



ANNUAL REPORT

2002

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REPORT OF THE AAS BALTA SUPERVISORY COUNCIL AND THE BOARD

The year 2002 was a growth in the Latvian insurance market, with a slightly faster speed, compared to 2001, and was slightly faster. Namely, the amount of insurance premiums written in Latvia last year amounted to 103,190,829 lats, which is almost by 7% more than in 2001 when the market growth reached only 2%.

According to the profile of insurance lines, we can see that the development of life and non-life insurance market has been different in Latvia. In non-life insurance, the amount of gross premiums written last year was 97,588,087 lats, which, compared to the results of 2001, is by 5.5% more. The growth of the non-life insurance market is to a large extent associated with the increasing demand of private persons for long-term loans, especially mortgage loans, whose precondition is credit insurance and personal accident insurance for the borrower. In 2002, the amount of gross claims paid has considerably grown too reaching 39,044,503 lats and, compared to the last year results, is by 12% more than in 2001.

The year 2002 was a specific one for the Latvian insurance market due to the fact that the life insurance developed more rapidly than the non-life insurance of the market. Life insurers last year wrote premiums of 5,714,571 lats, which is by 27.8% more than a year ago. The reason for this is the newly introduced norm of the law On Personal Income Tax, which provides that payments by natural persons for health and personal accident insurance are tax exempt, if they do not exceed 10% of the annual gross income. The significant growth of the life insurance market leaves a hope that the population has gained further trust into the life insurance market sector and therefore, the amount of financial resources invested in long-term savings increases. This might also have been promoted by the explanatory activities carried out by the Latvian pension systems in mass media. Whereas, the amount of claims paid of life insurance companies last year increased only by 2.8% and was 2,582,270 lats.

The prior year 2002 was exceptional for AAS BALTA history, as the company celebrated its 10 year anniversary. The whole year was spent under this highlight and the clients could use the advantages of this special decade offers.

With a purpose to promote the sales of insurance services in the insurance group BALTA, last year the company implemented several projects, including the development of the internet-based insurance sales software, the so-called I-agent, and intensification of cooperation with banks. The Company's branches in Jelgava, Aizkraukle and Jēkabpils started to work in new premises. Additionally, much work was contributed for improvement of IG BALTA IT system compliance with the safety standards of the major shareholder. But, for the purposes of optimizing insurance claims settlement process, a work group was established, which is planning to continue its work until April 2003. In the prior year, the exchange of information and professional experience was strengthened between IG BALTA and AAS Codan, and the specialists of the parent company Royal & Sun Alliance. The successful connection to the insurance group Royal & Sun Alliance intranet is of a great significance too.

If we analyze the year 2002, then from the insurance operations perspective, we should admit that the year 2002 was a positive success for the insurance group BALTA. In the prior year, IG BALTA, according to the premiums written, comprised 26.2% of the Latvian non-life insurance market. It strengthened its leading position in the area and wrote insurance premiums before statutory deductions of 25,540,830 lats. It should be noted that the growth of the company's business volume in the non-life insurance is considerably larger than on average in the area (last year: a 5.5% growth) and exceeds it by 22.1%.

Also the volume of claims paid for the insurance group BALTA in 2002 was the largest in the area and reached the volume of 11,106,256 lats, which makes up 28% of the non-life insurance claims paid in the prior year. It can be added that the insurance group BALTA in the prior year, compared to the

REPORT OF THE AAS BALTA SUPERVISORY COUNCIL AND THE BOARD

results of 2001, has increased not only the amount of premiums written, but also the volume of claims paid.

Whereas, the life insurance lines of IG BALTA in the last year wrote gross premiums of 1,013,870 lats, and comprised 17.7% of the life insurance market in Latvia. But in life insurance claims, IG BALTA last year paid out 290,160 lats.

Achievement of IG BALTA profit ratios was significantly based on consistent reinsurance policy and the company's investment activities. The investment portfolio of IG BALTA at the end of the year reached 21,153,633 lats. It ensured the profitability of 9.5% on average and the revenues of 1,897,934 lats.

These activities brought consolidated profit of 1,823,401 lats for the IG BALTA, which after deduction of minority interests and payment of taxes is 1,496,010 lats. It is expected that shareholders will receive 976,934.07 lats in dividends, which makes up a 21 cent large dividend per share. The rest of the profit will remain undistributed.

