AAS BALTA

Annual Report for 2013 prepared in accordance with the International Financial Reporting Standards as adopted by the European Union and Independent Auditor's Report

Contents

Members of the Council and the Board of Directors, Independent Auditors

Council

Name, Surname	*Position*
David Hill	Chairman of the Council
Kaido Kepp	Member of the Council
Roger Hilton Hodgkiss	Member of the Council (from on 24.04.2013, approved by the FCMC on 23.09.2013, registered with the Enterprise Register on 01.10.2013)
Laurence Michael Loughnane	Member of the Council
Kestutis Serpytis	Member of the Council (until 31.01.2013)

Board

Name, Surname	*Position*
Sandis Šteins	Chairman of the Board (from 17.02.2014.)
Kestutis Serpytis	Chairman of the Board (from 01.02.2013, approved by FCMC on 07.02.2013, until 16.02.2014.)
Uldis Dzintars	Board Member
Dmitrij Nosko	Board Member
Uģis Vorons	Board Member
Veronika Linkuma	Board Member (from 30.04.2013, approved by FCMC on 05.06.2013, registered with the Enterprise Register on 28.06.2013)
Juozas Buitkus	Board Member (from 30.04.2013, approved by FCMC on 05.06.2013, registered with the Enterprise Register on 28.06.2013)
Ingus Savickis	Board Member (from 30.04.2013, approved by FCMC on 05.06.2013, registered with the Enterprise Register on 28.06.2013)
Juris Kipļuks	Board Member (from 30.04.2013, approved by FCMC on 05.06.2013, registered with the Enterprise Register on 28.06.2013)
Tauseef Shaffi Chaudhry	Chairman of the Board (until 31.01.2013)
Madara Melnmate	Board Member (until 24.05.2013)
Kristians Pudans	Board Member (until 24.04.2013)

Name and address of the independent auditor and responsible certified auditor:

KPMG Baltics SIA
Licence No. 55
Vesetas iela 7
Rīga, LV -1013
Latvia

Responsible Certified Auditor:
Inga Lipšāne
Certified Auditor
Certificate No. 112

Report of the Council and the Board of Directors

During 2013 BALTA continued strengthening its leading position on the Latvian market of non-life insurance and achieved notable growth of 12% compared to the previous year, which is a higher growth rate than that of the overall non-life market of Latvia. Balta took a significant step towards decreasing its losses and improved its insurance result by LVL 1.1 million compared to the previous year.

The wide range of insurance products and focus on exploring and meeting customer needs enabled BALTA to retain a leading position in the market not only by volume but also by other categories. According to the results of a survey of insurance companies in Latvia, carried out by LETA and SKDS in 2013, BALTA was recognised as the country's most reliable insurer for the eleventh consecutive year. In 2013 BALTA was named the most loved brand among insurers. BALTA has the best reputation in the Latvian insurance market (according to Reputation Top 2013 prepared by Nords Porter Novelli and Dienas Bizness).

In February 2013, the head of Lietuvas Draudimas, a sister company of BALTA and a long-term undisputed market leader in Lithuania, Kestutis Serpytis undertook the duties of temporary chairman of the board of the Company. He also retained his responsibility over the Lithuanian entity which promoted the exchange of best practice.

A good and successful platform for further growth and strengthening the leading position on the market is comprised of valuable process improvements and the ability to commit the team to excellence.

Insurance market in 2013 and the key trends for 2014

As in the previous year, the prices of insurance products in 2013 remained disproportionately low and in certain segments did not cover claims and operating expenses. For example, according to the data of LTAB, MTPL losses in 2013 amounted to LVL 6.9 million. Motor own damage in 2013 saw a significant increase in the frequency of claims, which is associated with an unprecedented growth in the number of road accidents.

Given that the average prices of insurance products in 2013 reduced compared to the previous year, the growth of the non-life market in 2013 is attributed mainly to the improvement of the macro economic situation and the increase in the number of policy holders and insured objects.

According to our forecasts, the growth rate of the non-life market in 2014 will exceed that of GDP.

Risk management

BALTA has set up a risk management system to ensure timely identification, assessment, control, management and reporting of risks. One of the key elements of this risk management system are the quarterly meetings of the Risk Commission that considers the latest trends in risk development and changes to the profile of the key risks, assesses the impact of each of these changes and documents new risks identified in all operational areas of the Company. A risk management plan is drafted for each key risk. During 2013 BALTA continued improving its risk management system to move towards full compliance with Solvency II which according to the updated schedule will be implemented in Latvia on 1 January 2016.

Capital adequacy and solvency are under constant focus of BALTA. At the end of 2013, capital of BALTA significantly exceeded the solvency ratio calculated according to the rules of the Financial and Capital Market Commission. Stress tests are performed by BALTA each year to assess the impact of a number of adverse insurance and financial risks on the Company’s solvency. It was demonstrated by modeling of several adverse scenarios that capital adequacy and solvency of BALTA was sufficient and the Company was able to honor its liabilities towards customers and retain its financial stability also under unexpected adverse conditions.

Cooperation with the market supervisory authorities

The Financial and Capital Market Commission (the FCMC) is the supervisory authority of the Latvian financial market and is engaged in carrying out a supervisory function over the insurance sector companies, including BALTA. In addition to regular cooperation with the supervisory authority, the Company is actively involved with the FCMC on the matters relating to the internal capital model within the scope of Solvency II. In addition to assessing the principles of operation of the internal capital model and the assumptions underlying it, other matters which will become topical when the standard/rule becomes effective are considered, such as the corporate governance system, validation of the internal model, data quality, etc.

Report of the Council and the Board of Directors

Customer service and payment of claims

In 2013 BALTA introduced the process of monthly gathering of customer feedback which enabled the Company to learn promptly how satisfied the customers were and what they required and also enabled it to act upon this information without delay.

During the past year BALTA continued improving the speed of reviewing claims applications. For example, in 32% of claims under motor own damage the decision on the payment of a claim is made during a single phone call. In 2013, 60% of all claims reported in health insurance were received online.

Our customers appreciate the speed and convenience of claims reporting.

Working environment in the Company and professional development of staff

During 2013 BALTA focused on raising the competence of sales and technical personnel and also that of customer service staff. New concepts were created during the year and the Company began training.

Last year BALTA continued its talent development activities and provided an opportunity to practice management skills in significant projects.

An overall focus on efficiency and quick refocusing on priorities remained characteristic of the Company's operations in 2013. The Company continued reconsidering its processes, centralizing competencies and eliminating activities that are not customer oriented and do not add value.

Corporate social responsibility

The corporate social responsibility policy of BALTA and its parent company RSA Group is a way to provide support to the society in three key areas of support – environmental protection, safety and social integration. In 2013 BALTA was awarded the silver prize in Sustainability Index which testifies to its achievements in conducting business in a responsible manner.

In 2013, BALTA and its business partners carried out various corporate social responsibility projects and activities: educating the society on the principles of safe driving together with Safe Driving School; the competition for Latvian companies BALTA Annual Award to the Safest Car Fleet conducted for the second year in succession; research into the Latvian national driving peculiarities together with the State Police as part of the National Driving Test. The employees of BALTA took part in blood donation ways, Big Clean Up Effort in Latvia, supplied winter clothing to socially unprotected persons together with Ziedot.lv and supported the animal shelter Ulubele. One of the key acts towards social integration was offering internships to students which during 2013 amounted to 32. Employment contracts were signed with 7 of these students.

Dividend payment

The Management Board and the Council of BALTA do not recommend the payment of dividend.

Subsequent events

No events have taken place from the balance sheet date to the date of these financial statements that could materially affect the annual performance and the financial position of BALTA at the reporting date.

David Hill	Sandis Šteins
Chairman of the Council	Chairman of the Board

18 March 2014

Statement of Management Responsibility

The Council and the Board of Directors of AAS BALTA confirms that the Financial Statements for the year ended 31 December 2013 are prepared in accordance with the International Financial Reporting Standards as adopted by EU and appropriate accounting policies, applied on a consistent basis. The Council and the Board of Directors of AAS BALTA are responsible for preparing these financial statements from the books of primary entry. The Council and the Board of Directors confirm that these Financial Statements for the year ended 31 December 2013 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 judgments and estimates have been made by the Council and Board of Directors in the preparation of the Financial Statements for the year ended 31 December 2013.

The Council and the Board of Directors of AAS BALTA are 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. They are also responsible for operating the Company in compliance with the legislation of the Republic of Latvia.

David Hill
Chairman of the Council

Sandis Šteins
Chairman of the Board

18 March 2014

Statement of Comprehensive Income *(All amounts in Latvian Lats)*

	Exhibit	2013	2012
Insurance income			
Gross written premiums		34 759 453	31 004 493
Reinsurer's share in premiums		(1 285 287)	(1 423 041)
Net written premiums	4	33 474 166	29 581 452
Change in gross provision for unearned premiums		(2 044 258)	(664 951)
Change in provision for unearned premiums, reinsurers' share		52 714	32 426
Change in provision for unearned premiums	5	(1 991 544)	(632 525)
Net premiums earned		**31 482 622**	**28 948 927**
Other technical income	6	166 112	141 644
Total insurance income		**31 648 734**	**29 090 571**
Insurance expenses			
Gross claims paid to policyholders		(17 850 551)	(16 898 335)
Loss adjustment expenses		(1 891 698)	(2 335 229)
Recovered losses		1 830 848	1 077 184
Claims paid	7	(17 911 401)	(18 156 380)
Reinsurer's share	7	211 455	801 760
Net claims paid		(17 699 946)	(17 354 620)
Change in gross provision for claims	8	(10 989)	(62 270)
Change in provision for claims, reinsurers' share	8	(347 299)	520 466
Net incurred claims		**(18 058 234)**	**(16 896 424)**
Client acquisition costs	9	(4 877 229)	(2 462 418)
Administrative expenses	10	(9 863 612)	(11 996 837)
Total insurance expenses		**(32 799 075)**	**(31 355 679)**
Net result of insurance activities		**(1 150 341)**	**(2 265 108)**
Interest income	11	646 917	801 532
Net profit / (loss) on financial assets at fair value through profit or loss	12	(431 246)	237 350
Finance income	13	30 366	2 266
Finance expense	14	-	(12 805)
Other income	15	341 136	110 605
Other expenses	16	(1 154 237)	(51 975)
Loss before tax		**(1 717 405)**	**(1 178 135)**
Income tax expense	17	151 674	76 673
Loss for the year		**(1 565 731)**	**(1 101 462)**
Other comprehensive losses for the reporting year			
Revaluation reserve, net of deferred income tax		-	(6 854)
Total comprehensive losses for the reporting year		**(1 565 731)**	**(1 108 316)**

All loss is attributable to the owners of AAS Balta.
Notes on pages 12 to 45 are an integral part of these financial statements.

