AAS BALTA ANNUAL ACCOUNTS FOR 2008

AAS BALTA

Annual report in accordance with
the requirements of
International Financial Reporting Standards
as adopted by the European Union
for the year ended 31 December 2008
and Independent Auditor's Report

CONTENT **PAGE**

Members of the Council and the Board of Directors, the Auditors	3
Report of the Board of Directors	4 – 5
Statement of the Responsibility of the Board of Directors	6
Financial statements:	
Income Statement	7
Balance Sheet	8 – 9
Statement of Changes in Equity	10
Cash Flow Statement	11
Notes to the Financial Statements	12 – 44
Independent Auditor's Report	45

MEMBERS OF THE COUNCIL AND THE BOARD OF DIRECTORS, THE AUDITORS

Council

Name, Surname	*Position*
Andrew Kirkland	Chairman of the Council
Helle Meineche	Deputy of Chairman of the Council (since 13.05.2008)
Søren Theilgaard	Deputy of Chairman of the Council (until 22.04.2008)
Kestutis Serpytis	Member of the Council
Kaido Kepp	Member of the Council

Board

Name, Surname	*Position*
Tara Jane Kneafsey	Chairman of the Board (since 14.06.2008)
Roger Hilton Hodgkiss	Chairman of the Board (until 09.05.2008)
Uldis Dzintars	Member of the Board
Madara Melnmate	Member of the Board
Dace Briede-Zālīte	Member of the Board
Nastasja Frīdmane	Member of the Board (until 01.07.2008)

Name and address of the auditor and responsible certified auditor:

Deloitte Audits Latvia SIA
Licence No. 43
Gredu 4a
Riga, LV-1019
Latvia

Responsible certified auditor:
Jelena Mihejenkova
Certified auditor
Certificate No.166

REPORT OF THE BOARD OF DIRECTORS

The growth of the Latvian economy in the first half of year 2008 was partially compensated by the market downturn in the last quarter of the year. Latvian insurance market has grown only by 7% in year 2008 whereas this figure reached 59% in 2007 and 35% in 2006.

The non-life insurance sector went up by 12%, while gross premiums written increased to 303 million lats. In 2008 non-life insurance market gross insurance claims rose faster than written premiums. In comparison to year 2007, the amount of claims paid in 2008 increased by 35% and reached 165.4 million lats.

Since September, 2008 the Latvian economy experienced a sharp drop, which resulted in high annual inflation rate 15.4%. Additionally, government's decision taken in December, 2008 to raise the VAT tax rate from 18% up to 21% negatively influenced customer's purchasing behaviour. Following the economic situation, several insurance companies suffered severe losses in 2008.

Insurance joint stock company BALTA (further – AAS BALTA) in 2008 developed slightly faster than total non-life insurance market in Latvia and reached 13% growth which is 60.6 million lats in gross written insurance premiums. This is 6.8 million lats more than in year 2007.

Non-life insurance claims in 2008 AAS BALTA paid 33.5 million lats, which is 34% or 8.6 million lats more than in year 2007.

During the year, interim CEO Roger Hogdkiss was replaced by permanent CEO, Tara Kneafsey who previously has worked in UK and Irish markets, and brings international experience to the Company.

In 2008 a project for easy Claim handling via telephone has been successfully completed and publically announced. AAS BALTA being the first to establish such practice in Latvia, capitalized on this innovation throughout the year. Other insurers seek opportunities to develop the same practice in order to simplify the process of claim settlement.

Additionally, several projects were implemented within the Claims area. Claim settlement process has been improved by revising the service standards – 2008 is the year of client-oriented service. Another important project is process optimization in accordance with world practice Lean Six Sigma, which allowed to revise and improve the claim resolution operations.

In a year 2008 AAS BALTA realized several improvements in Sales area. As the most essential achievement Sales Effectiveness project has been implemented, which objective was to establish smoother cooperation with partners – brokers, dealers. Already in 2008 this program proved its value and premiums within brokers channel grew. Another important part was the revision of Private client service standards putting higher requirements to serve AAS BALTA customers.

As concerned to sales tactics, client portfolio expansion and cross-sales were at the core of the business. Furthermore, AAS BALTA continued the development of Internet sales channel implemented in 2007 by launching additional products in 2008.

Rapid changed in economic environment and the need to address them on a company level were the reasons for AAS BALTA to form a new function: Project Management Office where Strategic initiatives and company wide projects are subject to a certain methodology governance.

Another essential change within business model concerns corporate IT area: the process of IT outsourcing started in 2008 and is a long-term project on a regional level. The impact of the change will result in IT process and resource optimization as well as allowing to use world class services provided by IBM.

High quality client services would not be possible without professional staff and engaging leaders. In 2008 we increased the amount invested in leaders and employee trainings and personnel management consultations to LVL 413 000, which is more than in 2007. The annual training programme included various leadership development modules, selling and customer service skills training and quality improvement, as well as the implementation of projects related to personnel management and engagement of staff.

REPORT OF THE BOARD OF DIRECTORS (continued)

The operations of AAS BALTA, especially investment management activities, are exposed to a range of financial risks. The most important components of this financial risk are credit risks, liquidity risks and market risks, which include interest rate risks, currency risks and share price risks. AAS BALTA management has set policies that limit possible financial risks in order to reduce the potential effect on the Company's financial situation. In managing credit risks, AAS BALTA complies with stipulated limits regarding deals with one trading partner or similar trading partner groups, as well as deposit issuer credit ratings. Liquidity risks are managed by placing funds in high liquidity financial instruments and keeping funds in credit institution payment accounts, as well as by planning cash flow from insurance, administration and investment activities. To manage market risks, term difference analyses, duration analyses and sensitivity analyses are performed and limits in currency positions are set. Financial risks are reviewed at least once a year. The asset management commission regularly supervises the compliance of deals under risk to limits.
AAS BALTA constantly receives requests for insurance claim payments. To maintain liquidity and reduce cash flow risk AAS BALTA performs certain activities, namely, controlling cash flows from direct insurance operations and balancing them with investment cash flows. Hence a minimal amount of cash necessary for claims payments is assured.

Overall, 2008 was an exceptional year for BALTA in terms of profitability. The profit achieved made 89.5% growth compared to 2007. The year 2008 resulted in a profit of LVL 5.1 million after tax, which is an increase of LVL 2.4 million in comparison to 2007.

On behalf of the management of AAS BALTA, we would like to express our gratitude to our clients, shareholders and business partners for placing their trust in our Company. We greatly appreciate AAS BALTA employees' invested effort in the Company's development and projects, as well as their ideas and solutions on how to raise efficiency.

No events occurred after the balance sheet date which could have a material impact on the results of the year and the financial position of AAS BALTA at the end of the year.

Helle Meineche	Tara Jane Kneafsey
Deputy of Chairman of the Council	Chairman of the Board

6 April 2009

STATEMENT OF THE RESPONSIBILITY OF THE BOARD OF DIRECTORS

The Board of Directors of AAS BALTA confirms that the Financial Statements for the year ended 31 December 2008 are prepared in accordance with the International Financial Reporting Standards as adopted by EU and appropriate accounting policies, applied on a consistent basis. The Board of Directors of AAS BALTA is responsible for preparing these financial statements from the books of primary entry. The Board of Directors confirms that these Financial Statements for the year ended 31 December 2008 present fairly the financial position at the end of the reporting year, and the results of its operations and cash flows for the reporting year.

Prudent and reasonable judgements and estimates have been made by the Board of Directors in the preparation of the Financial Statements for the year ended 31 December 2008.

The Board of Directors of AAS BALTA is responsible for the maintenance of proper accounting records, the safeguarding of the Company's assets and the prevention and detection of fraud and other irregularities in the Company. It is also responsible for operating the Company in compliance with the legislation of the Republic of Latvia.

Helle Meineche	Tara Jane Kneafsey
Deputy of Chairman of the Council	Chairman of the Board

6 April 2009

INCOME STATEMENT

	Note	2008	2007
Written premiums	3	60 643 471	53 831 947
Reinsurance premiums	3	(1 337 370)	(1 484 134)
Change in provision for unearned premiums	4	(1 198 351)	(5 053 446)
Reinsurers' share in change in provision for unearned premiums	4	(113 992)	(34 096)
Earned premiums, net		57 993 758	47 260 271
Interest income	5	1 595 530	1 243 734
Net fair value (losses) on financial assets at fair value through profit or loss	6	(508 502)	(84 038)
Other income	7	332 169	357 632
Net income		**59 412 955**	**48 777 599**
Claims paid to policyholders		(34 171 953)	(26 050 725)
Claims settlement expense		(2 079 210)	(1 122 129)
Recovered loss amount		2 702 333	2 181 729
Claims paid	8	(33 548 830)	(24 991 125)
Reinsurers' share in claims	8	606 436	364 674
Change in provision for claims	9	1 276 067	(4 318 881)
Reinsurers' share in change in provision for claims	9	(707 341)	689 325
Claims incurred, net		(32 373 668)	(28 256 007)
Client acquisition costs	10	(6 411 188)	(6 185 318)
Administrative expense	11	(13 806 758)	(11 184 185)
Other expense	12	(1 049 876)	(152 994)
Expenses		**(53 641 490)**	**(45 778 504)**
Finance income	13	282 894	221 580
Profit before tax		**6 054 359**	**3 220 675**
Income tax expense	14	(1 003 805)	(555 940)
Net profit for year		**5 050 554**	**2 664 735**

Notes on pages 12 to 44 are an integral part of these financial statements.

Helle Meineche
Deputy of Chairman of the Council

Tara Jane Kneafsey
Chairman of the Board

6 April 2009

BALANCE SHEET

	Note	31.12.2008	31.12.2007
ASSETS			
Intangible assets	15	**4 337 456**	**4 538 793**
Property, plant and equipment	16	**4 904 280**	**5 192 563**
Financial investments at fair value through profit / (loss)	17	27 362 842	13 612 330
Loans	18	102 901	92 180
Term deposits with banks	38	10 606 829	19 243 966
Total investments		**38 072 572**	**32 948 476**
Receivables from direct insurance operations			
Due from policyholders	19	9 301 002	8 023 819
Due from intermediaries	19	463 136	246 553
Reinsurance receivables	19	69 923	147 252
Other receivables	20	211 699	374 526
Total debtors		**10 045 760**	**8 792 150**
Accrued income and deferred expense	21	**3 148 363**	**591 635**
Deferred income tax	28	**18 927**	**-**
Current income tax	14	**-**	**111 729**
Reinsurers' share of provision for unearned premiums	4	67 923	181 915
Reinsurers' share of provision for claims	22	534 933	1 242 274
Total reinsurers' share of technical provisions		**602 856**	**1 424 189**
Cash and cash equivalents	23	**6 355 539**	**7 464 075**
TOTAL ASSETS		**67 485 753**	**61 063 610**

Notes on pages 12 to 44 are an integral part of these financial statements.

