BALTA

APDROŠINĀTĀJU GRUPA

ANNUAL REPORT 2001

ANNUAL REPORT 2001

AAS BALTA CONSOLIDATED FINANCIAL STATEMENTS FOR 2001

CONTENTS

REPORT OF THE COUNCIL AND THE BOARD

For the Latvian insurance market, 2001 was marked by a slowdown in business growth pace. The overall non-life insurance market grew by 2% last year, as compared to 7.4% in 2000. Total premiums written in risk insurance reached LVL 91,367,561 in 2001, showing a gain of only two million lats over the 2000 result. As opposed to the dwindling market growth rates, claims paid have gone up significantly. Latvian non-life insurance companies paid LVL 43,142,238 in claims in 2001, which is four million lats more than in 2000.

Life insurance market volume continued shrinking in 2001. The amount of premiums written by life insurance companies last year decreased to LVL 4,540,896, 6% less than in 2000. Life insurance in 2001 has also seen an increase in claims paid, reaching LVL 3,303,221, 22% more than in 2000.

Year 2001 also saw further consolidation of the market. Three risk insurance companies were reorganized to form one; insurance companies names were changed; new shareholders entered a number of insurance companies. As a result, competition increased in the market and not all of the market players could survive - one insurance company's licences were temporarily suspended. Due to the growing competition insurance tariffs decreased on the Latvian insurance market last year. To retain their existing portfolio insurers provide their services with ever increasing discounts on tariffs. This has caused the emergence of a situation where the number of insurance contracts grows much more rapidly than the total premiums written. Another trend influencing the attained insurance results is the severe competition for new insurance distribution channels among the insurers, causing a sharp increase in commissions offered to distributors.

For the insurance group (IG) BALTA, 2001 was marked by the change in shareholders, and the subsequent aligning of the

Council

From left: **Svend Jorgen Heineke, Sven Staffan Eberhard Crona, Poul Mortensen** (Chairman of the Council), **Mogens Andersen, Soren Theilgaard**

REPORT OF THE COUNCIL AND THE BOARD

IG members with the working practices (especially insurance financial accounting) of the largest shareholder, Danish insurance company Codan, who is a part of the British insurance group Royal & Sun Alliance global network. All facts combined, BALTA is now positioned to reap benefits of unprecedented possibilities in client acquisition, servicing, and new insurance products development.
Cooperation with the largest Latvian banks in the sphere of client servicing was intensified in 2001. During this period, IG BALTA opened two new branches in Riga.
According to the Finance and Capital Market Commission (FCMC) data, IG BALTA was the market leader by premiums written (LVL 21 million) in 2001, and held 21.9% of the risk insurance and 30.6% of the life insurance markets. As compared to the Latvian insurance market, IG BALTA achieved a notable growth in its business last year, with risk insurance premiums written growing by 6% (as compared to the market's 2%). Life insurance business increased by 7%, as opposed to the market's 6% decline.
IG BALTA paid LVL 10.7 million in insurance claims in 2001, resulting in an overall loss ratio of 48.1%. It must be noted that the previous year's storms were the cause of growth of claims paid.
Individual members of the Group attained the following results in 2001: IJSC BALTA wrote insurance premiums for LVL 19,817,039, loss ratio was 47.2%. IJSC Riga Insurance Company wrote premiums of LVL 233,757 with a loss ratio of 53%, while IjSC LATVA wrote premiums of LVL 1,393,663 with loss ratio of 39% in non-life insurance.
Both reinsurance and investment policies were of importance in achieving the 2001 operations result. The average investment

Continued on the next page

Board:
First row from left: **Ilze Cīrule, Andris Laizāns** (Chairman of the Board), **Ināra Meija**
Second row from left: **Andris Ņikitins, Rolands Gritāns, Atis Lazdiņš** (Candidate of the Board), **Andris Upmiņš, Tālivaldis Kreislers** (Candidate of the Board)

Continued from the previous page

portfolio volume of the Group in 2001 was 19,108 thousand lats, earning a return of 8.1%. Income from investments reached LVL 1,556 thousand.

All of the above allowed IG BALTA to earn LVL 845 thousand before taxes, which, after minority interest and tax liability results in LVL 723.6 thousand.

The Council and the Board of the Company are responsible for preparing financial statements from the books of primary entry. These should present fairly the financial position of the Company as at the end of the reporting period and the results of operations and cash flows for the period.

We hereby confirm that the financial statements for 2001 of IJSC BALTA have been prepared in accordance with the statutory requirements of the Republic of Latvia, based on relevant accounting methods that have been applied in a consistent manner, and give a true and fair view of the financial position of the company as at the end of the reporting year, as well as of the results of operations for the year then ended.

On behalf of the management of the Group's companies we would like to thank all our clients, shareholders and employees for the trust they have placed on us.

Poul Mortensen
Chairman of the Council

Andris Laizāns
Chairman of the Board, President

6 March 2002

ON SHARES AND SHAREHOLDERS

Year 2001 was a significant year for BALTA due to many reasons. The most material from them was the fact that the Danish insurance company Codan became the controller of approximately 52% of the shareholding in IJSC BALTA. Codan is a part of the British insurance concern Royal&Sun Alliance. But, in the second half of the year, 24% of BALTA's shares were purchased by the European Bank for Reconstruction and Development, and the Letter of Intent was signed that also the Danish government investment fund for the Central and Eastern Europe will purchase 24% of BALTA's shares.

BALTA treats the new shareholders as highly beneficial for the Company and employees because the controlling shareholder is an experienced company whose key business also is insurance and which has developed specific and well considered business strategy. It is also of significant importance that the new shareholders provide employees with social guarantees and professional development, but EBRD and IO Fund are world-known investors.

Given the fact that 99.9% of BALTA's shares belong to its largest shareholders, i.e. A/S Codan, EBRD and IO Fund and that by the end of 2001, the publicly traded shares amounted only to 0.009% of the total shares, the Board of Directors and the Supervisory Council of IJSC BALTA made a decision to ask the Board of Directors of the Riga Stock Exchange to exclude IJSC BALTA shares from the official listing of the Riga Stock Exchange as of 1 January 2002, which was done.

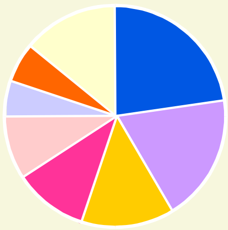
After leaving the Riga Stock Exchange, BALTA's shares remain the shares of public share issue, but they will not be offered in the public market anymore.

It should be noted that the quoting of IJSC BALTA in the Riga Stock Exchange improved the Company's opportunities in capital and client acquisition, and met the expectations of quotation-increased the liquidity of shares held by the shareholders. During quotation, BALTA performed its objectives and functions provided in the Articles of Association in a more effective way. It also increased the awareness of clients and possible investors about BALTA and thereby also promoted the trust to its financial stability and quality of rendered services.

During the quotation in the Riga Stock Exchange, BALTA developed a stable and reasonable profit distribution policy, which has raised the shareholders and clients trust to the Company and its strength; on annual basis, BALTA's reserves have increased by the statutory amount required for transfer to reserves, but the rest of the profit has been paid in dividends.

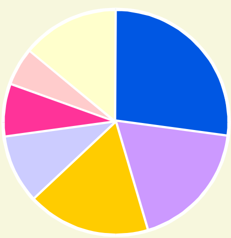
ON NON-LIFE INSURANCE MARKET

Non-life insurance market in Latvia in 2001 (gross premiums)



22%		AG BALTA
19%		ERGO AG
14%		BTA
11%		Parekss AK
9%		Balva
5%		Rīgas Slimokase
6%		Baltikums
14%		Citi

Non-life insurance market in Latvia in 2001 (gross claims)



27%		AG BALTA
18%		ERGO AG
17%		BTA
10%		Rīgas Slimokase
8%		Parekss AK
6%		Balva
14%		Citi

In 2001, the non-life insurance market in Latvia experienced further consolidation trends, which greatly increased the competition in the insurance area. Under its influence, the insurance service sales methods were changed, insurance premium discounts were more and more increased, and insurance rates decreased, which reduced the profit ratios of Latvian insurers. Not all of the market players were able to stand the competition restrictions. Thus, for example, already at the beginning of the year the activities of the insurance company Alianse were temporarily closed.