David Hill
Chairman of the Council

Sandis Šteins
Chairman of the Board

18 March 2014

Statement of Financial Position *(All amounts in Latvian Lats)*

	Exhibit	31.12.2013	31.12.2012
ASSETS			
Intangible assets	18	**2 121 160**	**2 171 320**
Property and equipment	19	**2 105 607**	**2 178 906**
Financial investments at fair value through profit or loss	20	15 392 229	18 004 098
Loans		-	14 878
Term deposits with credit institutions		9 220 944	6 161 594
Total investments		**24 613 173**	**24 180 570**
Receivables due from policyholders		5 893 624	5 667 862
Receivables due from intermediaries		230 901	143 581
Direct insurance debtors	21	6 124 525	5 811 443
Reinsurance receivables	22	223 953	386 087
Other receivables	25	845 240	410 793
Total receivables		**7 193 718**	**6 608 323**
Reinsurers' share in unearned premium reserve	5	253 225	200 511
Reinsurers' share in reserve for outstanding claims	8	4 276 795	4 624 094
Reinsurers' share of insurance contract liabilities		**4 530 020**	**4 824 605**
Deferred income tax asset	23	**716 171**	**564 497**
Current income tax asset	17	**20 945**	**21 025**
Deferred client acquisition costs	9	4 089 686	3 919 318
Other accrued income and deferred expenses	24	1 436 987	3 009 829
Accrued income and deferred expenses		**5 526 673**	**6 929 147**
Cash and cash equivalents	26	**1 380 510**	**1 448 827**
TOTAL ASSETS		**48 207 977**	**48 927 220**

Notes on pages 12 to 45 are an integral part of these financial statements.

David Hill
Chairman of the Council

Sandis Šteins
Chairman of the Board

18 March 2014

Statement of Financial Position *(All amounts in Latvian Lats)*

	Exhibit	31.12.2013	31.12.2012
EQUITY, RESERVES AND LIABILITIES			
EQUITY AND RESERVES			
Share capital	27	4 652 067	4 652 067
Share premium	27	1 121 332	1 121 332
Reserve capital and other reserves	27	3 062 205	3 062 205
Revaluation reserve	27	-	-
Retained earnings		4 165 751	5 731 482
TOTAL EQUITY AND RESERVES		**13 001 355**	**14 567 086**
LIABILITIES			
Unearned premium reserve	5	16 729 745	14 685 487
Outstanding claims reserve	8	14 373 797	14 362 808
Insurance contract liabilities		**31 103 542**	**29 048 295**
Direct insurance creditors		931 090	897 224
Reinsurance creditors		346 973	318 998
Taxes and the state compulsory social insurance contributions	28	279 482	486 670
Accrued expenses and deferred income	29	1 513 359	1 463 235
Other creditors	30	1 032 176	2 145 712
Total creditors		**4 103 080**	**5 311 839**
TOTAL LIABILITIES		**35 206 622**	**34 360 134**
TOTAL EQUITY, RESERVES AND LIABILITIES		**48 207 977**	**48 927 220**

Notes on pages 12 to 45 are an integral part of these financial statements.

David Hill
Chairman of the Council

Sandis Šteins
Chairman of the Board

18 March 2014

Statement of Changes in Shareholder's Equity *(All amounts in Latvian Lats)*

	Share capital	Share premium	Reserve capital and other reserves	Revaluation reserve	Retained earnings	Total
Balance at 31 December 2011	**4 652 067**	**1 121 332**	**3 062 205**	**6 854**	**6 832 944**	**15 675 402**
Loss for the year	-	-	-	-	(1 101 462)	(1 101 462)
Changes in the revaluation surplus on land and buildings, net of deferred income tax	-	-	-	(6 854)	-	(6 854)
Balance at 31 December 2012	**4 652 067**	**1 121 332**	**3 062 205**	**-**	**5 731 482**	**14 567 086**
Loss for the year	-	-	-	-	(1 565 731)	(1 565 731)
Balance at 31 December 2013	**4 652 067**	**1 121 332**	**3 062 205**	**-**	**4 165 751**	**13 001 355**

Notes on pages 12 to 45 are an integral part of these financial statements.

David Hill
Chairman of the Council

Sandis Šteins
Chairman of the Board

18 March 2014

Statement of Cash Flows *(All amounts in Latvian Lats)*

	Exhibit	2013	2012
Cash flows from operating activities			
Premiums received from direct insurance		34 647 155	30 657 655
Claims paid for direct insurance		(17 850 551)	(16 898 335)
Payments received from ceded reinsurance		431 791	460 620
Payments made for ceded reinsurance		(1 210 100)	(1 053 967)
Income tax received		-	363 064
Mandatory payments	32	(377 973)	(357 201)
Other expenses		(14 902 831)	(15 560 563)
Net cash used in operating activities:		**737 491**	**(2 388 727)**
Cash flows from investing activities			
Disposal of investments		14 719 605	15 397 560
Acquisition of investments		(15 659 569)	(12 292 640)
Purchase of property and equipment and intangible assets		(667 616)	(1 357 360)
Proceeds from sale of property and equipment and intangible assets		46 745	54 211
Interest received		35 566	65 512
Proceeds from investing activities		731 253	900 183
Net cash generated from investing activities:		**(794 016)**	**2 767 466**
Cash flows from financing activities			
Dividends paid		(60)	-
Net cash used in financing activities		**(60)**	**-**
Result of foreign exchange rate fluctuations on cash and cash equivalents		**(11 732)**	**4 053**
Net increase / (decrease) in cash and cash equivalents		**(68 317)**	**382 792**
Cash and cash equivalents at the beginning of reporting year		1 448 827	1 066 035
Cash and cash equivalents at the end of reporting year	26	**1 380 510**	**1 448 827**

Notes on pages 12 to 45 are an integral part of these financial statements.

David Hill
Chairman of the Council

Sandis Šteins
Chairman of the Board

18 March 2014

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

Name of the Company:	Insurance Joint Stock Company BALTA
Legal address of the Company:	10/12 Raunas Street, Riga, LV-1039
Phone, fax:	(+371) 6708 2333, (+371) 6708 2345
Tax payer’s code:	LV40003049409
SRS department:	Department of large tax payers
The major shareholder:	Royal &Sun Alliance Insurance plc (99.99%)

The Company’s shares are not listed. The Company belongs to a group of companies whose parent company trades its ordinary shares on the London Stock Exchange.

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. Consistent accounting principles have been applied to the financial years disclosed in these financial statements, except as described below (Note 2.2.1).

2.1 Basis of preparation

2.1.1 Statement of Compliance

These financial statements were prepared in accordance with International Financial Reporting Standards (hereinafter “IFRS”) as adopted by the European Union (hereinafter “EU”) and in accordance with the regulations issued by Financial Capital and Market Commission (hereinafter “FCMC”) applicable to insurance companies.
These financial statements have been authorised for issue by the Board of Directors on 18 March 2014. The shareholders have the power to reject the financial statements prepared and issued by management and the right to request that new financial statements be issued.

2.1.2 Functional and Presentation Currency

All amounts in the financial statements are shown in Latvian lats (LVL), unless otherwise stated. The Latvian lat was the functional currency of the Company until 1 January 2014 when the Republic of Latvia joined the eurozone and the Latvian lat was substituted with the euro. As a result, AAS Balta converted its financial accounting to euros as from 1 January 2014 and the financial statements for subsequent years will be prepared and presented in euros. Future comparative information will be translated into euros using the official exchange rate of LVL 0.702804 to EUR 1.

2.1.3 Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following captions that are stated at fair value: financial investments carried at fair value through profit or loss and land and buildings, which are revalued on a regular basis.

2.1.4 Reporting year

The reporting period comprises the 12 months from 1 January 2013 to 31 December 2013.

2.1.5 Estimates

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 judgments are significant to the financial statements are disclosed in Note 3.

2.2 New standards and interpretations

2.2.1 Standards and interpretations effective in the reporting period and changes in accounting policies

The Company has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013.

(i) Fair value measurement

IFRS 13 establishes a single framework for measuring fair value and making disclosure about fair value measurements when such measurements are required or permitted by other IFRSs. It unifies the definition of the fair value as the price that would be received to sell an asset or pad to transfer a liability in an orderly transaction between market participants at the measurement date. It replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7. These amendments do not have a material impact on the Company's financial statements.

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

Taking into account the above, this change had no significant impact on the measurements of the Company's assets and liabilities.

(ii) Presentation of items of Other comprehensive income

The changes in the presentation of items in the statement of Other Comprehensive Income due to the amendments to IAS 1, to present separately items that would be reclassified to profit or loss from those that would never be, are not applicable to the Company because the Company does not have items that would be reclassified to profit or loss in the future.

(iii) Other amendments to standards

The following amendments to standards with effective date of 1 January 2013 did not have any impact on these consolidated financial statements:

- Amendment to IFRS 7 – Offsetting of financial assets and liabilities
- Amendment to IAS 19 (2011) – Employee benefits
- Amendments to IAS 12 – Deferred tax: Recovery of Underlying Assets.

In addition, certain balances for 2013 have been classified differently from the prior year, due to changes in legislation and management judgment. There is no impact on the financial result from these reclassifications. Prior year corresponding balances have been reclassified, where appropriate, to conform to current year presentation. The most significant reclassification is the transfer of deferred client acquisition costs to Accrued income and deferred expenses. In the financial statements for 2012 these costs were classified as intangible assets.

2.2.2 New Standards and Interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these financial statements.

(i) IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities (2011)

(ii) IAS 27 (2011) Separate Financial Statements (effective for annual periods beginning on or after 1 January 2014)

(iii) IAS 28 (2011) Investments in Associates and Joint Ventures (Amendments effective for annual periods beginning on or after 1 January 2014)

(iv) Amendments to IAS 32 on Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014)

(v) Amendments to IFRS 10, IFRS 12 and IAS 27 on Investment Entities (effective for annual periods beginning on or after 1 January 2014)

(vi) Amendments to IAS 36 on Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after 1 January 2014)

(vii) Amendments to IAS 39 on Novation of Derivatives and Continuation of Hedge Accounting (effective for annual periods beginning on or after 1 January 2014)

The Company does not plan to adopt these standards early. The Company has assessed the potential impact from new standards and does not expect the new standards to have material impact on the financial statements.