Helle Meineche
Deputy of Chairman of the Council

Tara Jane Kneafsey
Chairman of the Board

6 April 2009

BALANCE SHEET (continued)

	Note	31.12.2008	31.12.2007
EQUITY			
Share capital	24	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
Revaluation reserve	25	73 152	-
Retained earnings		11 889 234	6 838 680
TOTAL EQUITY		**20 797 990**	**15 674 284**
LIABILITIES			
Provision for unearned premiums	4	27 829 085	26 630 734
Provision for claims	9	12 382 918	13 658 985
Total technical provisions		**40 212 003**	**40 289 719**
Deferred income tax	28	-	230 528
Liabilities from direct insurance operations		1 066 274	679 187
Reinsurance creditors	26	245 777	374 344
Current income tax	14	718 138	-
Taxes and the state compulsory social insurance contributions	27	370 492	360 497
Accrued expense and deferred income	29	2 315 383	1 751 340
Other creditors	30	1 759 696	1 703 711
Total creditors		**6 475 760**	**5 099 607**
TOTAL LIABILITIES		**46 687 763**	**45 389 326**
TOTAL LIABILITIES AND EQUITY		**67 485 753**	**61 063 610**

Notes on pages 12 to 44 are an integral part of these financial statements.

Helle Meineche
Deputy of Chairman of the Council

Tara Jane Kneafsey
Chairman of the Board

6 April 2009

STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Reserve capital and other reserves	Retained Earnings	Revaluation reserve	Total
Balance as at 31 December 2006	**4 652 067**	**1 121 332**	**3 062 205**	**4 173 945**	**-**	**13 009 549**
Profit for the year	-	-	-	2 664 735	-	2 664 735
Balance as at 31 December 2007	**4 652 067**	**1 121 332**	**3 062 205**	**6 838 680**	**-**	**15 674 284**
Profit for the year	-	-	-	5 050 554	-	5 050 554
Revaluation surplus on land and buildings, net of deferred tax	-	-	-	-	73 152	73 152
Balance as at 31 December 2008	**4 652 067**	**1 121 332**	**3 062 205**	**11 889 234**	**73 152**	**20 797 990**

Notes on pages 12 to 44 are an integral part of these financial statements.

Helle Meineche
Deputy of Chairman of the Council

Tara Jane Kneafsey
Chairman of the Board

6 April 2009

CASH FLOW STATEMENT

	Note	2008	2007
Cash flows from operating activities			
Premiums received from direct insurance		61 055 374	53 073 254
Claims paid for direct insurance		(34 171 953)	(26 107 869)
Payments received from ceded reinsurance		722 445	463 064
Payments made for ceded reinsurance		(1 496 704)	(2 056 666)
Premiums received from accepted reinsurance		-	86
Income tax paid		(444 452)	(140 753)
Other expense		(21 956 871)	(15 502 150)
Net cash generated from operating activities:		**3 707 839**	**9 728 966**
Cash flows from investing activities			
Sale of investments		16 203 359	12 488 141
Purchase of investments		(22 741 585)	(17 943 416)
Income from investing activities		1 718 418	772 223
Dividends received		3 223	1 240
Net cash used in investing activities:		**(4 816 585)**	**(4 681 812)**
Cash flows from financing activities			
Dividends paid		-	(44)
Net cash used in financing activities:		**-**	**(44)**
Result of foreign exchange rate fluctuations		**210**	**(17 414)**
Net (decrease) / increase in cash and cash equivalents		**(1 108 536)**	**5 029 696**
Cash and cash equivalents at the beginning of year		7 464 075	2 434 379
Cash and cash equivalent at the end of the year	23	**6 355 539**	**7 464 075**

Notes on pages 12 to 44 are an integral part of these financial statements.

Helle Meineche
Deputy of Chairman of the Council

Tara Jane Kneafsey
Chairman of the Board

6 April 2009

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

AAS BALTA (hereinafter "the Company") is insurance joint stock company registered in Riga, Republic of Latvia in 1992. The Company was re-registered with Commercial Register on 6 June 2002. The Company offers a wide range of non-life insurance services both for corporate clients and individuals.

Name of the Company:	Insurance joint stock company BALTA
Legal address:	Raunas Street 10/12, Riga, LV-1039
Phone, fax numbers:	(+371) 6708 2333, (+371) 6708 2345
VAT reg. number:	LV 40003049409
State Revenue Service department:	Department of large taxpayers
The major shareholder:	Codan AS (99.99%)

The shares of the Company are not listed.

These financial statements have been authorised for issue by the Board of Directors on 27 March 2009.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of presentation of the financial statements

These financial statements are prepared in accordance with International Financial Reporting Standards (hereinafter "IFRS") as adopted by the European Union (hereinafter "EU") and in accordance with regulations relevant to insurance companies issued by Financial Capital and Market Commission.

IFRSs as adopted by the EU do not currently differ from IFRS as issued by the International Accounting Standards Board (IASB) and currently effective for the purpose of these financial statements, except for certain hedge accounting requirements under International Accounting Standard (hereinafter "IAS") No.39, which have not been adopted by the EU. The Company has determined that the unendorsed hedge accounting requirements under IAS 39 would not impact the Company's financial statements had they been endorsed by the EU at the balance sheet date.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings and the financial assets at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS as adopted by the EU requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where estimates and judgements are significant to the financial statements are disclosed in Note 36.

All amounts in the financial statements are shown in Latvian Lats (LVL), unless otherwise stated.

a) Amendments to published standards and interpretations effective in 2008

The following amendments to published IAS and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) are mandatory for the Company's accounting periods beginning on or after 1 January 2008:

IAS 39 (Amendment): "Reclassification of financial assets". An amendment to the standard, issued in October 2008, permits the Company to reclassify non-derivative financial assets out of the fair value through profit or loss category in particular circumstances. The amendments do to have an impact on the Company's financial statements, as the Company has not reclassified its financial assets.

NOTES TO THE FINANCIAL STATEMENTS (continued)

IFRIC 11: "IFRS 2 – Group and treasury share transactions" provides guidance on whether share-based transactions involving treasury shares or involving group entities should be accounted for as equity-settled or cash-settled share-based payment transactions in the standalone accounts of the parent and group companies. The adoption of this Interpretation has not led to any changes in the Company's accounting policies.

b) Interpretations effective for the accounting periods beginning on or after 1 January 2008 or later periods, but not relevant to the Company's operations

IFRIC 12: "Service concession arrangements" (not yet endorsed by EU) is mandatory for accounting periods beginning on or after 1 January 2008, but is not relevant to the Company's operations.

IFRIC 14: "IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction", provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The adoption of this Interpretation is not relevant to the Company's operations.

c) Certain new standards and amendments have been published that become effective for the accounting periods beginning on or after 1 January 2009 or later periods, but not early adopted by the Company

The following standards and amendments to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 1 January 2009 or later periods, but the Company has not early adopted them:

IAS 1 (revised): "Presentation of financial statements" (effective for annual periods beginning on or after 1 January 2009) - the main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Company expects the revised IAS 1 to impact the presentation of its financial statements but to have no impact on the recognition or measurement of specified transactions and balances.

*Improvements to International Financial Reporting Standards (issued in May 2008)***.** In 2007, the IASB decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments issued in May 2008 consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas:

- classification as held for sale under *IFRS 5: „Non-current assets held for sale and discontinued operations"* in case of a loss of control over a subsidiary;
- possibility of presentation of financial instruments held for trading as non-current under *IAS 1: „Presentation of financial statements"*;
- accounting for sale of assets under *IAS 16: „Property, plant and equipment"* which were previously held for rental and classification of the related cash flows under *IAS 7: „Cash-flow statements"* as cash flows from operating activities;
- clarification of definition of curtailment under *IAS 19: „Employee benefits"*;
- accounting for below market interest rate government loans in accordance with *IAS 20: „Accounting for government grants and disclosure of government assistance"*;
- making the definition of borrowing costs in *IAS 23: „Borrowing costs"* consistent with the effective interest rate method;
- clarification of accounting for subsidiaries held for sale under *IAS 27: „Consolidated and separate financial statements"* and *IFRS 5: „Non-current assets held for sale and discontinued operations"*;
- reduction in the disclosure requirements relating to associates and joint ventures under *IAS 28: „Investments in associates"* and *IAS 31: „Interests in joint ventures"*;
- enhancement of disclosures required by *IAS 36: „Impairment of assets"*;
- clarification of accounting for advertising costs under *IAS 38: „Intangible assets"*;
- amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under *IAS 39: „Financial instruments: recognition and measurement"*;

NOTES TO THE FINANCIAL STATEMENTS (continued)

- introduction of accounting for investment properties under construction in accordance with *IAS 40: „Investment property"*; and
- reduction in restrictions over manner of determining fair value of biological assets under *IAS 41: „Agriculture"*.

Further amendments made to *IAS 8, 10, 18, 20, 29, 34, 40, 41* and to *IFRS 7* represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The Company does not expect the amendments to have any material effect on the financial statements.

d) Certain new standards and interpretations have been published that become effective for the accounting periods beginning on or after 1 January 2009 or later periods and which are not relevant to the Company.

IAS 23 (Revised): "Borrowing costs" (effective for annual periods beginning on or after 1 January 2009). The new standard requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The revised standard is not relevant for the Company's operations.

IAS 27 (Revised): "Consolidated and separate financial statements" (effective for annual periods beginning on or after 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The revised standard is not relevant for the Company's operations.

IAS 39 (Amendment): "Financial Instruments: Recognition and Measurement: Eligible hedged items" (effective with retrospective application for annual periods beginning on or after 1 July 2009). This amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The Company will apply this amendment from 1 January 2010, but do not expect to have a material impact on the Company's financial statements.

IFRS 1 (Amendment): "First-time adoption of IFRS" and *IAS 27 (Amendments): "Consolidated and separate financial statements" (effective for annual periods beginning on or after 1 January 2009).* The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from IAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The amendments are not relevant for the Company's operations.

IFRS 2 (Amendment): "Share-based payment" (effective for annual periods beginning on or after 1 January 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. These amendments are not relevant for the Company's operations.

IFRS 3 (revised) (not yet endorsed by EU): "Business combinations" (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The revised standard is not relevant for the Company's operations.

NOTES TO THE FINANCIAL STATEMENTS (continued)

IFRS 8: "Operating segments" (effective for annual periods beginning on or after 1 July 2009) replaces IAS 14: "Segment reporting". The Standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to the used for internal reporting purposes. The standard will not have any impact on the Company's financial statements.

IFRIC 13: "Customer loyalty programmes" (effective for annual periods beginning on or after 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement, and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the Company's operations.

IFRIC 15: "Agreements for construction of real estates" (effective for annual periods beginning on or after 1 January 2009). The interpretation clarifies whether *IAS 18: "Revenue"* or *IAS 11: "Construction contracts"* should be applied to particular transactions. It also provides criteria for determining when entities should recognise revenue on such transactions. IFRIC 15 is not relevant to the Company's operations.

IFRIC 16: "Hedges of a net investment in a foreign operation" (effective for annual periods beginning on or after 1 October 2008). IFRIC 16 clarifies the accounting treatment in respect of net investment hedging including the fact that net investment hedging relates to differences in functional currency, not presentation currency and hedging instruments may be held anywhere in the Group. The requirements of IAS 21: "The effects of changes in foreign exchange rates", further do apply to the hedged item. IFRIC 16 is not relevant to the Company's operations

IFRIC 17: "Distributions of non-cash assets to owners" (effective for annual periods beginning on or after 1 July 2009). The amendment clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 is not relevant to the Company's operations.