Over the year, several insurance companies have changed their shareholders. The influential Danish insurance company Codan came into the market, the German insurance group Ergo and the Finnish Sampo attempted to promote their presence in the Latvian insurance market. The European Bank for Reconstruction and Development and IF Skadeforsakring Holding AB came into the Latvian insurance market as shareholders.

A significant fact in the insurance and financial area is also the establishment of the Financial and Capital Market Commission, which took over the responsibilities and functions of three institutions: the Credit Institutions Supervision Department of the Bank of Latvia, Securities Market Commission and Insurance Supervisory Inspection. Establishment of a unified institution allows us to hope that in the future the area of financial services will be more regulated.

In addition, in the prior year a work group of the police and insurance representatives was set up with the objective to help the police to detect thefts of insured motor vehicles and reduce their number. The underlying principles of the work group prescribed that insurers provide the specific police authorities with the informative and technical assistance to reduce the claims level attributable to stolen cars.

When assessing the non-life insurance market development ratios, we should conclude that in the prior year, compared to the previous years, the non-life insurance market development speed and market growth has slowed down and in 2001 has remained only at 2% level. Last year, the premiums written were LVL 91,367,561. However, the claims paid have increased in a more rapid way, i.e., by 13% and reached LVL 34,142,238.

In 2001, the capital and reserves of non-life insurance companies reached LVL 38,188,963, which is almost by 1.5 million lats more than in 2000.

Net technical reserves of non-life insurers in 2001 increased by 4.7 million lats and reached LVL 35,197,520. In addition, in 2001 the market experienced a growth of non-life insurance companies' investments and assets, respectively by 10.53% and 6.41%, reaching accordingly Ls 54,544,386 and LVL 87,116,696.

The average maintenance ratio of the companies in non-life insurance has increased to 32%, but the combined ratio is 76%.

ON LIFE INSURANCE MARKET

In 2001, several new trends were evident in the life insurance market and, in general, the year 2001 was an intense one. Namely, the insurance company LATVA, which is part of the insurance group BALTA, strengthened its market position. Changes also affected the number of market players, under the impact of consolidation processes the life insurance company Alterna Viva was reorganised and its business licences cancelled. By the year-end, licences were cancelled also to the life insurance company Solidaritāte.

In 2001, life insurance market according to gross premiums written comprised 5% of the total insurance market in Latvia. The life insurance market continued to shrink, going down to 6%. Overall life insurance market wrote premiums of 4,540 thousand lats. Three companies IJSC LATVA, IJSC Ergo Latvia Life, and IJSC Baltikums Life, governed the market totally comprising 89% of the life insurance market.

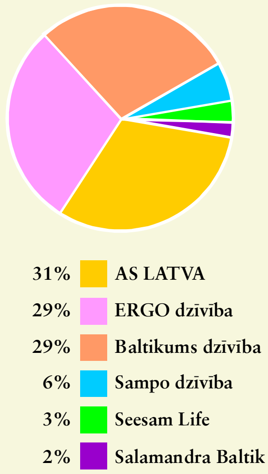
In 2001, AAS Latva of the insurance group BALTA wrote insurance premiums of LVL 1,393,662, which made up 31% of the total life insurance market, thus fortifying its position as the leading insurer in the life insurance market. Contrary to the general shrinkage of the life insurance market, IJSC LATVA gained a growth of premiums written.

Whereas, in insurance claims, IJSC LATVA paid out LVL 396,531, which made up 18% of the total claims paid in the life insurance market.

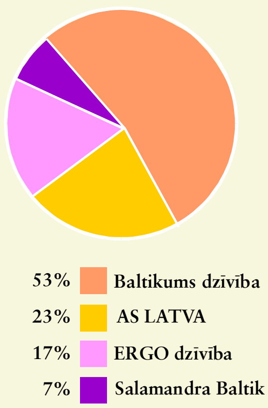
In 2001, the Company successfully realised the insurance contract transformation campaign, within which the existing clients were acquainted with the new insurance products of IJSC LATVA thus giving a chance to select more up to date life insurance products, including the new pension insurance program Classics.

From left: **Jānis Cimdiņš** - President of Riga Insurance Company
Andris Laizāns - President of BALTA
Jānis Medens - President of LATVA

Life insurance market in Latvia in 2001 (gross premiums)

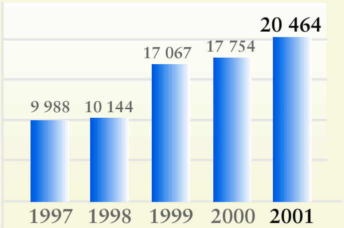


Life insurance market in Latvia in 2001 (gross claims)



ON INVESTMENTS

Investments of IG BALTA
('000 LVL)



One of the cornerstones of successful insurance business is the Company's investment policy. By realising placements of funds in various financial instruments, insurance company forms a balanced and safe investment portfolio, which allows the company to retain stable position and liquidity in changing financial environment.

In 2001, the insurance group developed a new investment policy, which ensured more balanced investment portfolio with stable return guarantees. During the prior year, the amount of BALTA's consolidated investment portfolio increased by LVL 2,700,000, at the year-end reaching LVL 20,464,000. Investment income amounts to LVL 2,268,880, investment expense is LVL 699,944 thus resulting in net investment income of LVL 1,568,936. Totally it ensured a profitability of 8.9% of the portfolio in 2001.

Last year, the amount of government issued and guaranteed securities other fixed income securities was LVL 11,129,971 of the portfolio, by the year-end reaching 54.4% of the whole portfolio. The average return of this part of portfolio is 14% per annum and such a profitability level has been reached using specific options of repo transactions. In 2001, the amount of deposits has decreased from 31% at the beginning of the year to 4% at the year-end. Interest income from deposits is LVL 161,000, which makes up 8% of profitability, which against the average deposit rate in the country, i.e. 5.5%, can be estimated as a good result.

In 2001, BALTA's investments in fund certificates have not materially changed and at the year-end made up 18.5% of the portfolio with the average profitability of 7% per annum. During 2001, the amount of mortgage loans has increased from LVL 1,182,000 at the beginning of the year to LVL 1,652,000 at the year-end with the average profitability of 9.9% per annum.

In 2001, a special investment instrument for rural region clients was worked out the so-called «The Little Mortgage», which ensures fast and effective satisfaction of clients' needs both for insurance and crediting services. This investment service was offered to Vidzeme and Zemgale regional clients. The large interest of clients about this service showed that mortgage market in regions has to be considered as a perspective business area.

DESCRIPTION OF BALTA'S OPERATIONS

The profit after taxes of IJSC BALTA for the year 2001 was 0.7 million lats. Profit ratios were lower than in the year 2000, which is connected with stricter competition in the market, reduction of rates and large scope of discounts necessary for client acquisition.

The profit per share in 2001 was 16 santims.

In 2001, the volume of premiums earned increased by 5% compared to 2000, making up 19.8 million lats. The slow growth of the insurance market can be explained by increased competition, formation of new insurance groups and a rapid decrease of insurance service prices as a result of the increasing competition.

The technical result of IJSC BALTA from non-life insurance operations in 2001 was 659 thousand lats, which is a substantial decrease, compared to 2000 when the technical result was 1.6 million lats. The fall of the technical result is due to the decrease of rates in the insurance market almost in all insurance classes, dramatic increase of client acquisition costs for obligatory motor TPL and changes in the structure of insurance portfolio, larger share gained by insurance classes with high claims ratio, such as health insurance.