2.3 Insurance contracts, reinsurance

a) Classification of contracts

Contracts under which the Company accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder are classified as insurance contracts. All contracts concluded are classified as non-life insurance contracts and the Company does not conclude any investment contracts.

Non-life insurance contracts generally have a term of one year. Exceptions include short-term travel insurance policies covering one trip, OMTPL policies with terms of 3, 6 and 9 months (as is stated in the Latvian Law on Obligatory Motor Vehicle Third Party Liability Insurance) where the term is shorter than one year. The terms of policy exceeds one year for construction liability insurance, although the proportion of these policies in the total portfolio is insignificant.

b) Ceded reinsurance

The Company cedes reinsurance in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks. Assets, liabilities and income and expense arising from ceded reinsurance contracts are presented separately from the related assets, liabilities, income and expense from the related insurance contracts because the reinsurance arrangements do not relieve the Company from its direct obligations to its policyholders.

Reinsurance assets include the recoveries due from reinsurance companies in respect of claims paid and the reinsurance share in the technical insurance reserves.

The reinsurance share of the incurred but not reported claims technical provision for ceded reinsurance contracts is not recognised for ceded reinsurance contracts as the reinsurance asset cannot be reliably measured.

Amounts recoverable from reinsurers are measured on the basis of the reserve for outstanding claims or the settled claims from policies falling within the scope of a reinsurance contract.

Reinsurance commissions include commissions received or receivable from reinsurers based on the reinsurance contracts. Non-life reinsurance commissions are deferred in a manner consistent with the deferral of acquisition costs in non-life insurance.

Unearned reinsurance commissions are included in the statement of financial position under item Accrued expenses and deferred income.

The main obligatory reinsurance contract forms in reinsurance are excess-of-loss treaties. Risks exceeding the limits of obligatory reinsurance treaties or falling outside their scope due to their nature are reinsured facultatively.

c) Premiums

Written insurance premiums are insurance premiums for policies, which become effective during the year, irrespective of whether the premium has become due or not. Premiums underwritten are decreased by the premiums cancelled and terminated over the accounting year. Premiums are disclosed gross of commission payable to intermediaries and exclude taxes and levies based on premiums.

The earned portion of premiums written is recognised as revenue. Premiums are recognised as earned on pro-rata basis over the term of the related policy coverage. The unearned portion of premiums is recognised as a unearned premium technical reserve. See section h).

Ceded reinsurance premiums are recognised as an expense in accordance with the pattern of reinsurance service received and the portion of reinsurance premiums attributable for future periods are recognised as assets under the reinsurance part of the unearned premium reserve.

d) Incurred claims

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

As at the end of reporting period, not settled claims are recognised as outstanding claim technical reserve. See section h).

e) 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.

f) Client acquisition costs

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

g) Deferred client acquisition costs (DAC)

Commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts are capitalised as assets. All other client acquisition costs are recognised as expenses when incurred. Deferred client acquisition cost assets are attributed to profit or loss over the terms of the policies as premium is earned on pro-rata basis.

h) Insurance contract liabilities

Unearned premium reserve 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.

Outstanding claims reserve is an amount provided at the end of the reporting year in respect of estimated losses incurred but not yet paid. Outstanding claims reserve includes provisions for reported but not settled claims and provision for incurred but not reported claims. The claims reserve is also created for direct loss adjustment expenses that will be necessary in order to regulate the claims incurred during the reporting and previous years. Estimated future proceeds from salvage and subrogation related to claims incurred in the reporting and prior years have been deducted from claims reserve.

i) Fronting insurance

As a part of regular business operations, the Company insures risks, which it fully cedes to reinsurers, not keeping the insurance risk or taking full risks to ourselves. Assets, liabilities, as well as income and expenses, which arise from the fronting reinsurance agreements, are presented in Statement of Financial position of Company, as full ceding of the insurance risk does not release the Company from the direct liabilities to the insurance policy holder.

2.4 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 assets 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.

2.5 Investments

The Company classifies its financial assets in the following categories: 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, Insurance and Reinsurance debtors and Other debtors in the statement of financial position. See accounting policy on Receivables from direct insurance operations.

b) Financial investments 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 basis and financial instruments are designated as at fair value through profit or loss.

Purchases and sales of financial assets are recognised on the settlement date – the date on which the Company received or delivered 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.

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.

2.6 Direct insurance debtors

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

2.7 Intangible assets and property 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 adjusted to the revaluated amount of the asset.

All other property and equipment and intangible assets (including internally developed software) 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 revaluated amounts to their residual values over their estimated useful life using following rates set by the management:

Buildings	2% per year
Office equipment	20% per year
Computer equipment	25% per year
Internally developed software	20% per year
Vehicles	20% per year
Software	25% per year

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.

Future expenses are included in the asset's carrying amount or recognised 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.

Profit or loss from disposal of property and equipment is calculated as the difference between the book value of the property and equipment and income generated from sale, and charged to the profit and loss statement as incurred. When revaluated assets are sold, the amounts included in the revaluation surplus are transferred to income statement.

2.8 Foreign currency revaluation

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 reporting date exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement of the respective period.

	31.12.2013	**31.12.2012**
1 USD	LVL 0.515000	LVL 0.531000
1 GBP	LVL 0.843000	LVL 0.857000
1 LTL	LVL 0.204000	LVL 0.204000
1 EUR	LVL 0.702804	LVL 0.702804

2.9 Corporate income taxes

Corporate income tax expenses are included in the financial statements based on management calculations performed in line with the Latvian legislation.

Deferred income 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. Deferred tax calculations are based on the interest rates effective on the balance sheet date expected to be effective in the periods when the Company will realize the deferred tax asset or settle deferred tax liabilities. The principal temporary differences arise from different property and equipment depreciation rates, as well as from accrued expenses, provisions for doubtful debts and tax losses carried forward.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The deferred tax assets are reviewed at each reporting date and reduced to the extent it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are not discounted.

2.10 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. Statement of cash flows is prepared using the direct method.

2.11 Provisions for unused employee vacations

The amount of accruals is determined by multiplying average daily salary for the last 6 month by the amount of accrued vacation days at the end of the year plus related social tax.

2.12 Administration expense by types of insurance

Other expenses and income, 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.

2.13 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. 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 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.

2.14 Share capital and dividend distribution.

Ordinary shares are classified as equity.

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

2.15 Impairment

a) Financial assets

At each reporting date the Company assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Company on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of issuers in a group, or economic conditions that correlate with defaults in a group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Company considers evidence of impairment for loans and advances at both a specific asset and collective level. All term deposits with credit institutions are assessed for specific impairment.

All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances that are not individually significant are collectively assessed for impairment incurred.

Refer to policy on Receivables from direct insurance operations.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

b) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than land and buildings presented under property, and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. The recoverable amount of goodwill is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3. ACCOUNTING ESTIMATES AND ASSUMPTIONS

Management made judgments, estimates and assumption that are applied in the process of preparation of financial statements affect reported amounts of assets and liabilities, income and expenses. Although these estimates are based on management's best knowledge of current events and actions, the actual results ultimately may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to the accounting estimates are recognised in the period, in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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 Bornhuetter - Ferguson method. Motor TPL insurance receives recourse claims requests from State Social Insurance Agency (SSIA). Those recourses are reported to insurance companies with average delay of more than 2.5 years from accident date to claims recourse reporting date. Recourses include short term as well as long term claim cases. Taking into account uncertainties and potential reserving difficulties the Latvian Actuarial Association has developed recommended method (expected claim severity and frequency method) for those claim cases. Balta has adopted this method.

Our analysis shows that adoption of other reserving methods (triangles etc) for SSIA recourse claims leads to very high risk on underreserving.

Taking into account answers of the EU court of 24 October 2014 regarding questions about requesting moral hazard compensations to insurers, potential impact on claim reserves was assessed. Viewing various scenarios it was concluded that reserves are sufficient in the event of the most likely scenarios. The scenarios included assessment of claim reserves under various assumptions – starting from scenarios with the possible effect on the past ten years to scenarios with the possible effect only from the moment the new rules come into force.

Claims handling reserve is calculated on the basis of average amount for settling one claim and total number of claim cases estimated for future.

Reserves for recoverable amounts are calculated applying triangle method, i.e., subrogation and salvage amounts are arranged by the periods of accidents and transactions of recovered amounts.

4. NET WRITTEN PREMIUMS

	2013			2012		
	Gross amount	**Reinsurers' share**	**Net amount**	**Gross amount**	**Reinsurers' share**	**Net amount**
Personal accident	878 322	(11 129)	867 193	858 983	(2 553)	856 430
Health	5 402 214	-	5 402 214	5 150 271	-	5 150 271
Motor own damage	11 145 116	(131 749)	11 013 367	9 733 996	(166 975)	9 567 021
Marine	19 070	(748)	18 322	17 714	(1 958)	15 756
Cargo	765 607	(3 366)	762 241	410 340	(21 903)	388 437
Property	10 179 657	(748 623)	9 431 034	9 695 615	(797 281)	8 898 334
General TPL	1 305 146	(76 079)	1 229 067	1 175 849	(128 999)	1 046 850
Guarantees	92 341	(56 227)	36 114	64 185	(29 014)	35 171
Financial risks	206 436	(107 449)	98 987	215 043	(97 600)	117 443
Travel accident	476 994	(7 115)	469 879	453 939	(897)	453 042
Obligatory Motor TPL	4 288 550	(142 802)	4 145 748	3 228 558	(175 861)	3 052 697
	34 759 453	**(1 285 287)**	**33 474 166**	**31 004 493**	**(1 423 041)**	**29 581 452**

Almost all policies are issued to clients residing 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; in 2013 (and 2012) no payments have been made as the total assets of OMTPL Guarantees Fund exceeded LVL 14 million.
- State Traffic Security Foundation
- 2% from signed insurance premium during the accounting period.
- Motor Insurers` Bureau of Latvia - variable sum LVL 0.15 per contract and fixed sum LVL 24 000 in year or LVL 2 000 in a month.

In 2013 OMTPL mandatory deductions amounted to LVL 134 916 (2012: LVL 118 220). The gross premiums in OMTPL are shown above net of these mandatory deductions.