2.2 Insurance contracts

a) Premiums

Written insurance premiums consist of the premiums in contracts, which become effective during the year, irrespective of whether the premium has become due or not. All written premiums are decreased by the amount of premiums cancelled or suspended during the year.

b) Claims incurred

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

c) Administrative expenses

Administrative expenses - are related to the collection of premiums, management of portfolios, processing of bonuses and discounts and incoming and outgoing reinsurance. They include personnel expenses and depreciation to the extent they are not included in acquisition, claims handling or investing expenses.
Administrative expenses consist of two parts:

a) direct costs such as those directly related to administrative personnel, training, etc.
b) indirect costs such as communications expenses, expenses for offices, office supplies, etc.

d) Acquisition costs

Acquisition costs of insurance contracts arise from the conclusion of insurance contracts and consists of direct costs such as commissions and expenses incurred for employees directly related to the conclusion of contracts.

NOTES TO THE FINANCIAL STATEMENTS (continued)

e) Deferred client acquisition costs

Commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts are capitalised as an intangible asset (DAC). All other client acquisition costs are recognised as expenses when incurred. The DAC is subsequently amortised over the terms of the policies as premium is earned on pro-rata basis.

f) Unearned premiums and claims 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 provisions for reported but not settled claims and provision for incurred but not reported claims (Note 9). The claims provision includes direct claims settlement 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.

2.3 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 debt 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.

2.4 Investments

The Company classifies its financial assets in the following categories: at loans and receivables and at fair value through profit or loss. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are classified as Loans, Term deposits with banks and Debtors in the balance sheet. See for accounting policy on Receivables from direct insurance operations.

b) Financial assets at fair value through profit or loss

All the Company’s investments in securities are classified as financial assets at fair value through profit or loss. The Company’s overall investment objective is to maximize its total return (i.e. interest or dividends and changes in fair value) given a low to medium level of risk and within the given restrictions for the whole portfolio. Accordingly the Company manages and evaluates the investment portfolio performance on a total return bases and financial instruments are designated as at fair value through profit or loss.

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Company commits to purchase or sell the asset. Loans and receivables are initially recognised at fair value plus transaction costs. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are recognised in the income in the period in which they arise.

NOTES TO THE FINANCIAL STATEMENTS (continued)

The fair values of quoted investments are based on current bid prices. The Company does not have investments in unquoted financial assets at fair value through profit or loss.

Interest using the effective interest method and dividends are recognised in the income statement as part of Interest and dividend income. Dividends are recognised in the income statement when the Company's right to receive payments is established.

The Company assesses at each balance sheet date whether there is objective evidence that a loan or receivable or a group of those financial assets is impaired. A provision for impairment on loans and receivables is established if there is objective evidence that the Company 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 effective interest rate of respective instruments. Impairment charges are included in the income statement.

2.5 Receivables from direct insurance operations

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, accordingly, no portion of the premium is taken to income.

2.6 Intangible assets and Property, plant and equipment

Land and buildings are shown at fair value, based on periodic, but at least triennial, valuations by external independent appraisers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

All other property, plant and equipment and intangible assets are stated at historical cost less accumulated depreciation and amortisation. Increases in the carrying amount arising on revaluation of land and buildings are credited to the revaluation surplus in shareholders' equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to the income statement.

Land is not depreciated. Depreciation and amortisation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful life using following rates set by the management:

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

The assets' residual values and useful lives are reviewed at each balance sheet date and adjusted if appropriate. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when they exceed LVL 2 000 and when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Leasehold improvements above LVL 2 000 are written down on a straight line basis during leasehold period, but not longer than 5 years. Leasehold improvements below LVL 2 000 are charged to the income statement during the financial period in which they are incurred.

Gains or losses on disposals are determined by comparing carrying amount with proceeds and are credited or charged to the income statement account during the period in which they are incurred. When revalued assets are sold, the amounts included in the revaluation surplus are transferred to retained earnings.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.7 Foreign currency translation

a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates (functional currency). The financial statements are presented in Latvian Lats (LVL), which is the Company's functional and presentation currency.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement of the respective period.

	31.12.2008	**31.12.2007**
1 USD	LVL 0.495	LVL 0.484
1 GBP	LVL 0.728	LVL 0.963
1 LTL	LVL 0.203	LVL 0.204
1 EUR	LVL 0.702804	LVL 0.702804

2.8 Taxation

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

Deferred tax is provided for, using the 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, as well as from accrued expenses and accruals for bad and doubtful debts. The deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2.9 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.10 Accruals for unused annual leave

The amount of accruals is determined by multiplying average daily salary for the last 6 month by the amount of accrued but unused vacation days at the end of the year.

2.11 Distribution of direct and indirect income and expense by types of insurance

Client acquisition costs, which are not directly attributable to a particular unit of the Company, are allocated between types of insurance in proportion to total indirect client acquisition costs ratio to total direct client acquisition costs during the reporting year.

Administrative expenses, which relate to Company administration and are not directly attributable to a particular unit of the Company, are divided as follows:
– total indirect costs are attributed against total earned premiums in period and thus average indirect costs coefficient is obtained;
– multiplying earned premium by type of customer (legal entity or individual) in each type of insurance with average indirect costs coefficient, hence obtaining the total for indirect costs, which are attributable to corresponding type of insurance.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Other technical income and expense are allocated by types of insurance at a maximum extent available and other not allocated expenses are distributed between types of insurance proportionally to the gross premiums written during the year.

2.12 Employee benefits

Short-term employee benefits, including salaries and social security contributions, bonuses and vacation benefits, are included in Administrative expenses on accrual basis. The Company calculates annual bonuses for personnel based on previous year financial results and achievement of personal goals. In addition bonuses are influenced by personal behaviour which is incorporated to be part of calculation. The accruals for personnel bonuses represent the amount accrued as at the year end.

The Company pays social security contributions to the State Social Security Fund (the Fund) on behalf of its employees in accordance with local legal requirements. The Fund is used by the State to finance pension, unemployment and other benefits. The Company is required to pay fixed contributions into the Fund and will have no legal or constructive obligations to pay further contributions relating to employee service in the current and prior period. The social security contributions are recognised as an expense on an accrual basis and are included within staff costs.

2.13 Share capital and dividend distribution

Ordinary shares are classified as equity.

Dividend distribution to the Company's shareholders is recognized as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

3. PREMIUMS

	2008			2007		
	Gross amount	**Reinsurers' share**	**Net amount**	**Gross amount**	**Reinsurers' share**	**Net amount**
Personal accident	1 405 169	(42 200)	1 362 969	1 246 891	(48 474)	1 198 417
Health	7 597 962	-	7 597 962	6 525 071	-	6 525 071
Motor own damage	22 379 275	(36 902)	22 342 373	21 511 187	(6 850)	21 504 337
Marine	53 494	(4 219)	49 275	54 559	(5 468)	49 091
Cargo	535 619	(51 383)	484 236	564 559	(88 485)	476 074
Property	15 026 748	(794 819)	14 231 929	13 605 967	(730 619)	12 875 348
General TPL	1 407 257	(160 994)	1 246 263	1 291 293	(199 909)	1 091 384
Guarantees	79 772		79 772	50 761	-	50 761
Financial risks	100 969	(6 195)	94 774	163 063	(4 726)	158 337
Travel accident	486 766	(15 473)	471 293	407 241	(13 479)	393 762
Obligatory motor TPL	11 570 440	(225 185)	11 345 255	8 411 355	(386 124)	8 025 231
	60 643 471	**(1 337 370)**	**59 306 101**	**53 831 947**	**(1 484 134)**	**52 347 813**

Almost all policies are issued to clients operating in Latvia.

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 Guarantees Foundation	fixed sum for certain type of vehicle;
State Traffic Security Foundation	2% from signed insurance premium during the accounting period;
Motor Insurers` Bureau of Latvia	variable sum LVL 0.28 per contract and fixed sum LVL 30 000 in year or LVL 2 500 in a month.

In year 2008 OMTPL mandatory deductions amounted to LVL 377 008 (2007: LVL 370 786). The gross premiums in OMTPL are shown above net of these mandatory deductions.

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. PROVISION FOR UNEARNED PREMIUMS

a) Movement in provision for unearned premiums

	Gross amount	Reinsurers' share	Net amount
Balance as at 31 December 2006	**21 577 288**	**(216 011)**	**21 361 277**
Change in the year	5 053 446	34 096	5 087 542
Balance as at 31 December 2007	**26 630 734**	**(181 915)**	**26 448 819**
Change in the year	1 198 351	113 992	1 312 343
Balance as at 31 December 2008	**27 829 085**	**(67 923)**	**27 761 162**

b) Changes in provision for unearned premiums and distribution by type of insurance for the year 2008:

	Gross amount	Reinsurers' share	Net amount
Personal accident	71 749	-	71 749
Health	453 318	-	453 318
Motor own damage	(999 188)	4 471	(994 717)
Marine	(413)	-	(413)
Cargo	(9 550)	751	(8 799)
Property	448 245	(495)	447 750
General TPL	104 621	41 669	146 290
Guarantees	6 431	-	6 431
Financial risks	(26 035)	-	(26 035)
Travel accident	946	-	946
Obligatory motor TPL	1 148 227	67 596	1 215 823
	1 198 351	**113 992**	**1 312 343**

c) Changes in provision for unearned premiums and distribution by type of insurance for the year 2007:

	Gross amount	Reinsurers' share	Net amount
Personal accident	81 092	568	81 660
Health	(83 620)	-	(83 620)
Motor own damage	2 300 264	96 152	2 396 416
Marine	4 140	353	4 493
Cargo	(31 671)	(1 138)	(32 809)
Property	1 185 218	(51 726)	1 133 492
General TPL	75 955	981	76 936
Guarantees	13 336	-	13 336
Financial risks	4 038	-	4 038
Travel accident	2 124	-	2 124
Obligatory motor TPL	1 502 570	(11 094)	1 491 476
	5 053 446	**34 096**	**5 087 542**

NOTES TO THE FINANCIAL STATEMENTS (continued)

d) Provision for unearned premiums as at the year end:

	31.12.2008	**31.12.2007**
Personal accident	690 311	618 561
Health	2 571 428	2 118 110
Motor own damage	11 217 436	12 216 624
Marine	27 052	27 465
Cargo	54 625	64 175
Property	7 439 898	6 991 653
General TPL	683 646	579 025
Guarantees	29 700	23 269
Financial risks	45 990	72 025
Travel accident	16 378	15 432
Obligatory motor TPL	5 052 621	3 904 395
	27 829 085	**26 630 734**

5. INTEREST INCOME

	2008	**2007**
From financial investments at fair value through profit or loss:		
Government bonds	1 027 113	391 546
Mortgage backed debt securities	21 000	42 000
Corporate bonds	25 206	20 232
Listed shares	3 223	1 240
Loans and receivables:		
Deposits with banks	512 927	784 541
Loans	6 061	4 175
	1 595 530	**1 243 734**