The overall operating results of BALTA in 2001 were influenced by the growth of claims paid, compared to the prior year. The total net claims level increased from 45.2% in 2000 up to 49.7% in 2001. The largest growth of claims paid was evident in health insurance by 193 thousand lats, but, given the considerable volume of premium growth, the claims level, compared to 2000, did not worsen. A material growth of claims level was evident in obligatory motor TPL, where upon the fall of premium amount, the claims were paid at the same level as in 2000. Under its influence, the claims level increased from 37% to 41.4%.

Premiums grew considerably in health insurance, i.e. by 47% against the year 2000 and gross premiums earned in health insurance in 2001 reached 1.473 million lats. The growth is connected with the increase of popularity of health insurance services and a possibility of employers to use this service as one of the most successful elements of staff bonus programs thus retaining the most qualified specialists in the company.

The most essential reduction of premium amount, compared to 2000, was in obligatory motor TPL, i.e. by 9% less, which can be explained by the growth of average discounts for drivers who since the introduction of obligatory motor TPL had had no accidents recorded, as well as the particularly sharp competition among insurance companies aimed at acquiring new clients and thus dramatically increasing related marketing expenses.

Overall during the year, the proportions of contracts concluded by physical and legal persons in BALTA's insurance portfolio have changed. In 2000, the share of physical persons reached 51.9%, whereas in 2001 it lowered to 48%. The main changes are connected with the already mentioned insurance classes sharp increase of health insurance policies bought by legal persons and decrease of obligatory motor TPL insurance policies bought by physical persons.

In 2001, BALTA planned better results for property insurance, but the unexpectedly heavy storms at the year-end, especially at the beginning and mid-November, caused major losses to Latvenergo electric lines, due to which the year was closed with 52% of net claims level for property insurance of legal persons.

In one of the most non-profitable types of insurance in the Latvian market motor vehicle CASCO insurance, the claims level in BALTA was retained almost constant over the whole year, in total falling down by 3%-points, compared to 2000, which evidences the effectiveness of a range of consistently applied protection measures and alignment between the diverse rate categories and the insurance risk level.

ON STAFF

IG BALTA operations were based on two underlying, principles: our clients stable cooperation partners, and our management and employees skilful and experienced specialists.

In order to meet the set objectives and strengthen the leading position in the Latvian market, IG BALTA defined its personnel management priorities for 2001: improving staff competencies and structural effectiveness. Under structural changes, the Company specified the responsibilities and liability of sales and underwriting units and set certain requirements for sales personnel. The structural effectiveness project during the year has allowed reducing the number of staff by 5 %.

IG BALTA is represented throughout Latvia with over 30 branch offices and in such environment it is essential to ensure that the work with clients is based on unified principles, therefore a special attention was paid to the client servicing personnel. Namely, a training cycle was realised whose main objectives were improvement of personnel sales skills and knowledge of the offered products. During the training process, the Company utilised its internal resources and their advantages in managing insurance business.

Being aware that the speed of information exchange is one of the preconditions of BALTA's competitiveness, the Company developed a staff training program regarding information sciences. Given the fact that the Company plans to upgrade its information system also in the future, this type of training will serve as one of the personnel training priorities in the forthcoming years.

AAS BALTA CONSOLIDATED FINANCIAL STATEMENTS FOR 2001

CONTENTS

AAS BALTA CONSOLIDATED FINANCIAL STATEMENTS FOR 2001

AUDITOR'S REPORT TO THE SHAREHOLDERS OF AAS BALTA

We have audited the consolidated financial statements on pages 2 to 4 and 13 to 37 of AAS BALTA (the Company) and its subsidiaries (the Group), for 2001. These financial statements include the consolidated balance sheet as at 31 December 2001, related consolidated profit and loss account, consolidated cash flow statement and consolidated statement of changes in equity for 2001, report of the Company's Council and the Board and note disclosures. These financial statements are the responsibility of the Company's management. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The representatives of the Company have provided all information and explanations required by us. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements of the Group give a true and fair view of the assets, liabilities and the financial position of the Group as at 31 December 2001, and the results of its operations and cash flows for the year then ended. These consolidated financial statements have been prepared in accordance with the law on «Insurance Companies and their Supervision» and the Cabinet of Ministers Rulings on the Preparation of the Financial Statements of Insurance Companies of the Republic of Latvia.

PriceWaterhouseCoopers SIA
Riga

6 March 2002

Juris Lapshe
Personal ID: 250670-10408
Certified auditor
Certificate No 116

AAS BALTA CONSOLIDATED FINANCIAL STATEMENTS FOR 2001

BOARD AND COUNCIL AS AT THE DATE OF SIGNING THESE FINANCIAL STATEMENTS AND DURING 2001:

Council

First Name, Surname	Position	
Poul Mortensen	Chairman of the Council	Since 12 June 2001
Mogens Andersen	Member of the Council	Since 12 June 2001
Sven Staffan Eberhard Crona	Member of the Council	Since 12 June 2001
Svend Jorgen Heineke	Member of the Council	Since 12 June 2001
Jan Kauffmann	Member of the Council	Since 12 June 2001
Soren Theilgaard	Member of the Council	Since 12 June 2001
Jānis Medens	Chairman of the Council	Until 12 June 2001
Kārlis Andrejs Cerbulis	Deputy chairman of the Council	Until 12 June 2001
Elīzabete Leitāne	Member of the Council	Until 12 June 2001
Uldis Ozolants	Member of the Council	Until 12 June 2001
Māra Zepa	Member of the Council	Until 12 June 2001
Zigurds Spunde	Member of the Council	Until 12 June 2001
Rita Stražinska	Member of the Council	Until 12 June 2001
Haralds Āboliņš	Member of the Council	Until 12 June 2001
Minna Kaarina Kohmo	Member of the Council	Until 12 June 2001
Zane Štālberga-Markvarte	Member of the Council	Until 12 June 2001

Board

First Name, Surname	Position	
Andris Laizāns	Chairman of the Board	Since 13 June 2001
	Deputy Chairman of the Board	Until 12 June 2001
Ināra Meija	Deputy Chairman of the Board	Since 13 June 2001
	Member of the Board	Until 12 June 2001
Andris Upmiņš	Member of the Board	
Rolands Gritāns	Member of the Board	
Andris Ruselis	Member of the Board	
Andris Ņikitins	Member of the Board	
Ilze Cīrule	Member of the Board	Since 13 June 2001
Ivars Muzikants	Chairman of the Board	Until 12 June 2001

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	2001 LVL	2000 LVL
Written premiums			
Gross premiums written	1	21,048,674	20,159,129
Outward reinsurance premiums	1	(697,722)	(808,500)
Change in the provision for unearned premiums			
Gross premiums	4	(440,602)	423,324
Reinsurers' share	4	(60,369)	(1,006,527)
Earned premiums, net of reinsurance		**19,849,981**	**18,767,426**
Other technical income	3	**162,004**	**242,004**
Claims paid			
Gross amount	2	(10,064,603)	(9,866,767)
Reinsurers' share	2	189,286	826,431
Change in the provisions for claims			
Gross amount	5	(265,562)	(258,551)
Reinsurers' share	5	(102,772)	(340,076)
Claims incurred, net of reinsurance		**(10,243,651)**	**(9,638,963)**
Provision for life insurance			
Gross amount	7	(483,503)	11,523
Reinsurers' share	7	1,698	112
Change in provision for life insurance, net of reinsurance		**(481,805)**	**11,635**
Client acquisitions costs	8	(4,475,961)	(3,902,596)
Change in deferred client acquisition costs		60,132	264,740
Administrative expenses	9	(5,391,183)	(5,656,150)
Reinsurance commission income	10	94,464	1,088,396
Net operating expenses		**(9,712,548)**	**(8,205,610)**
Other technical expenses	11	**(210,061)**	**(346,517)**
Change in equalisation provision	6	**31,822**	**12,301**
Income from equity investments		12,690	1,744
Income from land and buildings		-	9,758
Regular investment income	12a	1,577,408	898,195
Value adjustments on investments	12b	503,684	297,268
Profit on disposal of investments	12c	175,098	632,836
Total investment income		**2,268,880**	**1,839,801**
Investment management costs	13a	(504,826)	(211,125)
Value adjustments on investments	13b	(144,650)	(43,667)
Loss from disposal of investments	13c	(50,468)	(76,361)
Total investment charges		**(699,944)**	**(331,153)**
Other income	14	**128,880**	**73,342**
Other expenses	15	**(248,562)**	**(182,376)**
Profit before tax		**844,996**	**2,241,890**