The Company's Board and the Supervisory Council are responsible for the preparation of the annual report based on the primary accounting for the reporting period. It should give a true and fair view of the company's financial position at the closing-date, as well as the operating results and cash flow for the reporting period. We confirm that the present annual report has been prepared in accordance with the effective requirements of Latvian legislation, based on proper accounting methods whose application has been consistent to give a fair view of the insurance group's financial position at the end of the reporting year, as well as the operating results for the year then ended.

On behalf of the management of the insurance group BALTA and its subsidiaries, we would like to express our gratitude to all of our clients, shareholders and staff for the trust manifested towards our business.

Laars Haakan Danielsson
Chairman of the Supervisory
Council

Andris Laizāns
Chairman of the Board,
President

7 March 2003

ACTIVITIES WITHIN THE INTERNATIONAL INSURANCE GROUP

Already for two years, the holder of BALTA's controlling interest is the Danish insurance group Codan, therefore BALTA has become not only a part of the Codan insurance group, but also a part of the British company's Royal&SunAlliance global network. Activities within these wide-range business structures have opened more possibilities for BALTA. Namely, the top management and staff of the insurance group BALTA regularly travels for exchange of experience to various companies of the major shareholder throughout the world. BALTA accepts different specialists from other Codan related insurance companies too.

BALTA's management is included in the so-called Nordic management. This work group, whose nucleus is set up by representatives of several insurance companies, coordinates introduction of a unified strategy and business management in Codan-owned insurance companies in Denmark, Sweden, Norway, Latvia and Lithuania.

Activities within the international insurance group motivated BALTA to take part in enforcing integral business objectives and principles, which has left a positive impact on the operating results of the Company.

Whereas, in cooperation with Royal&SunAlliance professionals, BALTA has performed its own internal licensing for specific, risk-loaded insurance classes and, according to the changes enforced, the Company has adjusted its insurance portfolio quality criteria for the given market conditions.

Involvement in the international network affected not only the insurance business. In September of 2002, BALTA's team took part in the sport games organized by the insurance group Codan in the Bornholm island, and returned home with a silver medal.



NON-LIFE INSURANCE IN LATVIA

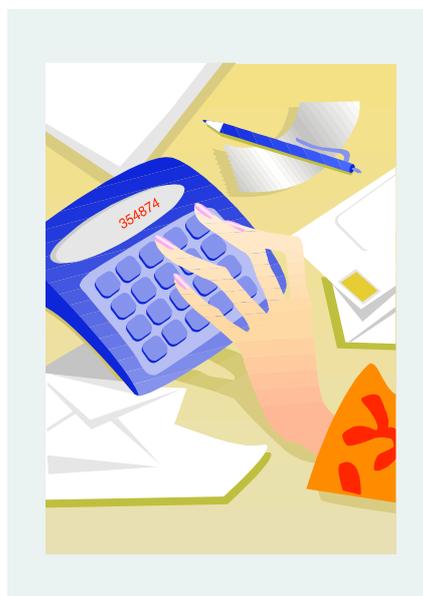
The year 2002 brought several changes in the Latvian non-life insurance market, whose impact should not be under-evaluated. In the prior year, the competition among insurers increased again, and the insurance companies had to apply larger premium discounts for client acquisition, as well as lower insurance rates. Similarly, in the preceding year there were several trends apparent in the Latvian insurance market, which might affect the development of insurance business in the future. They include attempts of the Republic of Latvia Saeima (Parliament) to agree the Latvian legislation acts regulating insurance activities with the international, particularly European Union, requirements and practice, which envisage both an increased protection of policyholders, and the introduction of the so-called "unified licence". Over the year, there were continuous discussions about the new compulsory motor TPL law and the related regulations of the Cabinet of Ministers, as well as possible introduction of compulsory health insurance for all Latvian population, and its outline.

At the beginning of 2002, there were fifteen insurance companies operating in the Latvian non-life insurance market, but at the end of the year all the insurance licences of AAS AK Alianse were cancelled.

During the last year, the non-life insurance market experienced a larger concentration. Namely, at the year-end of 2002 five largest insurance companies, according to gross premiums written, comprised 76% of the non-life insurance market in Latvia (in 2001, the same ratio was 65%).