Premiums earned

	2013			2012		
	Gross premiums earned	Reinsurers' share	Net premiums earned	Gross premiums earned	Reinsurers' share	Net premiums earned
Motor own damage	10 586 752	(120 597)	10 466 155	9 108 541	(172 074)	8 936 467
Property	9 827 454	(739 301)	9 088 153	9 534 625	(786 991)	8 747 634
Health	4 924 083	-	4 924 083	5 136 451	-	5 136 451
Obligatory Motor TPL	3 884 536	(140 844)	3 743 692	3 420 928	(175 882)	3 245 046
Other	3 492 370	(231 831)	3 260 539	3 138 997	(255 668)	2 883 329
TOTAL	**32 715 195**	**(1 232 573)**	**31 482 622**	**30 339 542**	**(1 390 615)**	**28 948 927**

5. UNEARNED PREMIUM RESERVE

a) Movement in unearned premium reserve

	Gross amount	Reinsurers' share	Net amount
Balance at 31 December 2011	**14 020 536**	**(168 085)**	**13 852 451**
Written premiums	31 004 493	(1 423 041)	29 581 452
Earned premiums	(30 339 542)	1 390 615	(28 948 927)
Total change for the year	664 951	(32 426)	632 525
Balance at 31 December 2012	**14 685 487**	**(200 511)**	**14 484 976**
Written premiums	34 759 453	(1 285 287)	33 474 166
Earned premiums	(32 715 195)	1 232 573	(31 482 622)
Total change for the year	2 044 258	(52 714)	1 991 544
Balance at 31 December 2013	**16 729 745**	**(253 225)**	**16 476 520**

b) Changes in unearned premium reserve and distribution by type of insurance for the year 2013:

	Gross amount	Reinsurers' share	Net amount
Personal accident	23 471	-	23 471
Health	478 131	-	478 131
Motor own damage	558 364	(11 152)	547 212
Marine	180	-	180
Cargo	158 204	(5)	158 199
Property	352 203	(9 322)	342 881
General TPL	56 844	(2 145)	54 699
Guarantees	24 636	(23 711)	925
Financial risks	(14 745)	(4 421)	(19 166)
Travel accident	2 956	-	2 956
Obligatory Motor TPL	404 014	(1 958)	402 056
	2 044 258	**(52 714)**	**1 991 544**

c) Changes in unearned premium reserve and distribution by type of insurance for the year 2012:

	Gross amount	Reinsurers' share	Net amount
Personal accident	(21 112)	-	(21 112)
Health	13 820	-	13 820
Motor own damage	625 455	5 099	630 554
Marine	(894)	-	(894)
Cargo	9 546	58	9 604
Property	160 990	(10 290)	150 700
General TPL	16 965	2 448	19 413
Guarantees	17 427	(21 342)	(3 915)
Financial risks	35 014	(8 420)	26 594
Travel accident	110	-	110
Obligatory Motor TPL	(192 370)	21	(192 349)
	664 951	**(32 426)**	**632 525**

d) Gross unearned premium reserve as at the yearend:

	31.12.2013	31.12.2012
Personal accident	445 731	422 260
Health	2 115 765	1 637 634
Motor own damage	5 926 755	5 368 391
Marine	8 633	8 453
Cargo	246 303	88 099
Property	5 419 166	5 066 963
General TPL	643 790	586 946
Guarantees	79 466	54 830
Financial risks	79 164	93 909
Travel accident	14 586	11 630
Obligatory Motor TPL	1 750 386	1 346 372
	16 729 745	**14 685 487**

6. OTHER TECHNICAL INCOME

	2013	2012
Reinsurance commission income (see Note 33)	49 314	43 449
Expertise income	27 187	32 142
Income from cancellation of policies	36 584	28 410
Commission income from fronting insurance	20 677	26 552
Income of agreement penalties	7 841	5 544
Income on sale of damaged cars	21 823	2 700
Other income	2 686	2 847
	166 112	**141 644**

7. CLAIMS PAID

	2013			2012		
	Gross amount	Reinsurers' share	Net amount	Gross amount	Reinsurers' share	Net amount
Personal accident	(290 856)	-	(290 856)	(266 574)	-	(266 574)
Health	(3 466 029)	-	(3 466 029)	(4 048 822)	-	(4 048 822)
Motor own damage	(6 629 631)	83 731	(6 545 900)	(5 173 482)	60 343	(5 113 139)
Marine	(3 320)	-	(3 320)	(7 945)	-	(7 945)
Cargo	(172 544)	-	(172 544)	(410 363)	33 814	(376 549)
Property	(4 701 448)	84 155	(4 617 293)	(5 063 741)	635 452	(4 428 289)
General TPL	(322 160)	-	(322 160)	(237 573)	4 396	(233 177)
Guarantees	(246)	-	(246)	(9 522)	-	(9 522)
Financial risks	(2 129)	-	(2 129)	(72 826)	17 627	(55 199)
Travel accident	(103 894)	-	(103 894)	(162 724)	-	(162 724)
Obligatory Motor TPL	(2 219 144)	43 569	(2 175 575)	(2 702 808)	50 128	(2 652 680)
	(17 911 401)	**211 455**	**(17 699 946)**	**(18 156 380)**	**801 760**	**(17 354 620)**

8. CLAIM RESERVES

a) Movement in outstanding claims reserve:

	2013			2012		
	Gross amount	Reinsurer's share	Net amount	Gross amount	Reinsurer's share	Net amount
Year ended 31 December						
Notified claims	11 639 777	(4 624 094)	7 015 683	10 918 167	(4 103 628)	6 814 539
Incurred, but not reported	2 723 031	-	2 723 031	3 382 371	-	3 382 371
Total at beginning of year	**14 362 808**	**(4 624 094)**	**9 738 714**	**14 300 538**	**(4 103 628)**	**10 196 910**
Cash paid for claims notified in prior years	(3 086 831)	111 815	(2 975 016)	(3 292 156)	137 113	(3 155 043)
Changes in liabilities arising from current and prior year claims	3 097 820	235 484	3 333 304	3 354 426	(657 579)	2 696 847
Total change in year	10 989	347 299	358 288	62 270	(520 466)	(458 196)
Total at end of year	**14 373 797**	**(4 276 795)**	**10 097 002**	**14 362 808**	**(4 624 094)**	**9 738 714**
Notified claims	12 355 799	(4 276 795)	8 079 004	11 639 777	(4 624 094)	7 015 683
Incurred, but not reported	2 017 998	-	2 017 998	2 723 031	-	2 723 031
Total at end of year	**14 373 797**	**(4 276 795)**	**10 097 002**	**14 362 808**	**(4 624 094)**	**9 738 714**

b) Change in outstanding claims reserve and distribution by type of insurance for the year 2013:

	Gross amount	Reinsurers' share	Net amount
Personal accident	16 377	-	16 377
Health	(62 877)	-	(62 877)
Motor own damage	317 304	(3 156)	314 148
Marine	(1 718)	-	(1 718)
Cargo	740 219	-	740 219
Property	(252 201)	89 744	(162 457)
General TPL	124 944	24 195	149 139
Guarantees	(10 796)	-	(10 796)
Financial risks	(52 648)	-	(52 648)
Travel accident	(35 796)	-	(35 796)
Obligatory Motor TPL	(771 819)	236 516	(535 303)
	10 989	**347 299**	**358 288**

c) Change in outstanding claims reserve and distribution by type of insurance for the year 2012:

	Gross amount	Reinsurers' share	Net amount
Personal accident	6 021	-	6 021
Health	(6 408)	-	(6 408)
Motor own damage	154 900	(3 010)	151 890
Marine	(7 485)	-	(7 485)
Cargo	(127 829)	12 166	(115 663)
Property	1 035 594	(64 261)	971 333
General TPL	(177 928)	65 743	(112 185)
Guarantees	(1 392)	-	(1 392)
Financial risks	(125 287)	-	(125 287)
Travel accident	(12 913)	-	(12 913)
Obligatory Motor TPL	(675 003)	(531 104)	(1 206 107)
	62 270	**(520 466)**	**(458 196)**

d) Gross outstanding claims reserve as at the yearend:

	31.12.2013	31.12.2012
Personal accident	75 960	59 583
Health	329 910	392 787
Motor own damage	1 399 998	1 082 694
Marine	1 201	2 919
Cargo	823 672	83 453
Property	2 804 550	3 056 751
General TPL	771 377	646 433
Guarantees	992	11 788
Financial risks	6 583	59 231
Travel accident	24 038	59 834
Obligatory Motor TPL	8 135 516	8 907 335
	14 373 797	**14 362 808**

9. CLIENT ACQUISITION COSTS

	2013	2012
Commissions and other agent related expense	(2 176 576)	(2 007 312)
Commissions to brokers and other intermediaries	(2 371 138)	(1 811 487)
Compulsory state social security contributions	(499 690)	(450 315)
Change in deferred client acquisition costs*	170 368	1 807 239
Other acquisition expenses	(193)	(543)
	(4 877 229)	**(2 462 418)**

* - during 2012 Pan Baltic initiative was performed to harmonise deferred acquisition cost recognition in line with RSA Group IFRS practices. Change in estimate was applied to DAC recognition including sales payroll and related direct expenses as well as product marketing campaign expenses.

Sales costs included in the DAC calculation amounting to LVL 3 353 803 (2012: 3 568 707) are represented under Administrative expenses. Refer to Note Nr 10.

Deferred client acquisition costs

	LVL
As at 31 December 2011	**2 112 079**
Deferred client acquisition costs	7 838 364
Amortisation of deferred acquisition cost	(6 031 125)
As at 31 December 2012	**3 919 318**
Deferred client acquisition costs	8 401 400
Amortisation of deferred acquisition cost	(8 231 032)
As at 31 December 2013	**4 089 686**

10. ADMINISTRATIVE EXPENSES

	2013	2012
Wages and salaries		
- salaries to staff	(3 459 234)	(4 709 019)
- state compulsory social insurance contributions	(851 291)	(926 627)
Information technology and communication expense	(2 555 971)	(3 148 496)
Professional services *	(472 063)	(770 330)
Depreciation and amortization costs	(839 755)	(905 246)
Premises utility, maintenance and repair expense	(451 468)	(469 405)
Advertisement and public relations	(316 651)	(444 129)
Transport	(210 076)	(258 143)
Rent of premises	(249 456)	(244 974)
Payments to Financial and Capital Market Commission	(120 933)	(143 173)
Office expenses	(72 810)	(116 041)
Payments to Foundation of Insured Interests Protection	(123 281)	(111 038)
Administration expenses related to Claims Handling Expenses **	446 994	556 044
Other administrative costs	(587 617)	(306 260)
	(9 863 612)	**(11 996 837)**

* – professional services include also services received from RSA group companies (see Note 34).