Continued on the next page

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Continued from the previous page

	Notes	2001 LVL	2000 LVL
Profit before tax		844,996	2,241,890
Income tax	16	(68,598)	(313,206)
Other taxes		(45,303)	(44,832)
Profit after tax		731,095	1,883,852
Minority share in profit		(7,543)	(17,825)
Net profit for the period		723,552	1,866,027
Earnings per share (in lats)	17	0,16	0,40

Notes on pages 20 to 37 are an integral part of these financial statements

Poul Mortensen
Chairman of the Council

Andris Laizāns
Chairman of the Board, President

Rolands Gritāns
Chief accountant

6 March 2002

AAS BALTA CONSOLIDATED FINANCIAL STATEMENTS FOR 2001

CONSOLIDATED BALANCE SHEET

ASSETS

	Notes	31.12.2001 LVL	31.12.2000 LVL
Goodwill	18	-	77,725
Other intangible assets		110	848
Total intangible assets		**110**	**78,573**
Investments			
Land and buildings	26	2,718,222	3,141,823
Investments in associates	19	261,995	-
Variable interest securities	20	37,253	38,602
Fixed income securities	21	11,129,971	4,108,131
Units in investment funds	22	3,781,339	3,649,858
Mortgage loans	23	1,652,223	1,182,196
Other loans	23	69,420	63,918
Deposits with banks		811,092	5,568,997
Other investments		2,186	-
Total investments		**20,463,701**	**17,753,525**
Direct insurance debtors			
Due from policyholders		2,776,899	2,357,912
Due from intermediaries		173,319	283,726
Reinsurance debtors	24	231,620	260,109
Other debtors	25	236,847	354,709
Total debtors		**3,418,685**	**3,256,456**
Tangible fixed assets	26	1,052,395	1,254,932
Cash and cash equivalent	27	781,424	1,191,323
Other assets		911	29,179
Total other assets		**1,834,730**	**2,475,434**
Accrued interest and rent		300,833	172,240
Deferred client acquisition costs		1,429,630	1,370,085
Other prepayments and deferred expense		53,470	50,746
		1,783,933	**1,593,071**
Total assets		**27,501,159**	**25,157,059**

Notes on pages 20 to 37 are an integral part of these financial statements

Poul Mortensen
Chairman of the Council

Andris Laizāns
Chairman of the Board, President

Rolands Gritāns
Chief accountant

6 March 2002

CONSOLIDATED BALANCE SHEET

CAPITAL, RESERVES AND LIABILITIES

	Notes	31.12.2001 LVL	31.12.2000 LVL
Share capital	28	4,652,067	4,652,067
Share premium		1,121,332	1,121,332
Statutory reserves		854,423	678,368
Other reserves		2,135,429	1,155,704
Prior period retained earnings		-	(105,479)
Current period profit		723,552	1,866,027
Total capital and reserves		**9,486,803**	**9,368,019**
Minority interests		**130,408**	**133,283**
Provisions for unearned premiums			
Gross amount	4	8,144,207	7,703,605
Reinsurers' share	4	(101,412)	(161,781)
Provision for life insurance			
Gross amount	7	3,083,710	2,600,207
Reinsurers' share	7	(2,067)	(369)
Provisions for claims			
Gross amount	5	3,376,056	3,110,493
Reinsurers' share	5	(55,176)	(157,948)
Equalisation provision	6	200,000	231,822
Total technical provisions		**14,645,318**	**13,326,029**
Due to policyholders		277,066	236,278
Reinsurance creditors	29	294,359	142,501
Credit institutions	30	1,497,631	762,742
Tax	31	120,147	81,470
Personnel		174,939	209,858
Social insurance payments	31	109,375	120,924
Other creditors	32	243,122	393,307
Total creditors		**2,716,639**	**1,947,080**
Deferred reinsurance commissions		19,003	40,723
Deferred tax liability	16	199,313	178,183
Unrealised loss on derivative financial instruments	35	109,728	-
Prior year dividends		1,013	1,148
Other		192,934	162,594
Total accrued expenses and deferred income		**521,991**	**382,648**
Total capital, reserves and liabilities		**27,501,159**	**25,157,059**

Notes on pages 20 to 37 are an integral part of these financial statements

Poul Mortensen
Chairman of the Council

Andris Laizāns
Chairman of the Board, President

Rolands Gritāns
Chief accountant

6 March 2002

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital LVL	Share premium LVL	Statutory reserves LVL	Other reserves LVL	Retained earnings LVL	Treasury shares LVL	Total equity LVL
Balance as at 31 December 1999	4,652,067	1,121,332	588,009	807,680	797,606	(302,477)	7,664,217
Dividends for 1999	-	-	-	-	(465,206)	-	(465,206)
Transfer to reserves	-	-	90,359	348,024	(438,383)	-	-
Disposal of subsidiaries	-	-	-	-	504	-	504
Treasury shares sold	-	-	-	-	-	302,477	302,477
Profit for the year	-	-	-	-	1,866,027	-	1,866,027
Balance as at 31 December 2000	**4,652,067**	**1,121,332**	**678,368**	**1,155,704**	**1,760,548**	-	9,368,019
Dividends for 2000	-	-	-	-	(604,768)	-	(604,768)
Transfer to reserves	-	-	176,055	979,725	(1,155,780)	-	-
Profit for the year	-	-	-	-	723,552	-	723,552
Balance as at 31 December 2001	**4,652,067**	**1,121,332**	**854,423**	**2,135,429**	**723,552**	-	9,486,803

Changes in statutory and other reserves can only be made with shareholders' approval. Statutory reserves can not be distributed to shareholders.

Notes on pages 20 to 37 are an integral part of these financial statements

Poul Mortensen
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Rolands Gritāns
Chief accountant

6 March 2002

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	2001 LVL	2000 LVL
Cash flow from insurance activities			
Gross premiums received		20,308,745	20,206,847
Gross claims paid		(9,426,235)	(9,087,315)
Premiums received from co-insurance		796,330	514,793
Payments made concerning co-insurance contracts		(426,402)	(535,229)
Payments made to reinsurers		(829,806)	(1,602,432)
Payments received from reinsurers		671,892	1,555,430
Premiums for assumed reinsurance		37,201	193,902
Payments made for assumed reinsurance		(56,116)	43,622
Client acquisition costs		(3,627,707)	(3,015,617)
Administrative expenses		(3,649,284)	(3,487,749)
Taxation and deductions paid		(2,309,412)	(2,537,089)
Payments made to the Traffic Bureau		(229,980)	(245,057)
Other income/(expense)		(104,084)	(613,479)
Net cash flow from insurance activities		**1,155,142**	**1,390,627**
Cash flow from investing activities			
Disposal of / (investments in) subsidiaries (net of cash acquired) and associates		(268,335)	340,289
Net received/(invested) in short-term investments		(468,370)	299,614
Net received from long-term investments		2,282,151	152,020
Investment management costs		(2,234,529)	(160,688)
Acquisition of fixed assets		(299,069)	(1,330,550)
Net cash flow from investing activities		**(988,152)**	**(699,315)**
Dividends paid		(604,841)	(464,381)
Net cash flow from financing activities		**(604,841)**	**(464,381)**
Increase/(decrease) of currency exchange rate		**27,952**	24,081
Net increase/(decrease) in cash		**(409,899)**	**251,012**
Cash and cash equivalents at the start of the period		**1,191,323**	**940,311**
Cash and cash equivalents at the end of the period	27	**781,424**	**1,191,323**

Notes on pages 20 to 37 are an integral part of these financial statements

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6 March 2002

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GENERAL INFORMATION

The parent Company of the Group is BALTA Insurance Company, which was incorporated in 1992 in Riga, Latvia as a joint stock company. During 1999 the acquisition of controlling stake in 3 insurance companies led to the creation of the BALTA Group (the Group). The Group provides non-life insurance and life assurance services to corporate clients and individuals.