6. NET FAIR VALUE (LOSSES) ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2008	**2007**
Government bonds	(379 798)	(37 115)
Mortgage backed debt securities	(99 170)	(35 251)
Listed shares	(70 416)	(12 842)
Corporate bonds	40 882	1 170
	(508 502)	**(84 038)**

	2008	**2007**
Realised gains/ (losses):		
Government bonds	(13 477)	134 753
Listed shares	-	6 857
Corporate bonds	-	(14 691)
Unrealised gains/ (losses):		
Government bonds	(366 321)	(171 869)
Mortgage backed debt securities	(99 170)	(35 251)
Listed shares	(70 416)	(19 699)
Corporate bonds	40 882	15 862
	(508 502)	**(84 038)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. OTHER INCOME

	2008	**2007**
Income from cancellation of policies	81 124	132 171
Gain on sale of tangible assets	61 882	29 942
Income from recalculation of social insurance tax	61 179	-
Recalculation of Financial and Capital Market Commission participation fee	52 290	54 175
Commissions from insurance policies fronting	12 030	14 776
Income from rent	11 744	10 001
Other income	10 386	21 845
Expertise income	10 145	20 680
Reinsurance commission income (see Note 33)	9 937	10 528
Income from distribution of policies of Baltijas Apdrošināšanas Nams	6 362	6 020
Insurance claims received	6 244	5 190
Commissions for distribution of other insurance companies' products	6 185	6 979
Income from Pool "BALTA-PAREX-ERGO" administration	2 389	21 053
Income from distribution of policies of SEB Life Insurance	272	3 490
Income from IT consulting for SEB Life Insurance	-	8 632
Income from LTAB recalculation of reinsurance premiums	-	6 844
Income from IT consulting for Codan	-	5 306
	332 169	**357 632**

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

Personal accident	6 602	5 939
Health	42 860	73 623
Motor own damage	118 546	122 296
Marine	176	185
Cargo	1 505	3 273
Property	52 308	49 863
General TPL	17 075	20 349
Guarantees	7 818	8 471
Financial risks	236	210
Travel accident	2 087	1 043
Obligatory motor TPL	82 956	72 380
	332 169	**357 632**

8. CLAIMS PAID

	2008			**2007**		
	Gross amount	**Reinsurers' share**	**Net amount**	**Gross amount**	**Reinsurers' share**	**Net amount**
Personal accident	(390 211)	-	(390 211)	(286 912)	-	(286 912)
Health	(4 826 132)	-	(4 826 132)	(4 408 245)	-	(4 408 245)
Motor own damage	(12 901 691)	12 885	(12 888 806)	(10 481 366)	(5 932)	(10 487 298)
Marine	(22 053)	-	(22 053)	(3 600)	-	(3 600)
Cargo	(74 193)	-	(74 193)	(137 546)	-	(137 546)
Property	(7 739 146)	456 569	(7 282 577)	(4 581 594)	342 795	(4 238 799)
Loan insurance	72	-	72	118	-	118
General TPL	(429 772)	-	(429 772)	(320 003)	-	(320 003)
Guarantees	(13 935)	-	(13 935)	-	-	-
Financial risks	(353 981)	120 137	(233 844)	(56 202)	-	(56 202)
Travel accident	(159 495)	-	(159 495)	(123 692)	-	(123 692)
Obligatory motor TPL	(6 638 293)	16 845	(6 621 448)	(4 592 083)	27 811	(4 564 272)
	(33 548 830)	**606 436**	**(32 942 394)**	**(24 991 125)**	**364 674**	**(24 626 451)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. PROVISION FOR CLAIMS

a) Movement in provision for claims

	2008			2007		
	Gross amount	**Reinsurance**	**Net amount**	**Gross amount**	**Reinsurance**	**Net amount**
Year ended 31 December						
Notified claims	10 935 611	(1 242 274)	9 693 337	7 241 204	(552 949)	6 688 255
Incurred but not reported	2 723 374	-	2 723 374	2 098 900	-	2 098 900
Total at beginning of year	**13 658 985**	**(1 242 274)**	**12 416 711**	**9 340 104**	**(552 949)**	**8 787 155**
Cash paid for claims settled in year	(8 423 723)	408 625	(8 015 098)	(4 929 067)	232 610	(4 696 457)
Increase in liabilities:						
- Arising from current year claims	8 801 298	(110 654)	8 690 644	11 063 870	-	11 063 870
- Arising from prior year claims	(1 653 642)	409 370	(1 244 272)	(1 815 922)	(921 935)	(2 737 857)
Total change in year	(1 276 067)	707 341	(568 726)	4 318 881	(689 325)	3 629 556
Total at end of year	**12 382 918**	**(534 933)**	**11 847 985**	**13 658 985**	**(1 242 274)**	**12 416 711**
Notified claims	8 722 690	(534 933)	8 187 757	10 935 611	(1 242 274)	9 693 337
Incurred but not reported	3 660 228	-	3 660 228	2 723 374	-	2 723 374
Total at end of year	**12 382 918**	**(534 933)**	**11 847 985**	**13 658 985**	**(1 242 274)**	**12 416 711**

b) Change in provisions for claims and distribution by type of insurance for the year 2008:

	Gross amount	**Reinsurance**	**Net amount**
Personal accident	80 719	-	80 719
Health	(645 576)	-	(645 576)
Motor own damage	(602 701)	-	(602 701)
Marine	9 245	-	9 245
Cargo	88 350	-	88 350
Property	(1 247 735)	431 015	(816 720)
General TPL	366 894	(12 801)	354 093
Guarantees	(8 430)	-	(8 430)
Financial risks	(793 247)	393 448	(399 799)
Travel accident	24 146	-	24 146
Obligatory motor TPL	1 452 268	(104 321)	1 347 947
	(1 276 067)	**707 341**	**(568 726)**

c) Change in provisions for claims and distribution by type of insurance for the year 2007:

	Gross amount	**Reinsurance**	**Net amount**
Personal accident	(26 126)	-	(26 126)
Health	292 492	-	292 492
Motor own damage	460 030	-	460 030
Marine	(340)	-	(340)
Cargo	(630)	-	(630)
Property	1 600 904	(438 308)	1 162 596
General TPL	23 326	-	23 326
Guarantees	(3 148)	-	(3 148)
Financial risks	871 435	(393 448)	477 987
Travel accident	(1 796)	-	(1 796)
Obligatory motor TPL	1 102 734	142 431	1 245 165
	4 318 881	**(689 325)**	**3 629 556**

NOTES TO THE FINANCIAL STATEMENTS (continued)

d) Provision for claims as at the year end:

	31.12.2008	**31.12.2007**
Personal accident	156 223	75 504
Health	701 994	1 347 570
Motor own damage	2 776 314	3 382 234
Marine	15 106	5 861
Cargo	157 744	69 394
Property	1 544 559	2 792 294
General TPL	870 451	503 557
Guarantees	757	9 187
Financial risks	193 052	986 299
Travel accident	91 778	67 632
Obligatory motor TPL	5 874 940	4 419 453
	12 382 918	**13 658 985**

10. CLIENT ACQUISITION COSTS

	2008	**2007**
Commissions to brokers and other intermediaries	(2 794 277)	(2 330 848)
Commissions and other agent related expense	(3 066 840)	(2 998 264)
State compulsory social insurance contributions	(708 462)	(671 240)
Other client acquisition costs	(4 337)	(6 327)
Changes in deferred client acquisition costs (Note 15)	162 728	(178 639)
	(6 411 188)	**(6 185 318)**

Distribution of client acquisition costs (DAC) and changes in deferred acquisition costs by type of insurance:

2008	**Client acquisition costs**	**Changes in DAC**	**Client acquisition costs, net**
Personal accident	(150 806)	12 258	(138 548)
Health	(383 171)	14 702	(368 469)
Motor own damage	(2 599 545)	(32 811)	(2 632 356)
Marine	(7 250)	1 180	(6 070)
Cargo	(47 107)	1 834	(45 273)
Property fire	(2 677 332)	104 380	(2 572 952)
General TPL	(149 084)	18 057	(131 027)
Guarantees	(7 494)	(227)	(7 721)
Financial risks	(12 510)	(4 877)	(17 387)
Travel accident	(39 640)	408	(39 232)
Obligatory motor TPL	(499 977)	47 824	(452 153)
	(6 573 916)	**162 728**	**(6 411 188)**

2007	**Client acquisition costs**	**Changes in DAC**	**Client acquisition costs, net**
Personal accident	(135 893)	(22 410)	(158 303)
Health	(357 034)	(34 373)	(391 407)
Motor own damage	(2 432 040)	21 973	(2 410 067)
Marine	(5 947)	1 292	(4 655)
Cargo	(40 343)	(2 820)	(43 163)
Property fire	(2 419 017)	(102 130)	(2 521 147)
General TPL	(125 999)	(4 621)	(130 620)
Guarantees	(3 444)	513	(2 931)
Financial risks	(28 175)	436	(27 739)
Travel accident	(31 726)	(50)	(31 776)
Obligatory motor TPL	(427 063)	(36 447)	(463 510)
	(6 006 681)	**(178 637)**	**(6 185 318)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. ADMINISTRATIVE EXPENSE

	2008	2007
Salaries		
- salaries to staff	(5 770 331)	(4 600 085)
- state compulsory social insurance contributions	(1 127 753)	(913 158)
Depreciation and amortisation	(1 579 692)	(1 378 595)
Information and communication expense	(1 384 740)	(727 202)
Professional services	(801 633)	(369 790)
Advertising and public relations	(794 912)	(834 470)
Premise maintenance and repair expense	(566 509)	(520 603)
Rent of premises	(489 923)	(474 561)
Transport	(363 604)	(249 471)
Office expense	(257 090)	(209 632)
Payments to Foundation of Insured Interests Protection	(196 281)	(168 891)
Payments to Financial and Capital Market Commission	(164 385)	(228 012)
Other administrative expense	(309 905)	(509 715)
	(13 806 758)	**(11 184 185)**

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 0.118% from gross premiums collected in Obligatory Motor Third Party Liability insurance and in amount of 0.306% from gross premiums collected in other types of insurance. Payments to Foundation of Insured Interests Protection amount to 1.000% of premiums collected from individuals in voluntary types of insurance.

At the end of year 2008, 516 employees (2007: 520) and 405 agents (2007: 393) were employed in the Company. As at 31 December 2008, 384 employees (2007: 388) and 64 agents (2007: 68) were working in the central office, and 132 (2007: 132) employees and 341 (2007: 325) agents in branches.