In non-life insurance, the amount of gross premiums written in 2002 reached 97,588,086 lats. The business volume grew last year by 5%, which leaves a hope that the signs of market stagnation evidenced in 2000 and 2001 have gone. For comparison, in 2001 the growth of non-life insurance market was only 2%.

The growth of insurance premiums has been promoted by several factors. They include activation of real estate market and the number of motor vehicles increasingly growing in the country. It should be noted that the largest share in the growth of gross premium volume was contributed by the motor vehicle insurance: the amount of gross premiums written in this type of insurance last year grew by 3.6 million lats or 21.6%. Also in compulsory motor TPL insurance, the amount of gross premiums written has increased by almost 3%. Additionally, the growth of popularity last year was experienced



NON-LIFE INSURANCE IN LATVIA

by health insurance and, compared to the ratios of 2001, it has brought 1.4 million lats or 13.5% increase in gross premiums written.

If taking a view at the insurance premium portfolio written by non-life insurers, we see that the motor transport insurance related classes dominantly prevail over the others: 26% of the insurance portfolio is taken up by the compulsory motor TPL insurance, followed by motor vehicle insurance of 21%. The next largest volume of premiums written is for property insurance with 17% share of premiums in the total portfolio.

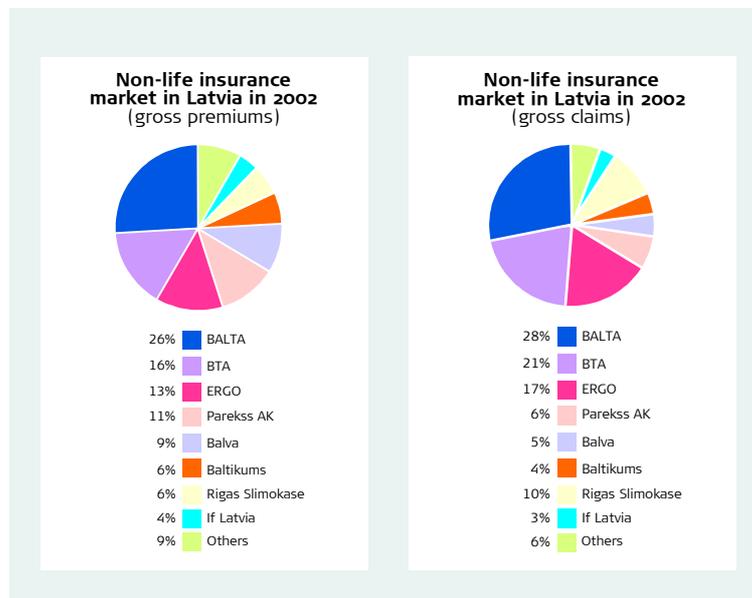
Whereas, if premiums written are analysed according to the status of the policyholder, then it should be noted that the proportion of premiums written by natural persons and legal entities in the total portfolio of non-life insurers, compared to 2001, has remained unchanged. It is still a trend that insurance transactions are more carried on with legal entities, i.e., 66% of gross premiums written of non-life insurance companies are attributable to legal persons.

Also the amount of gross claims paid has increased in 2002. In the preceding year, gross claims paid of non-life insurers amounted to 39.3 million lats, which, compared to the claims paid in 2001, is by 11.9% more than last year. Also in claims paid, the same insurance classes are prevailing as were in premiums written. Namely, 32% of total gross claims paid were paid for losses caused by motor vehicles, but 3% - for health insurance and 21% - for compulsory motor TPL.

The insurance group (IG) BALTA in 2002 wrote premiums for non-life insurance that before compulsory deductions amounted to 25,540,830 lats, according to which the Company comprised 26.2% of the non-life insurance market in Latvia. Compared to the results for 2001, IG BALTA last year reached a 22.1% growth of gross premiums written.

Whereas, in claims IG BALTA paid 11,106,256 lats, which is the largest amount of claims paid in the non-life insurance last year. This amount contributes to 28% of the total claims paid in the non-life insurance in Latvia.

When taking a look at the IG BALTA insurance portfolio, we can conclude that the tendencies of BALTA's portfolio do not differ from the overall market. The largest share in IG BALTA insurance portfolio is taken by motor vehicle insurance: 31.5% of the total portfolio. It is followed by the compulsory motor TPL with 27.6% and property insurance with 20.8% of the portfolio.