** – reclassified to and included in Claims Handling Expenses.

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 0.20% from gross premiums collected in Obligatory Motor Third Party Liability (OMTPL) insurance and in amount of 0.5% 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 2013, 260 employees (2012: 299) and 346 agents (2012: 353) were employed in the Company.

Administrative expenses include client acquisition costs of LVL 3 353 803 (2012: 3 568 707) that were included in the calculation of deferred acquisition costs. Please refer to Note 9.

Notes to the financial statements *(All amounts in Latvian Lats)*

Distribution of administrative expense by type of insurance, based on management allocation, is as follows:

	2013	**2012**
Personal accident	(287 890)	(442 962)
Health	(1 334 060)	(1 814 911)
Motor own damage	(3 038 768)	(3 438 380)
Marine	(4 841)	(7 486)
Cargo	(148 342)	(102 969)
Property	(2 999 603)	(3 860 780)
General TPL	(371 852)	(467 910)
Guarantees	(16 361)	(19 962)
Financial risks	(33 768)	(56 374)
Travel accident	(205 361)	(261 540)
Obligatory Motor TPL	(1 422 766)	(1 523 563)
	(9 863 612)	**(11 996 837**

11. INTEREST INCOME

	2013	**2012**
From financial investments at fair value through profit or loss:		
Government bonds	480 804	521 965
Corporate bonds	132 961	191 753
Mortgage backed debt securities	-	5 250
From loans and receivables:		
Term deposits with credit institutions	33 152	82 564
	646 917	**801 532**

12. NET PROFIT / (LOSS) ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2013	**2012**
Government bonds	(323 662)	284 649
Mortgage backed debt securities	-	(3 018)
Corporate bonds	(107 584)	(44 281)
	(431 246)	**237 350**

	2013	**2012**
Realised gains / (losses):		
Government bonds	(35 895)	(95 850)
Corporate bonds	(96 091)	(62 689)
Mortgage backed debt securities	-	13 020
Unrealised gains / (losses):		
Government bonds	(287 768)	380 499
Mortgage backed debt securities	-	(16 038)
Corporate bonds	(11 492)	18 408
	(431 246)	**237 350**

13. FINANCE INCOME

	2013	**2012**
Interest on cash and cash equivalents	527	2 266
Gain from foreign currency fluctuations, net	29 839	-
	30 366	**2 266**

14. FINANCE EXPENSES

	2013	2012
Losses from foreign currency fluctuations, net	-	12 805
	-	**12 805**

15. OTHER INCOME

	2013	2012
Revaluation gains on land and buildings (see Note 19)	50 461	-
Net result from sale of property and equipment	44 964	31 680
Changes in provisions for overdue debts, net	-	36 571
FCMC financing	-	18 172
Income from rent	8 228	8 003
Income from recalculation of income tax and VAT	31 937	13 230
Released liabilities from prior years	205 423	-
Other income	123	2 949
	341 136	**110 605**

16. OTHER EXPENSES

	2013	2012
Revaluation losses on land and buildings (see Note 19)	-	(40 817)
Changes in provisions for overdue debts, net	(89 524)	-
Write-off of IT services received (see Note 24)*	(1 064 142)	-
Other expenses	(571)	(11 158)
	(1 154 237)	**(51 975)**

* In 2013, cooperation agreement with IBM was amended, as a result of which the Transition & Transformation services received were recognised in the expenses.

17. CORPORATE INCOME TAX EXPENSES

	2013	2012
Corporate income tax for the reporting year	-	-
Change in deferred income tax balances (see Note 23)	151 674	76 673
Total income tax expense	**151 674**	**76 673**

As at 31 December 2013, the Company's corporate income tax assets amount to LVL 20 945 (31.12.2012: LVL 21 025).

Corporate income tax is different from the theoretically calculated amount of tax to be paid if the Company’s losses were taxed at the statutory rate:

	2013	2012
Loss before tax	**(1 717 405)**	**(1 178 135)**
Theoretically calculated tax at a tax rate of 15%	257 611	176 720
Effect of non-deductible expenses	(105 937)	(98 838)
Changes in deferred tax through Equity and reserves	-	(1 209)
Total tax	**151 674**	**76 673**

Effective corporate income tax in 2013 is 8.83 % (2012: 6.5%).

18. INTANGIBLE ASSETS

	Software	Advance payments for software	Total
As at 31 December 2011			
Historical cost	5 049 373	783 139	5 832 512
Accumulated amortization	(4 250 694)	-	(4 250 694)
Net book amount	**798 679**	**783 139**	**1 581 818**
In 2012			
Additions	258 309	792 971	1 051 280
Reclassified	1 155 799	(1 155 799)	-
Amortisation charge	(461 778)	-	(461 778)
Closing net book amount	**1 751 009**	**420 311**	**2 171 320**
As at 31 December 2012			
Historical cost	6 463 481	420 311	6 883 792
Accumulated amortization	(4 712 472)	-	(4 712 472)
Net book amount	**1 751 009**	**420 311**	**2 171 320**
In 2013			
Additions	119 262	397 565	516 827
Reclassified	573 081	(573 081)	-
Written-off	(297 275)	-	(297 275)
Depreciation for intangible assets written off	295 505	-	295 505
Amortisation charge	(565 217)	-	(565 217)
Closing net book amount	**1 876 365**	**244 795**	**2 121 160**
As at 31 December 2013			
Historical cost	6 858 549	244 795	7 103 344
Accumulated amortization	(4 982 184)	-	(4 982 184)
Net book amount	**1 876 365**	**244 795**	**2 121 160**

Notes to the financial statements *(All amounts in Latvian Lats)*

19. PROPERTY AND EQUIPMENT

	Land and Building	Leasehold improve-ments	Transport vehicles	Computers	Office equipment	Total
As at 31 December 2011						
Cost or valuation	2 411 113	569 452	869 900	1 734 366	870 323	6 455 154
Accumulated depreciation	(639 573)	(475 308)	(651 915)	(1 580 654)	(719 999)	(4 067 449)
Net book amount	**1 771 540**	**94 144**	**217 985**	**153 712**	**150 324**	**2 387 705**
In 2012						
Opening net book amount	1 771 540	94 144	217 985	153 712	150 324	2 387 705
Additions	128 515	20 399	60 583	33 774	62 809	306 080
Disposals	-	(319 466)	(44 284)	(692 091)	(246 726)	(1 302 567)
Depreciation charge: to equity	(221)	-	-	-	-	(221)
Depreciation charge: to income statement	(54 135)	(64 078)	(155 612)	(79 098)	(90 545)	(443 468)
Depreciation on disposed assets	-	319 466	41 316	690 050	229 204	1 280 036
Revaluation surplus: to income statement	28 462	-	-	-	-	28 462
Impairment losses: to equity and reserves	(7 842)	-	-	-	-	(7 842)
Impairment losses: to income statement	(69 279)	-	-	-	-	(69 279)
Closing net book amount	1 797 040	50 465	119 988	106 347	105 066	2 178 906
As at 31 December 2012						
Cost or valuation	2 490 969	270 385	886 199	1 076 049	686 406	5 410 008
Accumulated depreciation	(693 929)	(219 920)	(766 211)	(969 702)	(581 340)	(3 231 102)
Net book amount	**1 797 040**	**50 465**	**119 988**	**106 347**	**105 066**	**2 178 906**
In 2013						
Opening net book amount	1 797 040	50 465	119 988	106 347	105 066	2 178 906
Additions	24 380	12 397	42 831	41 382	29 799	150 789
Disposals	-	(153 633)	(226 973)	(22 209)	(51 254)	(454 069)
Depreciation charge: to income statement	(68 139)	(25 346)	(81 459)	(54 564)	(45 030)	(274 538)
Depreciation on disposed assets	-	153 633	226 973	22 209	51 243	454 058
Revaluation surplus: to income statement	69 850	-	-	-	-	69 850
Impairment losses: to income statement	(19 389)	-	-	-	-	(19 389)
Closing net book amount	1 803 742	37 516	81 360	93 165	89 824	2 105 607
As at 31 December 2013						
Cost or valuation	2 565 810	129 149	702 057	1 095 222	664 951	5 157 189
Accumulated depreciation	(762 068)	(91 633)	(620 697)	(1 002 057)	(575 127)	(3 051 582)
Net book amount	**1 803 742**	**37 516**	**81 360**	**93 165**	**89 824**	**2 105 607**

All land and buildings are used in the operating activities of the Company.

Land and buildings of the Company as at 31 December 2013 and 2012 were recognised at fair value. The valuation was made by external independent appraiser using discounted cash flow method and effective date of valuation was 31 December 2013.

Following base assumptions used:

- Rental income will increase during Y2013-2016 by 2.3% annually;
- Maintenance costs and capital expenditures indexed according to annual inflation forecast, i.e. 2.1% in 2014, 2.2% in 2015-2016 and 2.3% in 2017-2018;
- Vacancies will decrease by 12% in 2014, by 10% in 2015, 8% in 2016, and 5% from 2017;
- The reversionary yield has been calculated using the Net Operating Income from 2019, when we assume 5% vacancy into perpetuity and the gross market value.

Revaluation surplus in total LVL 69 850 (2012: LVL 28 461) and impairment losses of LVL 19 389 (2012: LVL 69 279) were recognised in the income statement. The revaluation had no impact on Revaluation reserve in Equity as the recognised revaluation increase does not exceed the previously recognised loss level of the respective properties.

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

	31.12.2013	31.12.2012
Cost	4 194 624	4 170 244
Accumulated depreciation	(917 491)	(788 770)
Balance	**3 277 133**	**3 381 474**

20. FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31.12.2013 Fair value of investment	Cost	31.12.2012 Fair value of investment	Cost
Latvian government debt securities	6 671 175	6 287 642	6 943 119	6 444 165
German government debt securities	4 456 230	4 508 049	4 596 308	4 508 049
Swedish government bonds	1 447 843	1 480 051	1 491 787	1 480 051
Danish government debt securities	1 267 103	1 285 852	1 305 467	1 285 852
Corporate bonds	1 549 878	1 570 665	3 667 417	3 657 558
	15 392 229		**18 004 098**	

The split between current and non-current financial investments at fair value through profit or loss is included in Note 37. Financial investments at fair value through profit or loss in total LVL 8.72 million (31.12.2012: LVL 11.06 million) are in Level 1 fair value hierarchy level and LVL 6.67 million (31.12.2012: LVL 6.94) are in Level 2 fair value hierarchy level in accordance with IFRS 7 definitions. Investments were not reclassified between fair value hierarchy levels in 2013 and in 2012.