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

	2008	2007
Personal accident	(520 954)	(352 902)
Health	(1 428 990)	(1 286 392)
Motor own damage	(4 939 367)	(3 938 606)
Marine	(10 761)	(12 928)
Cargo	(108 904)	(149 435)
Property	(3 432 199)	(2 887 221)
General TPL	(321 419)	(319 090)
Guarantees	(16 835)	(18 004)
Financial risks	(23 716)	(29 788)
Travel accident	(177 909)	(161 228)
Obligatory motor TPL	(2 825 704)	(2 028 591)
	(13 806 758)	**(11 184 185)**

12. OTHER EXPENSE

	2008	2007
Impairment losses on land and buildings (see Note 16)	(929 050)	-
Provisions for doubtful debts	(42 611)	(96 180)
LTAB uncompensated discount	(15 544)	-
LTAB uncompensated claims of Obligatory motor TPL	(9 579)	-
Loss on sale of property, plant and equipment	-	(35 186)
Commission of intermediaries KEBS and FCS	-	(9 638)
Costs related to distribution of SEB Life Insurance policies	-	(5 481)
Penalty of agreement cancelation	-	(4 846)
Other expense	(53 092)	(1 663)
	(1 049 876)	**(152 994)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

	2008	2007
Personal accident	(42 131)	(1 244)
Health	(103 126)	(118 526)
Motor own damage	(364 537)	(11 790)
Marine	(786)	(28)
Cargo	(7 925)	-
Property	(257 219)	(5 739)
Voluntary motor TPL	-	(870)
General TPL	(22 023)	(24)
Guarantees	(1 222)	-
Financial risks	(1 697)	(644)
Travel accident	(12 164)	(576)
Obligatory motor TPL	(237 046)	(13 553)
	(1 049 876)	**(152 994)**

13. FINANCE INCOME

	2008	2007
Interest on cash and cash equivalents	217 750	218 880
Gain from foreign currency fluctuations	65 144	2 700
	282 894	**221 580**

14. INCOME TAX EXPENSE

	2008	2007
Current tax for the reporting year	(1 266 169)	(438 057)
Change in deferred tax balances (Note 28)	262 364	(117 883)
Total income tax expense	**(1 003 805)**	**(555 940)**

As at 31 December 2008 the Company has corporate income tax liability at the amount of LVL 718 138 (2007: overpayment of LVL 111 729).

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

	2008	2007
Profit before tax	**6 054 359**	**3 220 675**
Theoretically calculated tax at a tax rate of 15%	(908 154)	(483 101)
Expenses not deductible for tax purposes	(150 123)	(104 899)
Non-taxable income	12 807	41 206
Tax discount for donations	41 665	50 443
Release of previously unrecognised deferred tax assets	-	(12 661)
Adjustment to prior years Corporate income tax	-	(46 928)
Current tax charge	**(1 003 805)**	**(555 940)**

Effective income tax in 2008 is 16.58% (2007: 17.26%).

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. INTANGIBLE ASSETS

	Deferred client acquisition costs	Software	Total
At 1 January 2007			
Cost	3 179 489	3 584 604	6 764 093
Accumulated amortisation	-	(1 636 002)	(1 636 002)
Net book amount	**3 179 489**	**1 948 602**	**5 128 091**
Year ended 31 December 2007			
Opening net book amount	3 179 489	1 948 602	5 128 091
Additions	5 737 938	292 866	6 030 804
Disposals	(5 916 577)	-	(5 916 577)
Amortisation charge	-	(703 525)	(703 525)
Closing net book amount	3 000 850	1 537 943	4 538 793
At 1 January 2008			
Cost	3 000 850	3 877 470	6 878 320
Accumulated amortisation	-	(2 339 527)	(2 339 527)
Net book amount	**3 000 850**	**1 537 943**	**4 538 793**
Year ended 31 December 2008			
Opening net book amount	3 000 850	1 537 943	4 538 793
Additions	6 573 916	469 727	7 043 643
Disposals	(6 411 188)	(212 833)	(6 624 021)
Amortisation charge	-	(833 791)	(833 791)
Amortisation on disposed assets	-	212 832	212 832
Closing net book amount	3 163 578	1 173 878	4 337 456
At 31 December 2008			
Cost	3 163 578	4 134 364	7 297 942
Accumulated amortisation	-	(2 960 486)	(2 960 486)
Net book amount	**3 163 578**	**1 173 878**	**4 337 456**

16. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Leasehold improve-ments	Transport vehicles	Computer equipment	Furniture and fittings	Total
At 1 January 2007						
Cost	3 764 066	410 258	721 918	1 553 718	783 693	7 233 653
Accumulated depreciation	(361 868)	(83 687)	(361 014)	(927 453)	(335 785)	(2 069 807)
Net book amount	**3 402 198**	**326 571**	**360 904**	**626 265**	**447 908**	**5 163 846**
Year ended 31 December 2007						
Opening net book amount	3 402 198	326 571	360 904	626 265	447 908	5 163 846
Additions	110 624	142 687	11 950	286 731	274 671	826 663
Disposals	(7 245)	(28 405)	(74 919)	(26 330)	(163 814)	(300 713)
Depreciation charge	(69 238)	(81 506)	(137 800)	(323 033)	(144 999)	(756 576)
Depreciation on disposed assets	1 061	28 405	53 491	25 769	150 617	259 343
Closing net book amount	3 437 400	387 752	213 626	589 402	564 383	5 192 563

NOTES TO THE FINANCIAL STATEMENTS (continued)

	Land and buildings	**Leasehold improve-ments**	**Transport vehicles**	**Computer equipment**	**Furniture and fittings**	**Total**
At 1 January 2008						
Cost	3 867 445	524 540	658 949	1 814 119	894 550	7 759 603
Accumulated depreciation	(430 045)	(136 788)	(445 323)	(1 224 717)	(330 167)	(2 567 040)
Net book amount	**3 437 400**	**387 752**	**213 626**	**589 402**	**564 383**	**5 192 563**
Year ended 31 December 2008						
Opening net book amount	3 437 400	387 752	213 626	589 402	564 383	5 192 563
Additions	174 283	145 601	724 409	236 243	190 160	1 470 696
Disposals	-	(6 923)	(406 967)	(294 429)	(17 719)	(726 038)
Depreciation charge	(73 385)	(106 661)	(181 770)	(308 020)	(182 753)	(852 589)
Depreciation on disposed assets	-	6 923	348 019	294 036	13 659	662 637
Impairment losses	(929 050)	-	-	-	-	(929 050)
Revaluation surplus	86 061	-	-	-	-	86 061
Closing net book amount	2 695 309	426 692	697 317	517 232	567 730	4 904 280
At 31 December 2008						
Cost or valuation	3 198 739	663 218	976 391	1 755 933	1 066 991	7 661 272
Accumulated depreciation	(503 430)	(236 526)	(279 074)	(1 238 701)	(499 261)	(2 756 992)
Net book amount	**2 695 309**	**426 692**	**697 317**	**517 232**	**567 730**	**4 904 280**

All property was for Company's own use.

The Company's land and buildings were tested for impairment at 31 December 2008. The valuation was made as on 31.12.2008 by external independent appraiser on the basis of open market value. The impairment losses in total LVL 929 050 was debited to income statement. Revaluation surplus in total LVL 86 061 was credited to equity.

If land and buildings were stated on a historical cost basis, the amounts would be as follows:

	31.12.2008	**31.12.2007**
Cost	4 041 728	3 867 445
Accumulated depreciation	(503 430)	(430 045)
Net book amount	**3 538 298**	**3 437 400**

NOTES TO THE FINANCIAL STATEMENTS (continued)

17. FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31.12.2008 Carrying amount of investment	Cost	31.12.2007 Carrying amount of investment	Cost
Latvian government bonds	3 690 971	4 796 736	4 744 911	4 796 736
German government bonds	8 202 554	13 031 912	3 718 074	3 677 306
British government bonds	1 445 228	1 390 427	1 426 532	1 390 427
French government bonds	1 095 141	2 436 850	1 442 867	1 404 624
Spanish government bonds	3 560 554	3 435 222	1 372 761	1 328 517
Irish government bonds	6 410 523	6 236 949	-	-
Netherland government bonds	1 130 584	1 035 019	-	-
Corporate bonds	1 089 730	1 034 893	-	-
Mortgage backed debt securities	684 605	786 980	783 776	786 980
Latvian companies shares	39 807	39 204	74 930	39 204
Estonian companies shares	6 304	12 229	16 617	12 229
Lithuanian companies shares	6 841	30 210	31 862	30 210
	27 362 842	**34 266 631**	**13 612 330**	**13 466 233**

The split between current and non-current financial investments at fair value through profit or loss is included in Note 38.

18. LOANS

	31.12.2008 Current	Non-current	Total	31.12.2007 Current	Non-current	Total
Loans to employees	15 112	52 625	67 737	44 038	4 155	48 193
Loans secured by a car pledge	-	20 286	20 286	17 804	1 533	19 337
Mortgage loans	-	14 878	14 878	-	24 650	24 650
	15 112	**87 789**	**102 901**	**61 842**	**30 338**	**92 180**

According to the Company's policy, the mortgage and pledge for the loan is insured for the loan issuers' benefit.

19. RECEIVABLES FROM DIRECT INSURANCE AND REINSURANCE OPERATIONS

	31.12.2008	31.12.2007
Receivables from direct insurance operations	10 002 024	8 466 063
Provisions for receivables from direct insurance operations	(237 886)	(195 691)
	9 764 138	**8 270 372**

The Company operates with ceded reinsurance. As at 31 December 2008 the Company claims against reinsurance debtors are LVL 69 923 (2007: LVL 147 252). Receivables in total LVL 30 784 are due within 12 months from the balance sheet date. Receivables in total LVL 39 139 are due after 12 months from the balance sheet date. Receivables carry no interest.

NOTES TO THE FINANCIAL STATEMENTS (continued)

20. OTHER RECEIVABLES

	31.12.2008	31.12.2007
Receivables from suitable scrap buyers	47 878	-
Receivables from others insurance companies	42 383	-
Receivables from related companies	24 625	-
Receivables from agents	19 732	52 427
Receivables from the Motor Insurers' Bureau of Latvia	5 922	68 511
Receivables from Malek	4 217	-
Receivables for claims regulation	2 856	44 165
Receivables from Pool "BALTA-PAREX-ERGO"	-	125 136
Real estate tax overpayment	-	17
Other debtors	64 086	84 270
	211 699	**374 526**

Other receivables are due within 12 months from the balance sheet date and carry no interest.

21. ACCRUED INCOME AND DEFERRED EXPENSE

	31.12.2008	31.12.2007
Prepayments for software maintenance	2 585 161	71 205
Repair works	447 640	443 799
Prepayments for rent	44 897	30 822
Deferred commission expense	42 735	36 004
Prepayments for insurance	12 668	-
Other deferred expense	15 262	9 805
	3 148 363	**591 635**

22. REINSURERS' SHARE OF PROVISION FOR CLAIMS

The reinsurers' share of provision for claims include LVL 276 718 (2007: LVL 300 288) reserved for OMTPL insurance case in Germany. Most of the remaining part in the amount of LVL 122 992 (2007: LVL 0) represents MTPL insurance case in Ireland. The vest majority of the reinsurers' share of provision for claims as on 31 December 2007 included provision for large fire case in November 2007 in total LVL 902 196.

23. CASH AND CASH EQUIVALENTS

	31.12.2008	31.12.2007
Cash in hand	-	500
Cash at bank	1 603 997	2 343 677
Bank deposits with original maturity of three months or less	4 751 542	5 119 898
	6 355 539	**7 464 075**

The effective interest rate for 2008 on bank deposits with original maturity of three months or less was 5.6% (2007: 4.6%) and has an average maturity of 55 (2007: 85) days.