Parent Company:
Full name
Insurance Joint Stock Company BALTA
Legal address
Raunas street 10/12, Riga, LV-1039, Latvia
Phone, fax numbers
371 7082333, 371 7082345
Tax registration No
LV40003049409

ACCOUNTING POLICIES

The Group maintains its accounting records in accordance with Latvian legislation. These financial statements have been prepared from those accounting records. Balances as at 31 December 2001 reflect the position as at the close of business on that date.

(1) Basis of preparation
These financial statements are prepared based on rulings No. 421 of the Cabinet of Ministers of Republic of Latvia «Rulings of the Preparation of the Financial Statements of Insurance Companies».

The measurement basis used is historical cost method, modified by the revaluation of certain types of investments in accordance with accounting policies set out below. All amounts presented in these financial statements are denominated in Lats, if not disclosed otherwise.

(2) Consolidation
Subsidiary undertakings, which are those companies in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations, have been consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date of disposal. All intercompany transactions, balances and unrealised surpluses and deficits on transactions between group companies have been eliminated. Separate disclosure is made of minority interests.

(3) Premiums
Written non-life insurance premiums comprise the premium on contracts, which become effective during the period, irrespective of whether the premium has become due or not. Written life assurance premiums comprise the premium attributable to insurance year commencing during the period, irrespective of whether the premium has become due or not. All written premiums are decreased by the amount of premiums cancelled or suspended during the period.

(4) Claims incurred
Claims incurred comprise claims attributable to the period and loss adjustment expenses. Claims paid are decreased by the amount received from salvage or subrogation.

(5) Investment income and expense
Investment income represents the income earned on the investment portfolio held by the Group during the period. Investment expenses represent investment management and interest costs related to the above investment portfolio as well as from disposal of investments and value adjustments. All investment income and expense items are recognised on an accruals basis.

(6) Investments
a) investments in debt and other securities held for investment purposes are stated at their cost value plus any unamortised premium or less any unamortised discount on their purchase. Carrying value is decreased in cases, where management is of opinion that there is an other than temporary diminution in value;

b) trading securities are stated at the market value.

c) investments in associated companies are accounted for by the equity method, where the Group includes in its profit and loss account its share of associate's profit or loss during the period. Associated companies are those over which the Group has between 20% and 50% of the voting rights, and over which the Group exercises significant influence, but which it does not control.

The Group's interests in the associated companies are carried in the balance sheet at an amount that reflects its share of the net assets of associated companies and includes goodwill on acquisition. Carrying value is decreased in cases, where management is of the opinion that there is an other than temporary diminution in value.

d) Derivative financial instruments are initially recognised at cost and subsequently remeasured at their fair value. Fair value is estimated on the basis of available market rates for particular financial instruments. Changes in the fair value of financial instruments are included in the profit and loss account for the period, when these arise.

During the reporting period, the Group has changed its accounting policies with respect to securities acquired for trading purposes. This change has been made in order to comply with requirements set by the International Accounting Standard (IAS) 39, Financial Instruments, which become effective starting from 1 January 2001 and which does not contradict respective Latvian statutory requirements. This standard requires that all trading securities are stated at their fair value, which is determined with a reference to their current market value. During the previous reporting periods, these securities were stated at the lower of their cost and market value.

As Latvian regulations are silent on the reflection of the change in the accounting policy in the financial statements, the Group referred to transition rules set out in the IAS 39. According to these rules, the Group has revalued investment portfolio as at 1 January 2001. The result of the revaluation was not significant, therefore no adjustment to retained earnings has been made. All subsequent changes in the fair values of trading securities have been included in the profit and loss account for the reporting period.

The effect of the above change in the accounting policy has been reflected in note 21.

(7) Loans and provision for loan impairment

A specific credit risk provision for outstanding balances of loans is established if management considers that full recovery of the outstanding balance is doubtful. Charges for provisions are debited to the profit and loss account. When a loan is deemed uncollectable, it is written-off against the related provision.

(8) Debtors

Debtors include accounts receivable from policyholders and intermediaries. Amounts that are overdue are reversed against premium once the policy is cancelled. No provision is made in respect of amounts that have not yet become due if no portion of the premium is taken to income. Other debtors are stated at the anticipated amount to be collected with provision for those specific amounts considered doubtful.

(9) Goodwill

Goodwill represents the difference of the cost of an acquisition and the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition.

Positive goodwill is presented in the balance sheet as an intangible asset and is amortised using the straight-line method over its estimated useful life. Goodwill is generally amortised over 5 years. The carrying value of goodwill is reviewed annually and written down for permanent impairment where it is considered necessary.

Negative goodwill is presented as a deduction from the assets in the same balance sheet classification as goodwill. Negative goodwill is recognised as income on a systematic basis over the period when respective losses and expenses are expected to incur.

(10) Tangible fixed assets and depreciation

Tangible fixed assets are stated at historical cost less accumulated depreciation. Depreciation is charged on a straight-line basis using the following rates based on estimated useful lives of the assets:

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

Gains and losses on disposals of fixed assets are recorded in the profit and loss account in the period of disposal. Repairs and renewals extending the useful life of the building or increasing its value are depreciated over their useful economic life while other repairs and renewals are charged directly to the profit and loss account when the expenditure is incurred.

(11) Technical provisions

<u>The unearned premiums</u> provision represents the proportion of premiums written which relates to the period of risk subsequent to the accounting period.

<u>The claims</u> provision is an amount provided at the end of the accounting period in respect of estimated losses incurred but not yet settled. The claims provision includes direct loss adjustment expenses, which will incur on settlement of claims incurred in the reporting and prior periods. Estimated future proceeds from salvage and subrogation related to claims incurred in the reporting and prior periods have been deducted from the claims provision.

<u>The provision for life insurance</u> comprise total obligations relating to the life assurance portfolio taking into account the portion of premiums which relate to subsequent periods. The life assurance provision is stated based on actuarial calculations based on modified net premium method for each life assurance agreement using statistical information and actuarial assumptions regarding mortality rates as at the end of the insurance period and discount rate.

<u>The equalisation provision</u> is made to cover future risk in areas where the claims performance may fluctuate significantly from one period to the next.

(12) Foreign currency translation
All assets and liabilities denominated in foreign currencies are translated into Latvian Lats (LVL) using the period end rates of exchange published by the Bank of Latvia. Gains and losses arising from this translation are included in the profit and loss account for the period. The applicable rates for the principal currencies held by the Group were as follows:

		31.12.2001	31.12.2000
1 USD	=	LVL 0.638	LVL 0.613
1 DEM	=	LVL 0.286761	LVL 0.291

Transactions denominated in foreign currency are recorded at the rate ruling on the date of the transaction. Exchange differences arising from the settlement of transactions denominated in foreign currency are included in the profit and loss account at the time of settlement using the exchange rate ruling at that date.

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

(14) Taxation
The charge for current taxation is based on computations made by management separately for each of the Group companies in accordance with Latvian tax legislation.

Deferred tax is calculated separately for each of the Group companies, using the liability method, with respect to all temporary differences arising between the carrying value of assets and liabilities in the balance sheet and the value attributable to these assets and liabilities for tax calculation purposes. The deferred taxation liability is calculated based on the tax rates that are expected to apply when the temporary timing differences reverse. Deferred tax assets and liabilities are offset and the net deferred tax asset or liability is presented in the balance sheet. When an overall deferred tax asset arises, it is only recognised in the balance sheet where its recoverability is foreseen with reasonable certainty.

The principal temporary differences arise from depreciation on tangible fixed assets, revaluation of certain investments in securities, tax losses carried forward and losses from sale of long term securities carried forward for tax purposes.