21. RECEIVABLES FROM DIRECT INSURANCE OPERATIONS

	31.12.2013	31.12.2012
Gross receivables from direct insurance operations	6 199 466	5 886 667
Doubtful debt allowances for receivables from direct insurance operations	(74 941)	(75 224)
	6 124 525	**5 811 443**

22. REINSURANCE RECEIVABLES

	31.12.2013	31.12.2012
Gross receivables from reinsurance operations	223 953	386 087
Doubtful debt allowances for receivables from reinsurance operations	-	-
	223 953	**386 087**

23. DEFERRED TAX ASSETS

	2013	2012
Deferred income tax asset as at the beginning of the year	(564 497)	(486 615)
Deferred income tax changes recognised to the income statement (see Note 17)	(151 674)	(76 673)
Deferred income tax changes recognised to equity (see Note 27)	-	(1 209)
Deferred income tax asset as at the end of the reporting year	**(716 171)**	**(564 497)**

Deferred income 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:

	31.12.2013	31.12.2012
Temporary difference on depreciation of property, plant and equipment	279 383	224 734
Temporary difference for accrued expense	(222 375)	(216 029)
Tax losses	(743 895)	(557 101)
Temporary difference for impairment for overdue debtors	(29 284)	(16 101)
Deferred income tax asset as at the end of the reporting year	**(716 171)**	**(564 497)**

Tax losses can be used in further period and have no expiry date.

24. OTHER ACCRUED INCOME AND DEFERRED EXPENSES

	31.12.2013	31.12.2012
Payment for IBM for Transition & Transformation services *	1 250 008	2 801 339
Repair works	30 415	127 421
Prepayments for software maintenance	66 268	40 684
Prepayments for rent	26 054	21 644
Insurance payments	52 124	6 713
Prepayments for reinsurance	5 342	5 506
Other deferred expenses	6 776	6 522
	1 436 987	**3 009 829**

* - according to the IT outsourcing agreement with IBM, AAS Balta has made a payment to IBM for the necessary works to provide the Transition & Transformation services. The payment will be amortized over the term of the agreement. LVL 263 thousand of this amount will be amortised to expenses within 12 months from the balance sheet date, LVL 987 thousand will be amortised in following periods.

25. OTHER RECEIVABLES

	31.12.2013	31.12.2012
Receivables for salvage transactions	676 986	280 200
Impairment of overdue salvage settlements	(147 769)	(60 640)
Receivables from related parties	193 031	83 435
Receivables from suitable scrap buyers	7 817	22 437
Receivables from other insurance companies	17 532	21 512
Receivables from agents	4 921	9 737
Receivables for claims regulation	8 514	9 225
Receivables from the Motor Insurers' Bureau of Latvia	5 532	2 899
Overpaid VAT (see Note 28)	414	-
Other receivables	96 377	111 203
Impairment of other overdue receivables	(18 115)	(69 215)
	845 240	**410 793**

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

26. CASH AND CASH EQUIVALENTS

	31.12.2013	31.12.2012
Cash in current accounts	1 380 510	1 448 827
	1 380 510	**1 448 827**

As at 31 December 2013, AAS Balta does not have bank deposits with original maturity of three months or less. The average interest rate in 2013 for term deposits with credit institutions with original maturity of three months or less was 0.37% and the average term was 28 days.

27. SHARE CAPITAL AND RESERVES

a) Issued and fully paid share capital

The total authorised number of ordinary shares is 4 652 067 (2012: 4 652 067) with the nominal value of LVL 1 per share (2012: LVL 1 per share). All issued shares are fully paid.

The Company's shares are not listed.

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company and to participate in Company's residual assets.

b) The largest shareholder

The largest shareholder of the Company with 4 651 825 (2012: 4 651 825) or 99.99% (2011: 99.99%) shares is Royal & Sun Alliance Insurance PLC.

c) Share premium

During the increase of share capital in the previous years, according to the share issue rules a share premium was set in addition to the nominal value of the shares.

d) Reserve capital and other reserves

The reserves have been created by transferring profit from retained earnings to these reserves during the previous years in accordance with the applicable Latvian law and shareholders' decisions.

These reserves are available to shareholders, and there are no restrictions on those reserves.

e) Revaluation reserve

	31.12.2013	31.12.2012
Revaluation reserve as at the beginning of the reporting year	**-**	**6 854**
Changes due to revaluation	-	(8 063)
Deferred tax effect	-	1 209
Revaluation reserve as at the end of the reporting year	**-**	**-**

28. TAX AND SOCIAL INSURANCE

	31.12.2013	31.12.2012
Compulsory state social security contributions	180 369	197 542
Personal income tax	98 963	117 061
Value added tax	(414)	171 904
Business risk state duty	150	163
Liabilities	**279 482**	**486 670**
Overpaid (included in Note 25)	**(414)**	**-**

During the reporting year the following tax payments were made:

	2013	2012
Compulsory state social security contributions	2 275 225	2 372 422
Personal income tax	1 279 795	1 435 397
Value added tax	252 455	339 747
Corporate income tax	-	22 229
Property tax	18 942	18 702
Business risk state duty	1 854	2 096
	3 828 271	**4 190 593**

29. ACCRUED EXPENSES AND DEFERRED INCOME

	31.12.2013	31.12.2012
Accruals for personnel bonuses	351 300	421 179
Accrued expenses on unused annual vacations	321 349	350 773
Accruals for expenses to related parties	516 612	104 998
Accruals for intermediary commissions	19 357	40 676
Unearned reinsurance commission	30 416	22 563
Accruals for consulting services	23 731	20 568
Accruals for audit expenses	23 092	17 584
Accruals for rent and utilities services	33 465	32 390
Accruals for IT services	35 074	29 261
Accruals for transport expenses	13 000	17 100
Accruals for other expenses	145 518	405 666
Other deferred income	445	477
	1 513 359	**1 463 235**

	Accruals for personnel bonuses	Accrued expenses on unused annual vacations	Other accrued expenses	Total
As at 31 December 2012	**421 179**	**350 773**	**691 283**	**1 463 235**
Additions	351 300	350 774	840 709	1 542 783
Used	(343 141)	(380 198)	(575 877)	(1 299 216)
Reversed	(78 038)	-	(115 405)	(193 443)
As at 31 December 2013	**351 300**	**321 349**	**840 710**	**1 513 359**
Long-term part	-	-	-	-
Short-term part	**351 300**	**321 349**	**840 710**	**1 513 359**

	Accruals for personnel bonuses	Accrued expenses on unused annual vacations	Other accrued expenses	Total
As at 31 December 2011	**429 729**	**355 139**	**1 729 400**	**2 514 268**
Additions	421 179	350 773	691 283	1 463 235
Used	(354 502)	(355 139)	(1 729 400)	(2 439 041)
Reversed	(75 227)	-	-	(75 227)
As at 31 December 2012	**421 179**	**350 773**	**691 283**	**1 463 235**
Long-term part	-	-	-	-
Short-term part	**421 179**	**350 773**	**691 283**	**1 463 235**

30. OTHER CREDITORS

	31.12.2013	31.12.2012
Payables to Group entities	93 971	1 015 132
Deferred commission payables	382 708	376 289
Straight payable	142 370	317 231
Due to personnel	288 607	276 556
Due to the Financial Capital and Market Commission	63 679	66 299
Due to the Latvian Vehicle Insurance Office	25 687	21 909
Other liabilities	35 154	72 296
	1 032 176	**2 145 712**

31. DIVIDENDS PER SHARE

No dividend distribution is planned to be proposed at the Annual Shareholders' Meeting. Dividends were not distributed to the shareholders of AAS Balta in 2013 and 2012.

32. MANDATORY PAYMENTS

Types of mandatory payments made during the reporting year:

	2013	**2012**
Motor Insurers' Bureau of Latvia	131 138	121 832
Financial and Capital Market Commission	246 835	235 369
	377 973	**357 201**

33. RESULT OF CEDED REINSURANCE

	2013	**2012**
Reinsurers' share in written premiums (see Note 4)	(1 285 287)	(1 423 041)
Reinsurers' share in changes in unearned premiums (see Note 5)	52 714	32 426
Reinsurers' share in claims (see Note 7)	211 455	801 760
Reinsurers' share in changes in provisions for claims (see Note 8)	347 299	(520 466)
Reinsurance commission income (see Note 6)	49 314	43 449
Net result of ceded reinsurance activities:	**(624 505)**	**(1 065 872)**

34. TRANSACTIONS AND PAYMENTS TO RELATED PARTIES

A party is related to an entity if:

(a) directly, or indirectly through one or more intermediaries, the party:

– the party is directly or indirectly controlling, controlled by or under common control of the company (parent company, subsidiary and other group company);
– 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 where the Company is a member of the joint venture;
(d) the party is a member of key management of the Company or its parent company;
(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 Royal &Sun Alliance Insurance PLC (UK). Codan (Denmark), Lietuvos Draudimas (Lithuania), Al Ahlia Insurance Co (Oman), RSA Insurance Agensy (USA) are the subsidiaries of Royal & Sun Alliance Insurance PLC. 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:

Notes to the financial statements *(All amounts in Latvian Lats)*

a) Transactions with related parties

Reinsurance and fronting insurance

	2013	2012
Royal & Sun Alliance Insurance PLC (RSA):		
Fronting insurance premiums	(300 893)	(282 454)
Reinsurance premiums ceded	(412 356)	(42 993)
Commissions from insurance policies fronting	21 736	27 839
Fronting insurance claims	18 253	243 624
Change of fronting insurance unearned premium reserve	15 893	16 204
Change of fronting insurance deferred client acquisition costs	(46)	178
Change of fronting insurance claim reserve	5 924	(69 270)
	(651 489)	**(106 872)**