24. SHARE CAPITAL AND RESERVES

a) Issued and fully paid share capital

The total authorised number of ordinary shares is 4 652 067 (2007: 4 652 067), with nominal value of LVL 1 per share (2007: LVL 1 per share). All issued shares are fully paid.

The Company's shares are not listed.

NOTES TO THE FINANCIAL STATEMENTS (continued)

b) Major shareholder

The major shareholder of the Company with 4 651 714 (2007: 4 651 714) shares or 99.99% (2007: 99.99%) is Codan AS (Denmark).

The reserves have been created by transferring profits from retained earnings to these reserves during the previous years in accordance with applicable Latvian law and shareholders' decisions. These reserves can not be distributed to shareholders.

25. REVALUATION RESERVE

	Land and buildings
Balance at 31 December 2007	-
Revaluation increase on land and buildings (see Note 16)	86 061
Deferred tax liability arising on revaluation of land and buildings	(12 909)
Balance at 31 December 2008	**73 152**

26. CREDITORS FROM REINSURANCE ACTIVITIES

As at 31 December 2008 there are liabilities in amount of LVL 245 777 (2007: LVL 374 344) outstanding to reinsurers.

27. TAXES AND THE STATE COMPULSORY SOCIAL INSURANCE CONTRIBUTIONS

	31.12.2008	31.12.2007
State compulsory social insurance contributions	205 455	194 564
Personal income tax	159 524	128 051
Value added tax	5 287	37 650
Unemployment risk duty	226	232
Total	**370 492**	**360 497**

During the year the following tax payments have been made:

	2008	2007
State compulsory social insurance payments	2 847 422	2 339 652
Personal income tax	1 882 228	1 617 573
Corporate income tax	444 452	140 753
Value added tax	264 399	126 524
Property tax	14 659	9 641
Unemployment risk duty	2 882	3 017
	5 456 042	**4 237 160**

28. DEFERRED INCOME TAX

	2008	2007
Deferred tax liability as at the beginning of the year	230 528	112 645
Deferred tax (credited) / debited to the income statement (see Note 14)	(262 364)	117 883
Deferred tax debited to equity (see Note 25)	12 909	-
Deferred tax (asset) / liability as at the end of the year	**(18 927)**	**230 528**

NOTES TO THE FINANCIAL STATEMENTS (continued)

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:

	31.12.2008	31.12.2007
Temporary difference on depreciation of property, plant and equipment	313 991	480 398
Temporary difference on revaluation of land and buildings charged to Equity (see Note 25)	12 909	-
Temporary difference for accrued expense	(316 069)	(225 477)
Temporary difference for provisions on doubtful debtors	(29 758)	(24 393)
Deferred tax (asset) / liability as at the end of the year	**(18 927)**	**230 528**

29. ACCRUED EXPENSES AND DEFERRED INCOME

	31.12.2008	31.12.2007
Accruals for personnel bonuses	712 791	753 007
Accruals for unused annual leave	884 643	257 705
Next period written premium for long term policies	202 290	290 498
Accruals for other expenses	421 197	448 796
Accruals for intermediary commissions	88 492	-
Unearned reinsurance commissions	5 370	1 334
Other deferred income	600	-
	2 315 383	**1 751 340**

30. OTHER CREDITORS

	31.12.2008	31.12.2007
Deferred commissions payable to agents	889 649	542 397
Personnel	415 587	424 397
Liability to Finance and Capital Market Commission	35 407	110 575
Payable to SEB Life Insurance	10 336	21 720
Liability for payments to Motor Insurers' Bureau of Latvia	78 047	66 060
Liability to related companies	250 409	43 671
Liability to Pool "BALTA-PAREX-ERGO"	18 256	-
Other creditors	62 005	494 891
	1 759 696	**1 703 711**

Deferred commissions payable represent amounts calculated for commission expense that is not due yet. Settlement payments for these amounts should be made after full payment of policies.

31. DIVIDENDS PER SHARE

No dividends were paid in 2008 and 2007. No dividends are planned to be proposed at the Annual Shareholders' Meeting.

32. MANDATORY PAYMENTS

Types of mandatory payments made during the year:

	2008	2007
Motor Insurers' Bureau of Latvia	365 019	364 549
Finance and Capital Market Commission	383 543	334 519
	748 562	**699 068**

NOTES TO THE FINANCIAL STATEMENTS (continued)

33. RESULTS OF THE CEDED REINSURANCE

	2008	2007
Reinsurers' share in premiums (see Note 3)	(1 337 370)	(1 484 134)
Reinsurers' share in changes in unearned premiums (see Note 4)	(113 992)	(34 096)
Reinsurers' share in claims (see Note 8)	606 436	364 674
Reinsurers' share in changes in provision for claims (see Note 9)	707 341	(689 325)
Reinsurers' commission income (see Note 7)	9 937	10 528
Net result of ceded reinsurance activities:	**(127 648)**	**(1 832 353)**

34. RELATED PARTY TRANSACTION

A party is related to the Company if:

(a) directly, or indirectly through one or more intermediaries, the party:
- controls, is controlled by, or is under common control with, the Company (this includes parents, subsidiaries and fellow subsidiaries);
- has an interest in the Company that gives it significant influence over the Company; or
- has joint control over the Company;

(b) the party is an associate (as defined in IAS 28 Investments in Associates) of the Company;
(c) the party is a joint venture in which the Company is a venturer;
(d) the party is a member of the key management personnel of the Company or its parent;
(e) the party is a close member of the family of any individual referred to in (a) or (d);
(f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

The Parent company of the Company is Codan AS (Denmark). The ultimate parent company of the Company is RSA (UK). Lietuvos Draudimas (Lithuania) is a subsidiary of Codan AS. Codan Forsikring AS Eesti filiaal is a branch of Codan AS in Estonia.

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

a) Transactions with related parties

<u>*Reinsurance*</u>

	2008	2007
Lietuvos Draudimas:		
Recovered loss amounts	72	118
	72	**118**
RSA:		
Reinsurance premiums ceded	(197 279)	(296 722)
Reinsurance commissions paid	-	(6 915)
Reinsurance commissions received	13 059	25 222
	(184 220)	**(278 415)**

<u>*Other transactions*</u>

	2008	2007
Codan AS:		
Management consulting services	(209 593)	(48 981)
Training for directors	(113 064)	(11 351)
Recruitment services	(79 877)	-
IT consultation	(26 192)	-
Income from consultation	19 505	5 306
	(409 221)	**(55 026)**
Lietuvos Draudimas:		
Management consulting services	(153 382)	(85 515)
	(153 382)	**(85 515)**
Codan Forsikring AS Eesti filiaal:		
Income from consultation	5 120	-
	5 120	**-**

NOTES TO THE FINANCIAL STATEMENTS (continued)

	2008	2007
RSA:		
Management consulting services	(9 472)	(55 025)
Other services	(25 130)	(24 053)
	(34 602)	**(79 078)**

During the reporting year the Company received services provided by Codan AS for LVL 429 thousand (2007: LVL 60 thousand), by Lietuvos Draudimas for LVL 153 thousand (2007: LVL 85 thousand) and by RSA for 35 thousand (2007: LVL 79 thousand). Fees are included in the administrative expenses. The Company provided consultation services to Codan AS for LVL 19 thousand (2007: LVL 5 thousand) and to Codan Forsikring AS Eesti filial for LVL 5 thousand (2007: LVL 0). Fees are included in the other income.

b) Balances with related parties

There are the following outstanding balances with related parties as at the end of the year:

	31.12.2008	31.12.2007
Reinsurance claims reserves with RSA	8 380	17 911
Reinsurance claims with RSA	7 679	82 194
Reinsurance premiums	(8 642)	(855)
Recovered loss amounts with Lietuvos Draudimas	146	75
Receivables from Codan Forsikring AS Eesti filial	5 120	-
Receivables from Codan	19 505	-
Receivables from Lietuvos Draudimas	13	-
Liabilities to Codan AS	(184 284)	(38 365)
Liabilities to Lietuvos Draudimas	(66 125)	(45 227)
Liabilities to RSA	(26 133)	-
	(244 341)	**15 733**

c) Key management remuneration

The Company has paid remuneration to the Council and Board of Directors in the amount of LVL 287 thousands (2007: LVL 371 thousands).

35. CONTINGENT LIABILITIES AND COMMITMENTS

a) General claims

In the normal course of business, the Company constantly receives requests for claim payments. Such claims have been reviewed by the Company's management who is of the opinion that no material unprovided losses will be incurred.

b) Litigation

The Company, like all other insurers, is subject to litigation in the normal course of its business. As at 31 December 2008 there were 19 (2007: 16) open legal claims against the Company amounting to LVL 835 thousands (2007: LVL 78 thousand). The management is of the opinion that no material unprovided losses will be incurred.

c) Capital commitments

The Company does not have any capital commitments as at 31 December 2008.

The Company does not have any non-cancellable operating leases as at 31 December 2008, these can usually be terminated at one to six months notice. Total commitment for lease payments as at 31 December 2008 amounts to approximately LVL 153 thousands (2007: LVL 121 thousands).

NOTES TO THE FINANCIAL STATEMENTS (continued)

d) Tax contingency

The local tax authorities have power to examine tax position of the Company for the previous 3 years. The Company's Management believes that the outcome of tax authority's examination will not result in a material impact on the Company's results and operations or financial position. Last tax examination done in the Company by State Revenue Service was for the period up to 31 December 2002.

36. ACCOUNTING ESTIMATES AND JUDGEMENTS

The Company makes estimates and assumptions that affect the reported amount of assets and liabilities within the next financial year. The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate.

The provisions for reported but not settled claims (RBNS) are based on claims handler estimate for each individual claim. In cases when a claim is reported but the estimate is not prepared yet, the average claim amount in the corresponding business line is used as an initial reserve.

The provision for incurred but not reported claims (IBNR) is calculated using chain – ladder method on claims paid or claims incurred development triangles. In business lines where there is not enough statistics to use chain – ladder method, the reserve is set as 1/12 from the 12 month claim amount and increased by an average large claim from the last 3 years. In General TPL, Guarantee and Financial risk insurance the IBNR reserve is set at the amount of the net underwriting result from the business line.

Claims settlement reserve is calculated from RBNS and IBNR reserves as a proportion which is taken from the claims handler expenses share in paid claims amount in last 12 month in each business line.

Reserves for recoverable amounts are calculated from RBNS reserves as a proportion which is taken from the salvage and subrogation share in paid claims during the last 12 month in each business line.

The Company annually performs premium deficiency test to ensure that no losses are transferred to next periods. As at the 31 December 2008 there is no premium deficiency detected. For premium deficiency tests are considered claims and direct costs.

37. INSURANCE RISK MANAGEMENT

The Company issues contracts that transfer insurance risk. This section summarises these risks and the way the Company manages them.

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims is greater than estimated. Insurance events are random and the actual number and amount of claims will vary from year to year from the level established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio. The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

The frequency and severity of claims can be affected by several factors. The most significant are the increasing level of awards for the damage suffered, and the increase in the number of claim cases. Estimated inflation is also a significant factor due to increased increment rate of inflation.

NOTES TO THE FINANCIAL STATEMENTS (continued)

The Company manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling.