(15) Statement of cash flows
Statement of cash flows is prepared using direct method. For the purposes of statement of cash flows cash and cash equivalents comprise cash in hand and deposits held at call with banks.

(16) Related parties
Related parties are defined as shareholders of the parent company and its shareholders, members of the Supervisory Council and Board of Directors of each of the Group companies, their close relatives and companies in which they have a significant influence or control.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. PREMIUMS

	2001		2000	
	Gross amount	Reinsurer's share	Gross amount	Reinsurer's share
Personal accident	888,723	(4,410)	852,052	(9,508)
Health	1,473,567	-	779,079	-
Motor own damage	5,607,462	(129,866)	5,032,696	(132,149)
Air Hull	-	-	234	-
Marine	33,325	(9,919)	26,333	(29,382)
Cargo	261,492	(29,345)	226,176	(31,794)
Property fire	4,829,140	(224,471)	4,573,937	(313,219)
Voluntary motor Third Party Liability (TPL)	55,561	(4,720)	61,653	(7,207)
General TPL	342,287	(169,618)	463,568	(150,710)
Guarantees	140,910	(84,457)	171,109	(105,360)
Financial risks	17,913	-	22,492	(12,786)
Travel accident	151,073	(1,490)	94,717	(700)
Obligatory motor TPL	6,272,365	(35,204)	6,923,939	(14,722)
Life insurance	974,766	(4,222)	931,144	(963)
	21,048,674	(697,722)	20,159,129	(808,500)

Substantially all policies have been issued to customers operating in Latvia.

The Parent Company has signed an agreement with the Latvian insurance companies AAS ERGO Latvija and Parex Insurance Company to set up an insurance pool for participation in obligatory motor third party liability insurance. The policies issued within the pool are distributed through the State Traffic Security Department offices throughout Latvia. The Parent Company has a 52% share of all premium income collected within the pool and it bears the same share of risk assumed on the policies issued within the pool. The Parent Company is responsible for pool operations administration and receives commissions from these operations (Note 3). Total written premium income received by the Group within the pool agreement is included in the above figures.

Obligatory Motor Third Party Liability insurance premiums above are shown net of mandatory deductions. According to the law «On Obligatory Motor Third Party Liability Insurance» and related regulations of the Cabinet of Ministers the Group has to make the following mandatory deductions (in % from gross written premiums in Obligatory Motor Third Party Liability insurance):

Traffic Bureau - 3 %
Foundation of insured persons' interests protection- 1 %
Guarantees Foundation - 9 %
State Traffic Security Foundation - 0.6 %

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. CLAIMS PAID

	2001		2000	
	Gross amount	Reinsurer's share	Gross amount	Reinsurer's share
Accident	(413,127)	4,977	(421,499)	22,328
Health	(952,505)	-	(738,843)	-
Motor own damage	(3,910,938)	134,661	(4,090,079)	723,719
Marine	(5,762)	-	(24,486)	(4,222)
Cargo	(80,398)	12,364	(27,914)	1,623
Property fire	(1,466,321)	35,488	(1,563,295)	79,155
Voluntary motor Third Party Liability (TPL)	(742)	-	(1,559)	-
General TPL	(33,573)	362	(35,079)	2,366
Guarantees	(12,175)	1,434	(57,889)	930
Financial risks	(875)	-	(5,012)	532
Travel accident	(55,208)	-	(21,854)	-
Obligatory motor TPL	(2,649,435)	-	(2,403,672)	-
Life insurance	(483,544)	-	(475,586)	-
	(10,064,603)	189,286	(9,866,767)	826,431

Substantially all claims have been paid to clients operating in Latvia.

3. OTHER TECHNICAL INCOME

	2001	2000
Income from pool administration	139,079	189,863
Income from distribution of policies of other companies	-	29,755
Other income (non-life insurance)	22,925	22,386
	162,004	242,004

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. PROVISIONS FOR UNEARNED PREMIUMS

	Gross amount	Reinsurers' share	Net amount
Balance as at 31 December 1999	8,126,929	(1,168,308)	6,958,621
Change in the year	(423,324)	1,006,527	583,203
Balance as at 31 December 2000	7,703,605	(161,781)	7,541,824
Change in the year	440,602	60,369	500,971
Balance as at 31 December 2001	8,144,207	(101,412)	8,042,795

5. PROVISIONS FOR CLAIMS

	Gross amount	Reinsurers' share	Net amount
Balance as at 31 December 1999	2,851,942	(498,024)	2,353,918
Change in the year	258,551	340,076	598,627
Balance as at 31 December 2000	3,110,493	(157,948)	2,952,545
Change in the year	265,562	102,772	368,334
Balance as at 31 December 2001	3,376,055	(55,176)	3,320,879

6. EQUALISATION PROVISIONS

Balance as at 31 December 1999	244,123
Change in the year	(12,301)
Balance as at 31 December 2000	231,822
Change in the year	(31,822)
Balance as at 31 December 2001	200,000

7. PROVISIONS FOR LIFE INSURANCE

	Gross amount	Reinsurers' share	Net amount
Balance as at 31 December 1999	2,611,730	(257)	2,611,473
Change in the year	(11,523)	(112)	(11,635)
Balance as at 31 December 2000	**2,600,207**	**(369)**	**2,599,838**
Change in the year	483,503	(1,698)	481,805
Balance as at 31 December 2001	**3,083,710**	**(2,067)**	**3,081,643**

8. CLIENT ACQUISITION COSTS

a) Client acquisition costs in non-life insurance and life insurance

	2001	2000
Commissions and other agent related expenses	1,430,128	1,681,778
Other intermediary commissions	2,665,170	1,784,969
Obligatory payments to social security	362,605	381,037
Commissions paid on reinsurance assumed	18,058	54,812
	4,475,961	**3,902,596**

b) Client acquisition costs by type of insurance

	2001	2000
Obligatory motor TPL	2,020,517	1,619,721
Motor own damage	782,192	739,526
Property	1,131,352	1,118,606
Other non-life insurance	421,576	344,907
Total non-life insurance	**4,355,637**	**3,822,760**
Life insurance	120,324	79,836
	4,475,961	**3,902,596**

9. ADMINISTRATIVE EXPENSES

a) Administrative expenses split between types of insurance

	2001	2000
Non-life insurance	5,164,471	5,505,494
Life insurance	226,712	150,656
	5,391,183	5,656,150

9. ADMINISTRATIVE EXPENSES (Continued from the previous page)

b) Administrative expenses split between types of expenses

	2001	2000
Salaries	2,477,706	2,292,055
Social insurance	552,383	592,149
Repairs and maintenance	428,189	372,994
Depreciation and amortisation	461,281	460,694
Office expenses	419,905	825,793
Advertising and PR	253,998	453,965
Transport	255,547	249,345
Professional services	232,997	82,048
Other expenses	309,177	327,107
	5,391,183	**5,656,150**

Members of the Council and the Board did not receive separate remuneration for their job in the Council and the Board of AAS BALTA. The average number of employees in 2001 was 516 (2000: 486) and 1,211 (2000: 1,223) agents.

10. REINSURANCE COMMISSION INCOME

Reinsurance commission income for 2000 includes LVL 720,000 received as profit commission in accordance with the Commutation and Release Agreement regarding the STOP LOSS reinsurance treaty. Having assessed the further risk of possibility for large insurance claims being submitted for period 1997 to 1999 and considering the increased financial strength of the Parent Company the management decided to release risk cover for prior periods by entering Commutation and Release Agreement and receive the said commission in 2000.