Other transactions

	2013	2012
Royal & Sun Alliance Insurance PLC (RSA):		
Management consulting services	(412 158)	(977 514)
IT consultation	(48 150)	(50 737)
Other services	-	(59 483)
Compensation of expenses	145 433	143 885
	(314 875)	**(943 849)**
Lietuvos Draudimas:		
Management consulting services	(8 488)	-
Compensation of expenses	1 298	-
	(7 190)	**-**
Al Ahlia Insurance Co:		
Compensation of expenses	1 293	-
	1 293	**-**
Codan Forsikring AS Esti filiaal:		
Other services	(2 108)	-
Compensation of expenses	-	31
	(2 108)	**31**
RSA Insurance Agency:		
Compensation of expenses	733	-
	733	**-**

b) Balances with related parties

There are the following outstanding balances with related parties as at the reporting date:

	31.12.2013	31.12.2012
Fronting insurance claims reserves with RSA	6 393	468
Fronting insurance receivables from RSA	19 547	7 740
Fronting insurance payables to RSA	(92 793)	(45 744)
Fronting insurance unearned premium reserve	85 825	69 932
Fronting insurance deferred client acquisition costs	(183)	(229)
Reinsurance payables to Codan AS	(4 900)	(4 961)
Reinsurance receivables from RSA	163 341	-
Reinsurance payables to RSA	(54 506)	-
Receivables from Lietuvos Draudimas	1 298	-
Receivables from AL Ahlia insurance Co	1 293	-
Receivables from RSA Insurance Agency	733	-
Receivables from RSA	189 707	83 435
Payables to RSA	(85 844)	(1 015 133)
Payables to Lietuvos Draudimas	(6 018)	-
Payables to Codan Forsikring A/S Eesti	(2 109)	-
	221 784	**(904 492)**

c) Management remuneration

In 2013, the Company paid remuneration to the Board of Directors in the amount of LVL 487 thousand (2012: LVL 598 thousand).

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 2013 there were 38 (31.12.2012: 31) pending cases of litigation versus the Company for a total of LVL 2 969thousand (31.12.2012: LVL 2 110 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 2013.

The Company does not have any non-cancellable operating leases as at 31 December 2013, other than the rent of premises that usually can be terminated at one to six months notice. Total minimal commitment for rent payments as at 31 December 2013 amounts to LVL 56 thousand (31.12.2012: LVL 64 thousand).

d) Tax contingencies

The local tax authorities have power to examine tax position of the Company for the previous 3 years (5 years for transfer pricing). The Company's management believes that the outcome of tax authority's examination would not result in a material impact on the Company's results and operations or financial position.

36. 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.

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.

<u>Types of insurance contracts</u>

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 related legislation. Insurance premiums for motor third party liability are determined individually for each customer based on both customer as well as vehicle based risk criteria. In Latvia, a unified criterion for evaluating the road traffic accident history of a particular vehicle owner – the bonus malus system – is also available.

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 is a money compensation for the death, permanent incapacity for work or trauma arising from an accident. Also refund of costs for medical treatment as well as medical expenses, caused by injury. In addition it is possible to get daily allowances for time spend in hospital and having medical treatment. 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 as well as General Third Party Liability (GTPL) or personal accident coverage. The indemnity limit for the medical treatment and repatriation costs of passenger is limited to 100 thousand 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 70 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 the vehicle, destruction, theft or robbery of it. Several additional insurance covers may also be purchased which are related to insured vehicle. Insurance premiums are determined individually for each customer based on both customer as well as vehicle based risk criteria. Product package can contain several additional insurance covers – road assistance and replacement car, for instance. Value of insured vehicles commonly does not exceed 50 thousands lats. More than two thirds of losses by amount accumulate from the damage to vehicles sustained in road traffic accidents.

Property insurance, business interruption insurance and building risks insurance

Property insurance covers losses arisen because of fire, weather, leakage of liquid or steam, explosion, malicious acts by third parties (robbery, burglary) or collision. There is a possibility for individuals (private persons) to insure their contents (property) and civil third party liability additionally to private property insurance.

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.

The largest 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 private property include leakage of liquid or steam, fire and weather losses (storm, snowing and flood). The largest losses usually are because of fire.

General liability insurance

This insurance provides coverage for bodily injury and property damage caused to a third party by an insured person, due to its activity or inactivity. In respect of property damages only direct loses are covered, but in respect of bodily injuries direct as well as consequential loses are covered, such as unearned income because of temporary or permanent inability and allowances for dependents. Upon the assessment/ selection of liability insurance risks, it is particularly important to take into account the specifics of customer's commercial activity and customer's turnover.

Health

The health insurance product is offered to companies who purchase health insurance for their employees. The risk covers health insurance indemnities 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 contract assets

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, the terms and conditions of insurance contracts have no material effect on the timing and uncertainty of the insurer's future cash flows, except to the accounting estimates and assumptions for providing provisions for incurred but not reported claims as disclosed in Note 3.

The Company performs sensitivity testing of IBNR claim's provisions by detailed analysis of the results calculated by using several statistical methods to ensure that the currently used method gives the best estimate of provisions for IBNR recognized.

Concentration by territory

All insurance contracts have been issued 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, financial liabilities and claims reserves as at the reporting date (all amounts in thousands of LVL):

Year 2013	Latvia	OECD countries	Other countries	Total
Financial assets and reinsurers' share of claims reserves				
Financial investments at fair value through profit or loss	6 671	8 721	-	15 392
Term deposits with credit institutions	9 221	-	-	9 221
Insurance and reinsurance debtors	6 125	223	-	6 348
Reinsurers' share of outstanding claims reserves	-	4 277	-	4 277
Cash and cash equivalents	1 381	-	-	1 381
Other debtors	628	217	-	845
Total financial assets and reinsurers' share of claims reserves	**24 026**	**13 438**	**-**	**37 464**
Financial liabilities and claims reserves				
Outstanding claims reserves	(14 374)	-	-	(14 374)
Financial liabilities	(2 714)	(990)	-	(3 704)
Total financial liabilities and claims reserves	**(17 088)**	**(990)**	**-**	**(18 078)**
Net position as at 31 December 2013	**6 938**	**12 448**	**-**	**19 386**

Year 2012	Latvia	OECD countries	Other countries	Total
Financial assets and reinsurers' share of claims reserves				
Financial investments at fair value through profit or loss	7 114	10 890	-	18 004
Loans	15	-	-	15
Term deposits with credit institutions	6 162	-	-	6 162
Insurance and reinsurance debtors	5 812	386	-	6 198
Reinsurers' share of outstanding claims reserves	-	4 624	-	4 624
Cash and cash equivalents	1 448	-	-	1 448
Other debtors	297	114	-	411
Total financial assets and reinsurers' share of claims reserves	**20 848**	**16 014**	**-**	**36 862**
Financial liabilities and claims reserves				
Outstanding claims reserves	(14 363)	-	-	(14 363)
Financial liabilities	(3 373)	(1 341)	-	(4 714)
Total financial liabilities and claims reserves	**(17 736)**	**(1 341)**	**-**	**(19 077)**
Net position as at 31 December 2012	**3 112**	**14 673**	**-**	**17 785**

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:

	2013	**2012**
Personal accident & Travel medical expense	70 280	70 280
Motor own damage	no limit	70 280
Cargo insurance	1 059 345	105 421
Hull, CMR Property	1 059 345	105 421
Property insurance	702 804	702 804
General TPL insurance	702 804	140 561

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).

37. 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.

37.1 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.

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 exposure

	31.12.2013	**31.12.2012**
Latvian government debt securities	6 671 176	6 943 119
German government debt securities	4 456 230	4 596 308
Swedish government bonds	1 447 842	1 491 787
Danish government debt securities	1 267 103	1 305 467
Corporate bonds	1 549 878	3 667 417
Deposits with credit institutions	9 220 944	6 161 594
Loans	-	14 878
Cash and cash equivalents	1 380 510	1 448 827
Credit risk	**25 993 683**	**25 629 397**

	31.12.2013	**31.12.2012**
Reinsurers' share in unearned premium reserves	253 225	200 511
Outstanding claims reserve, reinsurers' share	4 276 795	4 624 094
Reinsurance debtors	223 953	386 087
Receivables due from policyholders	5 893 624	5 667 862
Receivables due from intermediaries	230 901	143 581
Other receivables	845 240	410 793
	11 723 738	**11 432 928**
Maximum credit exposure, total	**37 717 421**	**37 062 325**

b) Reinsurance risk breakdown by key counterparties

Reinsurer	31.12.2013 Assets related to reinsurance	S&P Rating	31.12.2012 Assets related to reinsurance	S&P Rating
Swiss Re Group	1 261 983	**AA-**	1 428 042	**AA-**
Munich Re Group	1 104 248	**AA-**	1 169 666	**AA-**
Hannover Re	598 093	**AA-**	654 155	**AA-**
RSA	275 106	**A-**	78 140	**A-**
Caisse Centrale de Reassurances	266 421	**AA+**	282 046	**A++**
SCOR Global P&C	245 685	**A+**	364 907	**A+**
GeneralCologne Re	236 455	**AA+**	266 027	**AA+**
ALD Re	185 942	**NR**	159 460	**NR**
ACE Tempest Re Europe	175 279	**AA-**	185 821	**AA-**
Liberty Syndicate, Cologne	175 279	**A+**	185 821	**A+**
Odyssey America Reinsurance Corporation	126 198	**A-**	151 125	**A-**
R + V	47 743	**AA-**	102 554	**AA-**
Sirius International Insurance Corporation	28 345	**A-**	144 161	**A-**
Novae Re	11 210	**AA-**	4 268	**AA-**
Transatlantic Reinsurance Company	8 380	**A+**	3 628	**A+**
Catlin Insurance Company	7 606	**A**	4 267	**A**
Lansforsakringar Sak,	-	**A-**	26 604	**A-**
Reinsurance risk	**4 753 973**		**5 210 692**	

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

Year 2013	**Rated AAA**	**AA**	**A**	**BBB+**	**Without rating**	**Total**
Government bonds	4 996	2 176	-	6 671	-	13 843
Corporate bonds	-	899	439	211	-	1 549
Term deposits with banks*	-	2 552	6 669	-	-	9 221
Total investment assets	**4 996**	**5 627**	**7 108**	**6 882**	**-**	**24 613**

Year 2012	**Rated AAA**	**AA**	**A**	**Rated BBB**	**Without rating**	**Total**
Government bonds	3 170	4 224	-	6 943	-	14 337
Corporate bonds		2 619	457	591	-	3 667
Term deposits with banks*	-	-	6 162	-	-	6 162
Loans	-	-	-	-	15	15
Total investment assets	**3 170**	**6 843**	**6 619**	**7 534**	**15**	**24 181**

*- for local banks without a credit rating, the parent company's credit rating is used.