The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and geography.

Types of insurance contracts

Motor third party liability insurance.
It is a compulsory insurance type, whose policy conditions and indemnification rules are prescribed by the Motor Third Party Liability Insurance Act and other legislation. For determining the rates of motor third party liability insurance, a bonus-malus system is used which reduces the insurance premium upon absence of losses and increases the insurance premium upon existence of losses.

Most of motor third party liability insurance indemnities are made up of indemnities for property damage and lump sum personal injuries mostly medical treatment costs and temporary incapacity for work benefits. However, long – term indemnities may also be possible, such as pensions and permanent incapacity for work benefits which may be paid out over decades.

Accident insurance
The accident insurance covers the death or permanent incapacity for work arising from an accident, also unearned income during a reasonable medical treatment period (daily allowances). The insurance amounts are set out on the insurance policy and generally they are not more than 25 thousands lats for death or permanent incapacity for work and 6 lats per day for daily allowances. Typical losses are generally small and they are indemnified as lump sums.

Death events rarely occur on the basis of accident insurance contracts.

Travel insurance
The travel insurance indemnifies for the medical treatment costs incurred during a trip if such costs are caused by an illness or an accident started during the trip. It is also possible to insure a baggage, to purchase insurance against trip cancellations, travel interruptions and delays. The indemnity limit for the death or medical treatment of passenger is limited to 35 thousands lats. A larger risk is related to potential natural disasters in holiday areas or transport crashes, where the number of injured is large. The reinsurance program covers indemnifies for losses exceeding 35 thousands lats per occurrence.

Typical losses are generally small and they are indemnified as lump sums. The amount of an indemnity depends on the location of the loss occurrence and the number of claims depends on the season.

Casco insurance
The insurance indemnifies for losses which arise from damage to, destruction or loss of vehicle. Several additional insurance covers may also be purchased which are related to insured vehicle. Casco insurance rates are determined on the basis of bonus–malus system, which decreases the insurance premium upon absence of losses and increases the insurance premium upon frequent occurrence of losses. The sums insured very rarely exceed the limit of 50 thousands lats. Largest losses arise from the theft of vehicles and full destructions.

Property insurance, business interruption insurance and building risks insurance
The risks covered by property insurance include fire risk, piping leakage, explosion, burglary and robbery, as well as storm risk. Upon insuring home assets, liability insurance can additionally be purchased.

Business interruption insurance covers lost business profits and fixed costs incurred, which arise from the realisation of any risk covered by property insurance of a company. Upon the sale of that insurance type, it is considered to be particularly important take into account the reliability of customers and transparency of financial statements.

Larger losses arise from fire risks, which in turn give rise to indemnification for business interruptions. The loss is particularly large if the property (buildings and structures with movables in them) insured to a full extent is destroyed and this leads to a business interruption indemnity until the production object is again put in operation. The most frequently realised risks for home property include piping leakages and fire. Larger losses result most often from the realisations of fire risk.

NOTES TO THE FINANCIAL STATEMENTS (continued)

General liability insurance
The insurance indemnifies for proprietary damages and personal injuries which are caused by the policy holder to third parties. Upon the assessment/ selection of liability insurance risks, it is particularly important to take into account the customer's area of activity and appropriateness of activities.

Health insurance
The health insurance product is offered to companies who purchase health insurance for their employees. The risk covers health insurance indemnifies like expenses for doctor visits, hospital expenses, medicaments.

Due to the type of a mass product and large number of small indemnifies along with proper management the risk from this product is small.

Concentration by industry
The concentration of insurance risks by industry do not exceed 20% for an industry, therefore we do consider the risk concentration is at the acceptable level.

Reinsurance contracts
The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance assets.

These assets consist of short-term balances due from reinsurers as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

The Company assesses its reinsurance assets for impairment on a regular basis. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the income statement.

Sensitivity to insurance risk
Based on the fact that the Company provides non-life insurance, terms and conditions of insurance contracts, have no material effect on the amount, timing and uncertainty of the insurer's future cash flows.

Concentration by territory
All insurance contracts have been issued only in Latvia. The insured risk territorial coverage is mainly Latvia except travel policies and OMTPL policies in cases of abroad insurance accidents.

Geographical concentration of financial assets and liabilities as at year end (all amounts in thousands of LVL):

Year 2008	**Latvia**	**OECD countries**	**Other countries**	**Total**
Financial assets				
Financial investments at fair value through profit or loss	4 416	22 934	13	27 363
Loans	103	-	-	103
Term deposits with banks	9 304	1 303	-	10 607
Debtors	9 952	94	-	10 046
Cash and cash equivalents	2 692	3 664	-	6 356
Reinsurers' share of provision for claims	-	535	-	535
Accrued income	43	-	-	43
Total financial assets	**26 510**	**28 530**	**13**	**55 053**
Financial liabilities				
Provision for claims	(12 375)	(1)	(7)	(12 383)
Creditors and accrued expense	(5 694)	(513)	(61)	(6 268)
Total financial liabilities	**(18 069)**	**(514)**	**(68)**	**(18 651)**
Net financial assets / (liabilities) as at 31 December 2008	**8 441**	**28 016**	**(55)**	**36 402**

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year 2007	**Latvia**	**OECD countries**	**Other countries**	**Total**
Financial assets				
Financial investments at fair value through profit or loss	636	12 928	48	13 612
Loans	92	-	-	92
Term deposits with banks	14 276	4 968	-	19 244
Debtors	8 655	137	-	8 792
Cash and cash equivalents	6 134	1 330	-	7 464
Reinsurers' share of provision for claims	-	1 220	22	1 242
Accrued income	148	-	-	148
Total financial assets	**29 941**	**20 583**	**70**	**50 594**
Financial liabilities				
Provision for claims	(13 653)	(2)	(4)	(13 659)
Creditors and accrued expense	(4 359)	(407)	(42)	(4 808)
Total financial liabilities	**(18 012)**	**(409)**	**(46)**	**(18 467)**
Net financial assets / (liabilities) as at 31 December 2007	**11 929**	**20 174**	**24**	**32 127**

Reinsurance coverage
The reinsurance arrangements include excess and catastrophe coverage. The effect of such reinsurance arrangements is that the Company for each insurance risk has following own retention:

Maximum own retention:

	2008	**2007**
Personal accident & Travel medical expense	70 280	50 000
Motor own damage	70 280	150 000
Cargo	105 421	70 280
Hull, CMR	105 421	70 280
Property	702 804	702 804
General TPL	140 561	125 000

In addition to the overall RSA Group reinsurance programme, individual business units are permitted to purchase additional reinsurance protection.

Liability adequacy test
At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related deferred acquisition costs (DAC) assets. In performing these tests, current best estimates of future contractual cash flows are used. Any deficiency is immediately charged to income statement initially by writing off DAC and by subsequently establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision).

38. FINANCIAL RISK MANAGEMENT

The operations of the Company and investment management activities in particular expose it to a variety of financial risks, including credit risk, liquidity risks and market risks, which include interest rate risks, currency risks, as well as fair value risks. The Company's management seeks to minimise potential adverse effects of financial risks on the financial performance of the Company by placing limits on the level of exposure that can be taken.

38.1. Credit risk

The Company takes on exposure to credit risk which is the risk that counterparty will be unable to pay amounts in full when due. The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one issuer of securities, debtor, borrower, or group of the above. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Actual exposures against limits are monitored regularly.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Exposure to credit risk is managed through regular analysis of the ability of issuers and borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

a) Maximum credit risk:

	31.12.2008	31.12.2007
Latvian government bonds	3 690 971	4 744 911
German government bonds	8 202 554	3 718 074
British government bonds	1 445 228	1 426 532
Spanish government bonds	3 560 554	1 372 761
French government bonds	1 095 141	1 442 867
Irish government bonds	6 410 523	-
Netherland government bonds	1 130 584	-
Mortgage backed debt securities	684 605	783 776
Corporate bonds	1 089 730	-
Deposits with banks	10 606 829	19 243 966
Loans, shares, cash and cash equivalents	6 511 392	7 679 664
Credit risk	**44 428 111**	**40 412 551**

	31.12.2008	31.12.2007
Reinsurers` share of provision for unearned premiums	67 923	181 915
Reinsurers` share of provision for claims	534 933	1 242 274
Receivables arising from reinsurance operations	69 923	147 252
Receivables from policyholders	9 301 002	8 023 819
Receivables from intermediaries	463 136	246 553
Maximum credit risk	**54 865 028**	**50 254 364**

b) Reinsurance risk breakdown by key counterparties

Reinsurer	**2008** Receivables arising from reinsurance operations	**S&P Rating**	**2007** Receivables arising from reinsurance operations	**S&P Rating**
GeneralCologne Re	390 413	AAA	324 614	AAA
Swiss Re Group	103 472	AA-	86 640	AA-
Hannover Re	47 716	AA-	109 185	AA-
Munich Re Group	41 276	AA-	23 152	AA-
RSA	19 258	A	16 225	A
Partner Re	5 193	AA-	9 504	AA-
Axis Re	4 154	A	330 218	A
XL Re Europe	1 656	A+	154 056	A+
Sirius International Insurance Co Ltd	186	A-	326 248	A-
Other	59 455		191 599	
Reinsurance risk	**672 779**		**1 571 441**	

c) Investment breakdown by ratings as at the year end (all amounts in thousands of LVL):

Year 2008	**AAA**	**AA**	**A**	**BBB**	**Less than BBB**	**Non rated**	**Total**
Government bonds	21 845	-	-	3 691	-	-	25 536
Corporate bonds	1 090	-	-	684	-	-	1 774
Shares	-	-	-	-	-	53	53
Term deposits with banks	-	1 303	7 978	1 326	-	-	10 607
Loans	-	-	-	-	-	103	103
Total investment assets	**22 935**	**1 303**	**7 978**	**5 701**	**-**	**156**	**38 073**

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year 2007	**AAA**	**AA**	**A**	**BBB**	**Less than BBB**	**Non rated**	**Total**
Government bonds	7 960	-	-	4 745	-	-	12 705
Corporate bonds	-	-	784	-	-	-	784
Shares	-	-	-	-	-	123	123
Term deposits with banks	-	4 968	13 572	503	200	-	19 243
Loans	-	-	-	-	-	92	92
Total investment assets	**7 960**	**4 968**	**14 356**	**5 248**	**200**	**215**	**32 947**

38.2. Liquidity risk

The Company is exposed to regular calls on its available cash resources from claims settlements. The Board sets the minimum level of cash resources, which must be available to meet such claims.