11. OTHER TECHNICAL EXPENSES

	2001	2000
Provision for doubtful debtors	3,970	143,638
Payments to Finance and Capital Market Commission and to Found ation of Insured Persons Protection (non-life insurance)	145,791	143,652
Payments to Finance and Capital Market Commission of Insured Persons Protection (life insurance)	10,309	9,463
Other technical expenses	49,991	49,764
	210,061	346,517

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

12. INVESTMENT INCOME

a) Regular investment income

	2001	2000
Interest on investments in short-term securities	-	10,298
Interest on investments in long-term securities	1,214,398	533,661
Interest on deposits with banks	161,142	235,311
Interest on mortgage loans	112,083	101,331
Interest on ordinary loans	40,330	17,488
Other income	49,455	106
	1,577,408	**898,195**

b) Value adjustments on investments

	2001	2000
Long-term securities	361,523	-
Release from provisions on bank deposits	-	24,000
Value adjustment to units in investment funds	80,100	96,693
Gains on foreign currency revaluation in investments	43,845	173,696
Other	18,216	2,879
	503,684	**297,268**

c) Profit on sales of investments

	2001	2000
Short-term securities	-	95,844
Long-term securities	145,402	309,436
Shares of non-related companies	-	58,237
Units of investment funds	29,696	34,807
Disposal of investments in a joint venture	-	26,352
Disposal of treasury shares	-	105,479
Other	-	2,681
	175,098	**632,836**

13. INVESTMENT EXPENSE

a) Investment management costs

	2001	2000
Brokerage and intermediary commissions	18,323	81,206
Bank commissions	-	30,152
Interest	424,421	59,383
Consulting services	60,000	40,384
Other	2,082	-
	504,826	**211,125**

13. INVESTMENT EXPENSE (continued)

b) Value adjustments on investments

	2001	2000
Other long-term securities	71,546	-
Other short-term securities	-	18,059
Listed securities	-	10,407
Other value adjustments	73,104	15,201
	144,650	**43,667**

c) Loss from disposal of investments

	2001	2000
Securities	50,468	44,238
Loans	-	32,123
	50,468	**76,361**

14. OTHER INCOME

	2001	2000
Gains on disposal of fixed assets	41,752	2,896
Revaluation gains on foreign exchange	22,811	33,889
Compensation for overpaid social insurance	7,267	10,701
Other income	57,050	25,856
	128,880	**73,342**

15. OTHER EXPENSES

	2001	2000
Provisions and write-offs of doubtful debts	62,258	58,767
Loss on disposal of fixed assets	58,476	39,446
Consulting services	-	19,700
Amortisation of goodwill	77,725	21,197
Foreign exchange losses	-	29,829
Other expenses	50,103	13,437
	248,562	**182,376**

16. INCOME TAX

	2001	2000
Corporate income tax payments related to previous periods	12,451	-
Current tax	35,017	77,351
Deferred tax	21,130	235,855
	68,598	313,206

Reconciliation between actual tax expense and theoretical tax expense at basic tax rate

	2001	2000
Profit before tax	844,996	2,241,890
Expected income tax expense at 25% rate	**211,249**	**560,473**
Tax effect of:		
Corporate income tax payments related to previous periods	12,451	-
Expenses not deductible for tax purposes	81,829	115,354
Non-taxable income	(70,084)	(189,989)
Tax discount for donations	(8,754)	(38,703)
Effect on different tax rates on expected reversals	(26,527)	-
Deferred tax asset, unrecognised in previous periods	(131,566)	(133,929)
	68,598	**313,206**

Net deferred income tax liability arises from following temporary differences:

	2001 Tax effect 22%	2000 Tax effect 25%
Temporary difference on depreciation of fixed assets	(309,702)	(308,085)
Carry forward tax losses	104,115	201,148
Temporary difference on provision for vacation compensations	27,364	33,754
Temporary difference on provisions on securities	-	4,693
Temporary difference on upward revaluation of securities	(50,300)	-
Carry forwards losses on sale of securities	10,080	21,873
Temporary difference on provisions on bad debts	7,773	-
Temporary difference on other provisions	11,357	-
Temporary differences for which no deferred tax asset is recognised	-	(131,566)
Net deferred tax liability	**(199,313)**	**(178,183)**

As the tax computations and returns are prepared for each of the Group's companies separately no mutual offsetting of taxable income, expenses and carried forward tax losses has been done. Net deferred income tax assets are recognised only to the extent that realisation of the related tax benefit is foreseeable with reasonable certainty. Temporary differences for which no deferred tax asset is recognised are principally carry forward tax losses and other temporary differences of the subsidiaries of the Group.

The following corporate income tax rates have been enacted as at the end of the reporting period:

Year	Tax rate
2002	22%
2003	19%
2004 and thereto	15%

The management of the Group believe that due to different reasons currently approved tax rates effective after 2002 might be subject to changes in the future. Therefore tax rate of 22% approved for 2002 has been applied on all temporary differences for calculation of deferred tax as at 31 December 2001.

17. EARNINGS PER SHARE

	2001	2000
Current period profit (a)	723,552	1,866,027
Ordinary shares as at 1 January	4,652,067	4,652,067
Number of ordinary shares issued during the year	-	-
Ordinary shares as at 31 December	4,652,067	4,652,067
Weighted average number of ordinary shares outstanding during the period (b)	**4,652,067**	**4,652,067**
Basic earnings per share during the period (a/b) in lats	**0.16**	**0.40**

Diluted earnings per share are equivalent to basic earnings per share, as there are no outstanding transactions that could have an effect on the number of shares in issue.

18. GOODWILL

Cost value	
As at 31 December 2000	105,988
Acquisitions	-
Fully amortised	(105,988)
As at 31 December 2001	-
Accumulated amortisation	
As at 31 December 2000	(28,263)
Charge for the year	(77,725)
Fully amortised	105,988
As at 31 December 2001	-
Net book value as at 31 December 2000	77,725
Net book value as at 31 December 2001	-

19. INVESTMENTS IN ASSOCIATES

	2001		2000	
Company	Carrying value of investment	% in share capital	Carrying value of investment	% in share capital
SIA Ripo-2 (Latvia)	261,995	35%	-	-
	261,995		-	-

Investment in associated company has been made to optimise the claim settlement costs in Obligatory motor TPL.

20. VARIABLE INTEREST SECURITIES

	2001		2000	
Company	Carrying value of investment	% in share capital	Carrying value of investment	% in share capital
LVA Investīciju Sabiedrība (Latvia)	20,485	13.5%	20,687	13.5%
Other Latvia companies	1,000	-	1,000	-
Non-profit AS Public Pension Fund Social Security (Latvia)	1,000	1%	1,000	1%
Listed shares	14,768	-	15,915	-
	37,253		38,602	

All investments are made for investment purposes.

21. FIXED INCOME SECURITIES

	2001	2000
Latvian treasury bills	10,357,288	2,659,701
Lithuanian treasury bills	170,499	333,680
Debt securities issued by OECD financial institutions	-	933,501
Debt securities issued by Latvian banks	125,900	99,647
Other corporate bonds	239,680	-
Kazakhstanian eurobonds	84,931	81,602
Mortgage backed debt securities	151,673	-
	11,129,971	**4,108,131**

Fixed income securities at net book value of LVL 1,543,857 (2000: LVL 837,685) have been pledged as the security for the loans received under a repo deal. All investments have been made for trading purposes.

The effect of the change in the accounting policy described under (6) paragraph of the Statement of Applied Accounting Policies is an increase in the profit for the period and the net book value of fixed income securities by LVL 166,907.

22. UNITS IN INVESTMENT FUNDS

For trading purposes the Group has purchased 35,200 units at nominal value LVL 100 each in the investment fund LVA naudas fonds which is managed by LVA Ieguldījumu Sabiedrība over which the Group exercised control until April 2000 and owns 13.5 % as at 31 December 2001. Majority of investments of this fund are invested in Latvian government and corporate bonds and deposits held within banks registered in Latvia.