37.2 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, financial liabilities and claims reserves by their remaining maturities as at the reporting date (all amounts in thousands of LVL):

Year 2013	**Non-fixed term**	**up to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Financial assets and reinsurers' share of claims reserves					
Financial investments at fair value through profit or loss	-	7 559	4 927	2 906	15 392
Term deposits with credit institutions	-	9 221	-	-	9 221
Insurance and reinsurance debtors	-	6 322	26	-	6 348
Cash and cash equivalents	1 381	-	-	-	1 381
Reinsurers' share of outstanding claims reserves	-	1 455	2 481	341	4 277
Other debtors	-	781	64	-	845
Total financial assets and reinsurers' share of claims reserves	**1 381**	**25 338**	**7 498**	**3 247**	**37 464**
Financial liabilities and claims reserves					
Outstanding claims reserves	-	(9 750)	(3 996)	(628)	(14 374)
Financial liabilities	-	(3 704)	-	-	(3 704)
Total financial liabilities and claims reserves	**-**	**(13 454)**	**(3 996)**	**(628)**	**(18 078)**
Net position as at 31 December 2013	**1 381**	**11 884**	**3 502**	**2 619**	**19 386**

Year 2012	**Non-fixed term**	**up to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Financial assets and reinsurers' share of claims reserves					
Financial investments at fair value through profit or loss	-	2 907	12 278	2 819	18 004
Loans	-	15	-	-	15
Term deposits with credit institutions	-	6 162	-	-	6 162
Insurance and reinsurance debtors	-	6 198	-	-	6 198
Cash and cash equivalents	1 448	-	-	-	1 448
Reinsurers' share of outstanding claims reserves	-	1 403	2 302	919	4 624
Other debtors	-	411	-	-	411
Total financial assets and reinsurers' share of claims reserves	**1 448**	**17 096**	**14 580**	**3 738**	**36 862**
Financial liabilities and claims reserves					
Outstanding claims reserves	-	(7 540)	(4 639)	(2 184)	(14 363)
Financial liabilities	-	(4 714)	-	-	(4 714)
Total financial liabilities and claims reserves	**-**	**(12 254)**	**(4 639)**	**(2 184)**	**(19 077)**
Net position as at 31 December 2012	**1 448**	**4 842**	**9 941**	**1 554**	**17 785**

37.3 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) Exposure to 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:

	2013	**2012**
German government debt securities	0.3%	0.2%
Swedish government debt securities	-	0.1%
Latvian government debt securities	0.9%	2.3%
Danish government debt securities	-	0.1%
Other corporate debt securities	0.1%	0.6%
Deposits with credit institutions	0.4%	0.8%
Loans	-	7.0%

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

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

		2013	**2012**
Market interest rate and impact on fair value	+0.5 percent point	(157 133)	(222 176)
	-0.5 percent point	160 288	193 925

b) Fair value risk

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

c) Currency risk

The Company is exposed to currency risk arising from various currency exposures primarily with respect to EUR due to insurance coverage provided in this currency and GBP due to transactions with the ultimate parent company RSA. The management of the Company seeks to limit currency risk through an investment portfolio created in respective currencies in the amount equal to respective claims reserve and liabilities. The EUR exchange rate has been pegged to the lat since 2005.

Notes to the financial statements *(All amounts in Latvian Lats)*

Split of financial assets, financial liabilities and claims reserves by currencies as at the reporting date (all amounts in thousands of LVL):

Year 2013	**USD**	**EUR**	**GBP**	**LTL**	**LVL**	**Other**	**Total**
Financial assets and reinsurers' share of claims reserves							
Financial investments at fair value through profit or loss	-	8 721	-	-	6 671	-	15 392
Term deposits with credit institutions	-	9 221	-	-	-	-	9 221
Insurance and reinsurance debtors	13	2 087	163	-	4 085	-	6 348
Reinsurers' share of outstanding claims reserves	65	291	7		1 018		1 381
Cash and cash equivalents	-	4 153	-	-	123	1	4 277
Other debtors	-	64	-	-	781	-	845
Total financial assets and reinsurers' share of claims reserves	**78**	**24 537**	**170**	**-**	**12 678**	**1**	**37 464**
Financial liabilities and claims reserves							
Outstanding claims reserves	(13)	(6 151)	(96)	(37)	(7 999)	(78)	(14 374)
Financial liabilities	-	(484)	(690)	-	(2 525)	(5)	(3 704)
Total financial liabilities and claims reserves	**(13)**	**(6 635)**	**(786)**	**(37)**	**(10 524)**	**(83)**	**(18 078)**
Net position as at 31 December 2013	**65**	**17 902**	**(616)**	**(37)**	**2 154**	**(82)**	**19 386**

Year 2012	**USD**	**EUR**	**GBP**	**LTL**	**LVL**	**Other**	**Total**
Financial assets and reinsurers' share of claims reserves							
Financial investments at fair value through profit or loss	-	11 061	-	-	6 943	-	18 004
Loans	-	-	-	-	15	-	15
Term deposits with credit institutions	-	6 162	-	-	-	-	6 162
Insurance and reinsurance debtors	12	953	-	-	5 233	-	6 198
Reinsurers' share of outstanding claims reserves	124	311	-	-	1 013	-	1 448
Cash and cash equivalents	-	4 390	-	-	233	1	4 624
Other debtors	-	26	-	-	385	-	411
Total financial assets and reinsurers' share of claims reserves	**136**	**22 903**	**-**	**-**	**13 822**	**1**	**36 862**
Financial liabilities and claims reserves							
Outstanding claims reserves	(6)	(5 167)	(61)	(35)	(9 047)	(47)	(14 363)
Financial liabilities	-	(381)	(1 418)	-	(2 910)	(5)	(4 714)
Total financial liabilities and claims reserves	**(6)**	**(5 548)**	**(1 479)**	**(35)**	**(11 957)**	**(52)**	**(19 077)**
Net position as at 31 December 2012	**130**	**17 355**	**(1 479)**	**(35)**	**1 865**	**(51)**	**17 785**

Changes in the exchange rates do not have a material impact on net position. The largest share of financial assets and liabilities are held in LVL and EUR, to which the lat is pegged.

38. CAPITAL RISK MANAGEMENT

According to the requirements of the „Law on Insurance Companies and their Supervision" of Latvia, the Company should constantly have at its disposal own funds, which should be equal or larger than a determined solvency margin. The solvency margin is defined as the larger of the amounts calculated based on written premiums or claims paid and the result cannot be smaller than the adjusted solvency margin of the prior year.

The minimum required capital 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. Solvency ratio shows excess of capital held over minimum required capital (all amounts in thousands of LVL):

	31.12.2013	**31.12.2012**
Minimum required capital	6 244	5 470
Regulatory capital of the Company calculated according to FCMC regulations	10 880	12 309
Solvency ratio (minimum required is 100%)	**174%**	**225%**

39. 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):

	2003	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**Total**
Estimate of net cumulative incurred claims												
At end of accident year	3 788	3 712	3 696	7 434	10 082	8 617	7 103	5 165	4 182	4 506	5 473	
1 year later	3 481	2 842	2 840	5 767	8 984	6 858	5 750	4 056	3 291	3 453		
2 years later	4 016	3 386	3 909	5 526	9 944	6 304	5 606	3 873	3 082			
3 years later	4 289	3 229	3 826	6 059	9 426	5 994	5 621	3 699				
4 years later	3 355	3 330	3 874	6 345	9 061	6 167	5 602					
5 years later	3 432	3 305	3 786	6 107	8 921	5 722						
6 years later	3 376	3 307	3 743	5 555	8 976							
7 years later	3 348	3 222	3 675	5 361								
8 years later	3 243	3 186	3 618									
9 years later	3 116	3 185										
10 years later	3 074											
Net claims paid												
1 year later	2 647	2 610	3 308	4 537	7 446	4 508	4 178	2 764	2 492	2 650		
2 years later	225	299	126	329	351	241	252	54	196			
3 years later	73	104	90	199	110	189	299	47				
4 years later	57	46	4	53	21	254	37					
5 years later	44	80	8	47	54	44						
6 years later	34	6	12	13	27							
7 years later	16	30	21	-14								
8 years later	-28	-2	-9									
9 years later	-30	-2										
10 years later	-2											
Cumulative net claims paid	**3 036**	**3 171**	**3 560**	**5 164**	**8 009**	**5 236**	**4 766**	**2 865**	**2 688**	**2 650**		
CY (deficiency) / redundancy	**42**	**1**	**57**	**194**	**(55)**	**445**	**19**	**174**	**209**	**1 053**		**2 139**

40. SUBSEQUENT EVENTS

On 1 January 2014 the Republic of Latvia joined the euro-zone and the Latvian Lat was replaced by the euro.
As a result, the Company converted its financial accounting to Euros as from 1 January 2014 and the financial statements for subsequent years will be prepared and presented in Euros.
Future comparative information will be translated into Euros using the official exchange rate of LVL 0.702804 to EUR 1.

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 2013.

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Independent Auditors' Report

To the shareholder of AAS BALTA

Report on the Financial Statements

We have audited the accompanying financial statements of AAS BALTA ("the Company"), which comprise the statement of financial position as at 31 December 2013, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory notes, as set out on pages 7 to 45.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal controls as management determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of 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 our 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, we consider internal controls 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 controls. An audit also includes evaluating the appropriateness of accounting principles 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 opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of AAS BALTA as at 31 December 2013, and of 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.

Other Matters

The corresponding figures presented are based on financial statements of the Company as at and for the year ended 31 December 2012, which were audited by another independent auditors whose report dated 20 March 2013 expressed an unmodified opinion.

Report on Other Legal and Regulatory Requirements

In addition, our responsibility is to assess whether the accounting information included in the Management Report, as set out on pages 4 to 5, the preparation of which is the responsibility of management, is consistent with the financial statements. Our work with respect the Management Report was limited to the aforementioned scope and did not include a review of any information other than drawn from the financial statements of the Company. In our opinion, the Management Report is consistent with the financial statements.

Ondrej Fikrle
Partner pp KPMG Baltics SIA
License No 55
Riga, Latvia
18 March 2014

Inga Lipšāne
Sworn Auditor
Certificate No 112