There has been the following distinction of financial assets and financial liabilities by their remaining maturities as at the year-end (all amounts in thousands of LVL):

Year 2008	**Without maturity**	**Up to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Financial assets					
Financial investments at fair value through profit or loss	53	19 618	7 692	-	27 363
Loans	-	36	67	-	103
Term deposits with banks	-	9 658	949	-	10 607
Debtors	-	10 046	-	-	10 046
Cash and cash equivalents	1 604	4 752	-	-	6 356
Reinsurers' share of provision for claims	-	394	99	42	535
Accrued income	-	43	-	-	43
Total financial assets	**1 657**	**44 547**	**8 807**	**42**	**55 053**
Financial liabilities					
Provision for claims	-	(9 772)	(2 048)	(563)	(12 383)
Creditors and accrued expense	-	(6 268)	-	-	(6 268)
Total financial liabilities	**-**	**(16 040)**	**(2 048)**	**(563)**	**(18 651)**
Net financial assets / (liabilities) as at 31 December 2008	**1 657**	**28 507**	**6 759**	**(521)**	**36 402**

Year 2007	**Without maturity**	**Up to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Financial assets					
Financial investments at fair value through profit or loss	123	4 953	6 678	1 858	13 612
Loans	-	34	58	-	92
Term deposits with banks	-	15 286	3 958	-	19 244
Debtors	-	8 775	17	-	8 792
Cash and cash equivalents	2 344	5 120	-	-	7 464
Reinsurers' share of provision for claims	-	1 242	-	-	1 242
Accrued income	-	148	-	-	148
Total financial assets	**2 467**	**35 558**	**10 711**	**1 858**	**50 594**
Financial liabilities					
Provision for claims	-	(12 621)	(859)	(179)	(13 659)
Creditors and accrued expense	-	(4 808)	-	-	(4 808)
Total financial liabilities	**-**	**(17 429)**	**(859)**	**(179)**	**(18 467)**
Net financial assets / (liabilities) as at 31 December 2007	**2 467**	**18 129**	**9 852**	**1 679**	**32 127**

NOTES TO THE FINANCIAL STATEMENTS (continued)

38.3. Market risk

The Company takes on exposure to market risks, which include interest rate risks, currency risks, as well as fair value risks. Market risks arise from open positions in interest rate, share price and currency instruments, all of which are exposed to general and specific market movements. The management sets limits on the value of risk that may be accepted, which is monitored regularly.

a) Interest rate risk

The Company's exposure to interest rate risk is limited as significant part of liabilities are not bearing interest and dominant part of interest bearing financial instruments have fixed interest rates. Maturity dates are materially equal to reassessment dates on all interest bearing assets and liabilities. Weighted average effective interest rates, as applicable, for the interest bearing financial instruments excluding insurance contracts were as follows:

	2008	**2007**
German government debt securities	1.4%	3.3%
British government debt securities	2.3%	4.3%
Spain government debt securities	2.4%	4.1%
France government debt securities	2.1%	4.1%
Latvian government debt securities	11.8%	5.9%
Ireland government debt securities	2.5%	-
Netherland government debt securities	2.3%	-
Other corporate debt securities	3.5%	-
Mortgage backed debt securities	9.7%	6.1%
Deposits with banks	7.3%	5.5%
Loans	7.0%	7.0%

Risk measurement is regularly analysed by comparing revaluation profit / (loss) from positions with the respective potential risk.

Change in investment value due to market interest rate changes has been as follow:

		2008	**2007**
Market interest rate and impact on fair value	+1% - p.p.	(221 994)	(251 475)
	-1% - p.p.	230 723	263 469

b) Fair value

Fair values of financial assets and financial liabilities not reflected at their fair value do not materially differ from their carrying values.

c) Foreign exchange risk

The Company is exposed to foreign exchange risk arising from various currency exposures primarily with respect to USD and EUR due to insurance coverage provided in these currencies. The management of the Company seeks to limit the foreign exchange risk through investment portfolio created in respective currencies in the amount equal to respective technical provisions. In 2008 the Company increased its assets in EUR. EUR exchange rate has been fixed in Latvia since 2005.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Split of financial assets and financial liabilities by currencies as at year end (all amounts in thousands of LVL):

Year 2008	**USD**	**EUR**	**GBP**	**LTL**	**LVL**	**Other**	**Total**
Financial assets							
Financial investments at fair value through profit or loss	-	22 933	-	7	4 417	6	27 363
Loans	-	-	-	-	103	-	103
Term deposits with banks	-	3 410	-	-	7 197	-	10 607
Debtors	46	950	27	13	9 005	5	10 046
Cash and cash equivalents	51	1101	2	1	5 201	-	6 356
Reinsurers' share of provision for claims	-	503	-	-	25	7	535
Accrued income	-	-	-	-	43	-	43
Total financial assets	**97**	**28 897**	**29**	**21**	**25 991**	**18**	**55 053**
Financial liabilities							
Provision for claims	(8)	(1 817)	(4)	(54)	(10 415)	(85)	(12 383)
Creditors and accrued expense	-	(478)	(281)	(61)	(5 436)	(12)	(6 268)
Total financial liabilities	**(8)**	**(2 295)**	**(285)**	**(115)**	**(15 851)**	**(97)**	**(18 651)**
Net financial assets / (liabilities) as at 31 December 2008	**89**	**26 602**	**(256)**	**(94)**	**10 140**	**(79)**	**36 402**

Year 2007	**USD**	**EUR**	**GBP**	**LTL**	**LVL**	**Other**	**Total**
Financial assets							
Financial investments at fair value through profit or loss	-	7 961	-	32	5 603	16	13 612
Loans	-	-	-	-	92	-	92
Term deposits with banks	-	4 188	-	-	15 056	-	19 244
Debtors	48	949	-	-	7 795	-	8 792
Cash and cash equivalents	39	5 147	6	-	2 271	1	7 464
Reinsurers' share of provision for claims	-	428	-	-	814	-	1 242
Accrued income	-	-	-	-	148	-	148
Total financial assets	**87**	**18 673**	**6**	**32**	**31 779**	**17**	**50 594**
Financial liabilities							
Provision for claims	(8)	(1 298)	(3)	(13)	(12 255)	(82)	(13 659)
Creditors and accrued expense	(4)	(485)	-	(42)	(4 143)	(134)	(4 808)
Total financial liabilities	**(12)**	**(1 783)**	**(3)**	**(55)**	**(16 398)**	**(216)**	**(18 467)**
Net financial assets / (liabilities) as at 31 December 2007	**75**	**16 890**	**3**	**(23)**	**15 381**	**(199)**	**32 127**

Changes in exchange rate do not materially affect the financial assets. Most part of the financial assets is held in LVL and EUR currencies what have a fixed exchange rate. Non LVL and EUR financial assets represent only 0.2% of Company's total financial assets.

Impact of economical crisis to the Company's operations

Since September, 2008 the Latvian economy experienced a sharp downturn. Annual inflation rate amounted to 15.4%. Additionally, government's decision taken in December, 2008 to raise the VAT rate from 18% up to 21% negatively influenced customer's purchasing behaviour.

Following the economical situation in the country, the Latvian insurance market has grown only by 7 percent in year 2008 in comparison with 59 percent in 2007. In the result of above, several insurance companies suffered losses in 2008.

NOTES TO THE FINANCIAL STATEMENTS (continued)

AS BALTA gross written insurance premiums in year 2008 has grown by 12.7% and reached LVL 60.6 million, while the profit for the year amounted to LVL 5.1 million that is LVL 2.4 millions increase in comparison with the year 2007.

With the aim to maintain the profitability within the Company and to ensure the profit at the time of economical recession, AAS BALTA management's applied strategy includes analysis of the market situation by keeping following to the key performance indicators of the Company in addition to non-life insurance market and macroeconomics in Latvia as well as by searching on possibilities for optimization and effectiveness within business processes to address the quality of services provided to the clients and improvement of effectiveness of operational processes what was the reason for the reduction of the number of employees at the end of year 2008.

Rapid changes in economic environment and the need to address them on a company level were the reasons for AAS BALTA to form a new function: Project Management Office where Strategic initiatives and company wide projects are subject to a certain methodology governance.

The profit for year 2008 was achieved also in the result of conservative investment policy applied by AAS BALTA. 99% of AAS BALTA investment portfolio represents guaranteed securities or cash. 85% from these investments are assessed with „A" or higher rate of credit risk.

Year 2008 results demonstrate that timely applied strategy and performed procedures by AAS BALTA in response to the market downturn has fully proved right.

39. CAPITAL RISK MANAGEMENT

Financial Capital Market Commission specifies the minimum amount and type of capital that must be held in addition to their insurance liabilities. The minimum required capital (based on premium or claim volume) must be maintained at all times throughout the year. The Company has met this requirement as illustrated below.

The table below summarises the required capital and the regulatory capital held. Cover ratio shows excess of capital held over required regulatory capital (all amounts in thousands of LVL):

	31.12.2008	**31.12.2007**
Required regulatory capital	13 244	9 192
Regulatory capital held	14 422	11 315
Cover ratio (minimum required is 100%)	**109%**	**123%**

NOTES TO THE FINANCIAL STATEMENTS (continued)

40. LOSS DEVELOPMENT TABLE

Loss development table illustrates the Company's estimate of ultimate claims outstanding for each accident year (all amounts in thousands of LVL):

	2001 and earlier	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Outstand Claims, net	3 143	3 656	3 788	4 542	5 162	8 787	12 417	11 848
Outstand Claims Reinsurer's share	55	710	761	793	819	553	1 242	535
Outstand Claims, gross	**3 198**	**4 366**	**4 549**	**5 335**	**5 981**	**9 340**	**13 659**	**12 383**
Cumulative payments at the period end, gross:								
One year later	2 450	3 138	2 653	2 850	3 869	4 929	8 424	
Two years later	2 546	3 330	2 892	3 223	4 264	5 455	-	
Three years later	2 602	3 452	2 965	3 405	4 461	-	-	
Four years later	2 682	3 491	3 050	3 513	-	-	-	
Five years later	2 700	3 567	3 111	-	-	-	-	
Six years later	2 726	3 619	-	-	-	-	-	
Seven years later	2 755	-	-	-	-	-	-	
Cumulative payments to 31 December 2008	**2 755**	**3 619**	**3 111**	**3 513**	**4 461**	**5 455**	**8 424**	
Outstanding Claims Reserves at the period end, gross:								
One year later	692	1 081	1 552	1 839	1 906	2 595	3 582	
Two years later	289	888	759	889	1 365	1 921	-	
Three years later	193	654	642	870	1 248	-	-	
Four years later	102	598	653	939	-	-	-	
Five years later	70	591	667	-	-	-	-	
Six years later	141	638	-	-	-	-	-	
Seven years later	182	-	-	-	-	-	-	
Outstanding Claims Reserves as at 31 December 2008	**182**	**638**	**667**	**939**	**1 248**	**1 921**	**3 582**	
Run off Gross	**261**	**109**	**771**	**883**	**272**	**1 964**	**1 653**	

41. 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 Company as at 31 December 2008.

INDEPENDENT AUDITOR'S REPORT

To the shareholders of AAS Balta:

Report on the financial statements

We have audited the accompanying financial statements (page 7 to 44) of AAS Balta, which comprise the balance sheet as at 31 December 2008, and the profit and loss statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of AAS Balta as of 31 December 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on the management report

We have read the management report as shown on pages 4 to 5 of the annual report and we have not identified any material discrepancies between the historical financial information presented in the management report and the financial statements for the year ended 31 December 2008.

Deloitte Audits Latvia SIA
License No. 43

Hendrik Kramer
Authorised representative
Riga, Latvia
6 April 2009

Jelena Mihejenkova
Sworn auditor
Certificate No. 166