23. LOANS

	2001	2000
Mortgage loans	1,652,223	1,182,196
Loans to employees	58,516	62,969
Other loans	16,569	6,614
Provision on loans	(5,665)	(5,665)
	1,721,643	1,246,114

24. REINSURANCE DEBTORS

	2001	2000
German registered reinsurance companies	175,342	115,278
Swiss registered reinsurance companies	15,387	37,062
Great Britain registered reinsurance companies	20,558	71,444
Latvia registered reinsurance companies	16,543	36,325
Other reinsurance companies	3,790	-
	231,620	260,109

25. OTHER DEBTORS

	2001	2000
Security deposits with Courts	10,776	10,286
Debts from medical institutions	-	5,486
Other debtors	126,105	77,125
Advance payments for corporate income tax	99,966	227,826
Debts acquired through privatisation of AAS LATVA	-	53,431
Provisions on doubtful debtors	-	(19,445)
	236,847	354,709

26. FIXED ASSETS

	Land and Buildings and leasehold improvements	Transport vehicles	Computer equipment	Furniture and fitting	Total
<u>Cost</u>					
At 31 December 2000	3,452,522	706,396	1,149,849	450,319	5,759,085
Additions	28,517	43,662	243,244	24,672	340,094
Disposals	(377,946)	(259,249)	(203,953)	(52,219)	(893,366)
At 31 December 2001	**3,103,093**	**490,809**	**1,189,140**	**422,772**	**5,205,813**
<u>Depreciation</u>					
At 31 December 2000	(310,700)	(339,675)	(523,761)	(188,194)	(1,362,330)
Charge for the year	(68,240)	(91,854)	(223,841)	(76,687)	(460,622)
Disposals	2,778	152,099	191,878	41,001	387,757
At 31 December 2001	**(376,163)**	**(279,429)**	**(555,724)**	**(223,880)**	**(1,435,196)**
Net Book Value at 31 December 2000	**3,141,821**	**366,721**	**626,088**	**262,125**	**4,396,755**
Net Book Value at 31 December 2001	**2,726,930**	**211,380**	**633,416**	**198,892**	**3,770,618**

27. CASH IN HAND AND AT BANK

	2001	2000
Cash in hand	51,948	70,413
Deposits at call with banks	729,476	1,120,910
	781,424	1,191,323

28. SHARE CAPITAL

a) registred share capital

	2001		2000	
	Number	LVL	Number	LVL
Shares with nominal value of LVL 1	4,999,200	4,999,200	4,999,200	4,999,200
Shares of the Board	800	800	800	800
	5,000,000	5,000,000	5,000,000	5,000,000

b) issued and fully paid share capital

	2001		2000	
	Number	LVL	Number	LVL
Shares of the Board	800	800	800	800
Shares with nominal value of LVL 1	4,651,267	4,651,267	4,651,267	4,651,267
	4,652,067	4,652,067	4,652,067	4,652,067

c) major shareholders

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

	2001		2000	
	Number of shares	Shareholding	Number of shares	Shareholding
Codan	3,508,819	75.42%	-	-
EBRD	1,116,496	24.00%	-	-
Development Capital Corporation & Vista Capital	-	-	2,071,952	44.54%
AS Bastions ZS	-	-	1,093,537	23.51%
Merita Bank Ltd	-	-	719,695	15.47%
	4,625,315	99.42%	3,885,184	83.52%

29. REINSURANCE CREDITORS

	2001	2000
German registered reinsurance companies	185,125	60,460
Swiss registered reinsurance companies	37,566	17,022
Great Britain registered reinsurance companies	37,723	4,633
Latvia registered reinsurance companies	21,132	36,762
Denmark registered reinsurance companies	10,434	549
Other reinsurance companies	2,379	23,075
	294,359	**142,501**

30. LIABILITIES TO CREDIT INSTITUTIONS

	2001	2000
Loans under repo agreement	1,493,987	750,000
Liabilities for credit cards	2,809	12,440
Accrued interest on short-term loan	835	302
	1,497,631	**762,742**

Short-term loans have been received from a Latvian bank under repo deals. Total amount of loans received is LVL 1,493,987 with annual interest up to 6%. The term of loans is January 2002. Fixed income securities at net book value of LVL 1,543,857 (2000: LVL 837,685) have been pledged as the security for these loans.

31. TAX

	2001	2000
Personal income tax	73,798	79,263
Social insurance	109,375	120,924
Property taxes	2,942	1,081
VAT	(5,967)	1,126
Corporate income tax	49,374	-
	229,522	**202,394**

32. OTHER CREDITORS

	2001	2000
Liability for payments on Obligatory Motor third party liability insurance	73,904	106,214
Liability to Finance and Capital Market Commission	42,565	37,336
Commissions payable	-	15,035
Liability for purchase and repairs of real estate	-	9,008
Government and public institutions and organisations	13,068	-
Liabilities for services received during the reporting period	-	180,646
Other creditors	113,585	45,068
	243,122	**393,307**

33. RELATED PARTY TRANSACTIONS

The Parent Company is subsidiary of the insurance company Codan (Denmark) which owns 75% of Parent Company shares.

The Parent Company has common members of management with an investment company Bastions ZS. SIA Salons Efekts is a Company controlled by Bastions ZS.

Bastions ZS owns significant part of shares of LVA Ieguldījumu Sabiedrība. LVA Ieguldījumu Sabiedrība is the manager of the closed investment fund LVA naudas fonds.

Andris Ruselis, member of the Board of one of the subsidiaries of the Company is the Chairman of the Supervisory Council and majority shareholder in A/S Vērtspapīri.

<u>During the reporting period the following transactions were carried out with related parties:</u>

The Group is using office maintenance services rendered by SIA Salons Efekts. During the reporting period the total approximate value of services received was LVL 23 thousand (2000: LVL 21 thousand).

A/S Vērtspapīri provided financial consulting services to the Group's companies during the year. Total fees paid to A/S Vērtspapīri during the year are LVL 60 thousands (2000: LVL 2.8 thousand).

During the reporting period the Company reinsured risks with Codan. LVL 10.4 thousand were paid for reinsurance services.

During the period the Group has sold the investments in Latvian corporate bonds acquired directly from the issuer to the closed investment fund LVA naudas fonds. Investments were sold at their nominal value for the total amount LVL 595 thousand.

The Group owns 88% of LVA naudas fonds units.

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

	2001	2000
Mortgage loans issued to the Board Members of the Group companies	299,763	321,807
Investment in shares of LVA Ieguldījumu Sabiedrība	20,485	20,687
Investments in units of LVA naudas fonds, managed by LVA Ieguldījumu Sabiedrība	3,781,339	3,649,858
Liabilities due to Codan	10,434	-
	4,112,021	3,992,352

34. SUBSIDIARY UNDERTAKING

Name	Business	Shares 2001	Shares 2000	Country of incorporation
AS LATVA	Life insurance	95%	95%	Latvia
AS Riga Insurance Company	Non-life insurancr	100%	100%	Latvia

Part of the shares of AAS LATVA were purchased by privatisation. In accordance with the terms of privatisation the Parent company can not sell 385,000 of these shares until 2002.

All holdings are in the ordinary share capital of the undertaking concerned.

35. OFF BALANCE SHEET ITEMS

General claims
From time to time and in the normal course of business claims, against the Group companies, are received from customers. Such claims have been reviewed by the management who are of the opinion that no material unprovided liabilities will arise from these cases.

Foreign exchange contracts
The Group has signed a forward foreign exchange contract with a Latvian bank. The Group will have to make a net payment of LVL 110 thousand according to the contract which is equal to unrealised losses as at 31 December 2001.

Litigation
As at 31 December 2001 there were 12 open legal claims against the Group companies amounting to LVL 126 (2000: total amount of claims- LVL 70) thousand. The management is of opinion that no material unprovided liabilities will arise from these cases.

Assets pledged.
There are no assets pledged as at 31 December 2001, except as mentioned in note 21.

Credit related commitments
Except as stated in note 30 there are no other credit related commitments.

Subordinated deposit investment
The Parent Company has made subordinated deposit investment in A/S Hansabanka in amount of USD 450,000 and DEM 500,000 (equivalent in total to LVL 430,481 translating the amount at the exchange rate set by the Bank of Latvia on the balance sheet date) with maturity term in March 2003. The collectability of this deposit before maturity date is restricted.

Compensation to management members.
The Parent Company of the Group has committed to pay compensations to a number of management members if they would have to leave due to restructuring within the Group.