.12.2003
Prepayments for software maintenance	46,813	-
Prepayments for rent	34,290	12,672
Other accrued income and deferred expense	6,039	4,782
	87,142	**17,454**

28. SHARE CAPITAL

a) issued and fully paid share capital

	31.12.2004		31.12.2003	
	Number	**LVL**	**Number**	**LVL**
Ordinary shares with nominal value LVL 1	4,652,067	4,652,067	4,652,067	4,652,067
	4,652,067	**4,652,067**	**4,652,067**	**4,652,067**

b) major shareholders

At the end of the year the following shareholders owned more than 10% of the Company's shares:

	31.12.2004		31.12.2003	
	Number of shares	**Share-holding**	**Number of shares**	**Share-holding**
Codan AS	2,416,055	51.94%	2,415,421	51.92%
IO Fund (The Danish Investment Fund for Central and Eastern Europe)	1,116,496	24.00%	1,116,496	24.00%
European Bank For Reconstruction and Development	1,116,496	24.00%	1,116,496	24.00%
	4,649,047	**99.94%**	**4,648,413**	**99.92%**

The shares of the Group's companies are not listed.

29. DEFERRED TAX LIABILITIES

	31.12.2004	**31.12.2003**
Deferred tax liabilities as at the beginning of the year	128,483	152,730
Increase/(decrease) in deferred tax liabilities during the reporting year (see Note 15)	96,538	(24,247)
Deferred tax liabilities as at the end of the year	**225,021**	**128,483**

Deferred tax is calculated from the following temporary differences between assets and liabilities and their values for the purpose of the calculations of corporate income tax:

	31.12.2004	**31.12.2003**
Temporary difference on tangible assets depreciation	271,936	198,308
Temporary difference for accrued expenses	(105,932)	(72,659)
Temporary difference for provisions on doubtful debtors	(25,008)	(14,790)
Temporary difference for value adjustments on securities	84,025	23,637
Loss on sale of securities carried forward	-	(6,013)
Deferred tax liabilities	**225,021**	**128,483**

30. OTHER PROVISIONS

	Provisions for other personnel expense	**Provisions for unused annual leave**	**Total**
Balance as at 31 December 2003	**91,885**	**164,288**	**256,173**
Change in the year, net	112,180	43,238	155,418
Balance as at 31 December 2004	**204,065**	**207,526**	**411,591**

31. LIABILITIES TO CREDIT INSTITUTIONS

	31.12.2004	31.12.2003
Repo deal	285,000	-
Credit cards	1,995	803
	286,995	**803**

Repo deal represents short term liability to Nordea Bank Finland Plc according to bond reverse repo agreement with the repayment date 11 January 2005 (see Note 20).

32. TAX AND SOCIAL INSURANCE PAYMENTS

	31.12.2004	31.12.2003
Corporate income tax	-	253,228
Social insurance	151,711	121,636
Personal income tax	335,922	91,786
Value added tax	8,756	17,749
Other taxes	38	2,063
	496,427	**486,462**

33. OTHER CREDITORS

	31.12.2004	31.12.2003
Personnel	266,526	244,166
Liability for payments to Motor Insurers' Bureau of Latvia	57,923	68,042
Liability to Finance and Capital Market Commission	59,294	55,203
Other creditors	294,928	199,042
	678,671	**566,453**

34. ACCRUED EXPENSES AND DEFERRED INCOME

	31.12.2004	31.12.2003
Accruals for intermediary commissions	96,499	53,822
Unearned reinsurance commissions	25,721	15,758
Accruals for other expenses	149,893	174,928
	272,113	**244,508**

35. MANDATORY PAYMENTS

Types of mandatory payments:

	2004	2003
Motor Insurers' Bureau of Latvia	531,443	635,933
Finance and Capital Market Commission	241,723	264,249
	773,166	**900,182**

36. RESULTS OF THE CEDED REINSURANCE

	2004	2003
Reinsurer's share in premiums	(1,395,812)	(1,125,246)
Reinsurer's share in changes in unrealised premiums and unexpired risk provision	125,417	(239,460)
Reinsurer's share in claims	57,089	105,234
Reinsurer's share in changes in provision for claims	32,149	50,559
Reinsurer's share in changes in life insurance technical provisions	2,593	769
Reinsurer's commission income	76,636	65,066
	(1,101,928)	**(1,143,078)**

37. RELATED PARTY TRANSACTIONS

The mother company of the Group is AS Codan (Denmark) that owns 52% of the Parent Company's shares, Daughter Company.

During the reporting year the following transactions were carried out with related parties:

During the reporting year the Group used management consulting services of AS Codan for LVL 109 thousand (2003: LVL 71 thousand). These fees are included in administrative expense.

During the reporting year the compensations in the amount of LVL 113 thousand (LVL 251 thousand in 2003) were paid to ex-members of the Board for the termination of the employment agreements.

38. SUBSIDIARIES

Company	**Type of insurance**	**Share in equity (%)**		**Country**
		31.12.2004	**31.12.2003**	
AAS BALTA Dzīvība	Life insurance	100%	98.06%	Latvia
A/S Rīgas apdrošināšanas sabiedrība	Non-life insurance	-	100%	Latvia

All the investments are held in ordinary shares of subsidiaries, which are not listed.

39. OFF BALANCE SHEET ITEMS

General claims.
From time to time and in the normal course of business claims, against the Group, are received from customers. Such claims have been reviewed by the Group's management who is of the opinion that no material unprovided losses will be incurred.

Litigation.
As at 31 December 2004 there were 22 open legal claims against the Group amounting to LVL 188 thousands. The management is of the opinion that no material unprovided losses will be incurred. (31 December 2003: total amount of claims - LVL 176 thousand).

Capital commitments.

As at 20 December 2004, the Group's Parent Company signed an agreement with SIA "BG" on purchase of building at Biķernieku 17, Riga. According to this agreement the Parent Company has to make following payments – 350 thousand lats till 1 January 2005 and 180 thousand lats till 1 May 2005. The ownership to the aforementioned building will be transferred upon registration in Land Book in March 2005.

Apart from mentioned the Group does not have any capital commitments as at 31 December 2004.

40. SUBSEQUENT EVENTS

There are no subsequent events since the last date of the reporting year, which would have a significant effect on the financial position of the Group as at 31 December 2004.

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers SIA
Kr. Valdemāra iela 19
Rīga LV 1010
Latvija
Telephone +371 709 4400
Facsimile +371 783 0055

AUDITORS' REPORT

To the shareholders of AAS BALTA

We have audited the consolidated financial statements on pages 7 to 30 of AAS BALTA and its subsidiary ("the Group") for 2004. The audited consolidated financial statements include the consolidated balance sheet as of 31 December 2004, related consolidated profit and loss account, consolidated statement of changes in equity and consolidated cash flow statement for 2004 and note disclosure. These consolidated financial statements are the responsibility of AAS BALTA management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing issued by International Federation of Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by AAS BALTA management, as well as evaluating the overall consolidated financial statements presentation. We read the Report of the Council and the Board set out on pages 3 to 5 and did not identify material inconsistencies with the audited financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2004, and of the results of its operations and its cash flows for the year then ended in accordance with the requirements of the Financial and Capital Market Commission Rulings on the Preparation of Annual Accounts and Consolidated Annual Accounts of Insurance Joint Stock Companies and Mutual Co-operative Insurance Societies.

PricewaterhouseCoopers SIA
Audit company licence No. 5

Juris Lapshe
Certified auditor
Certificate No. 116

Member of the Board

9 March 2005