LIFE INSURANCE IN LATVIA

The year 2002 was a significant period for life insurers, as the life insurance in the prior year developed on a more rapid basis than the non-life insurance market. In the preceding year, life insurers wrote premiums of 5,714,571 lats. Compared to the year 2001, the amount of gross premiums written has increased by 27.8%.

The growth of the life insurance market to a great extent may have been influenced by the newly introduced norm of the Law On Personal Income Tax. It allows not to withhold income tax from payments of natural persons for life insurance policies with savings, if the premium payment does not exceed 10% of the annual gross income of this person. In addition, also the activities in mass media on the second and third pension tier have given wide support to the growth of popularity for life insurance with savings last year, which is evidenced by the volume of premiums written.

If making a more detailed assessment of the life insurers' premium structure, we can see that, compared to the year 2001, the share of gross premiums attributable to life insurance has slightly decreased in the life insurers' gross premium portfolios, namely, from 75% to 74% of the total gross premiums written.

Clients of life insurance companies in the prior year chose more to buy health insurance policies. The volume of premiums written for this class of insurance in 2002 reached 0.9 million lats and, compared to 2001, has increased by 70%. The share of health insurance in the premium portfolio of life insurers last year grew by 16% (2001: 12%).

If the premiums written are split according to client structure, then the split-up shows that last year the individual life insurance contracts prevailed over the contracts signed by legal entities. Namely, 60% of life insurance contracts with savings out of total gross premiums have been signed with natural persons.

Whereas, the ratio of claims paid by life insurance companies last year increased only by 2.8 % and made up 2,582,270 lats.

At the year-end of 2002, the shareholders' equity of Latvian life insurance companies, compared to the final results of 2001, had grown by 5%. Net technical reserves of life insurance companies at the end of the last year had increased by 21% and reached 11.9 million lats.

Whereas, total investments of life insurance companies at the year-end



LIFE INSURANCE IN LATVIA

amounted to 28.8 million lats, and, compared to the year 2001, were by 14% more. The amount of investments in debt securities with fixed income reached 15.7 million lats and, against 2001, increased by 56%. Investments in term deposits in credit institutions reached 6.5 million lats and were 23% of the total investments of life insurers.

AAS BALTA Dzīvība

The year 2002 was a significant one for AAS BALTA Dzīvība. Namely, the company changed its name from Latva to BALTA Dzīvība, thus more underlining its belonging to the insurance group BALTA. Registration of the company in the Commercial Register of the Companies Register of the Republic of Latvia and commencement of activities under the requirements of commercial law was a major event in the company's history, as well as the change of the authorized address and office location to Antonijas street 9, Riga.

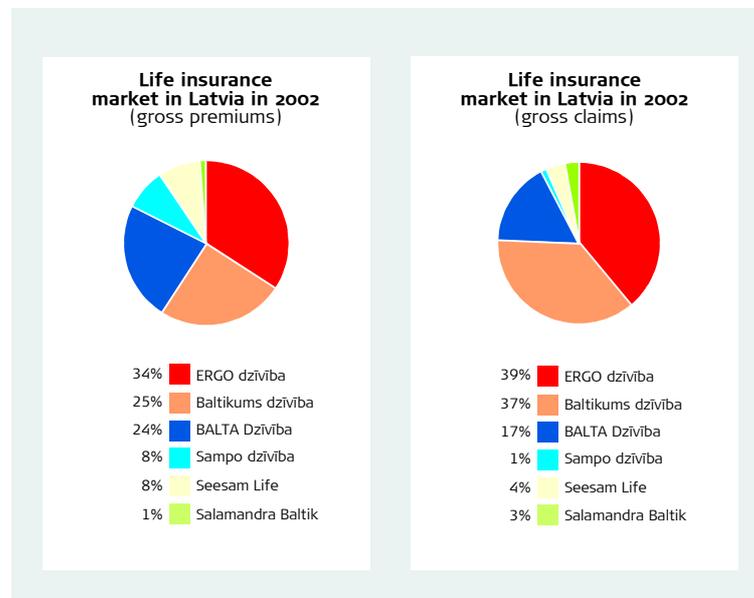
In 2002, AAS BALTA Dzīvība developed a new insurance class-savings insurance with variable payments, which during the year has already become a popular insurance program. Moreover, another new insurance product was introduced: the so-called Insurance Deposit, which is a standard, customary product and suitable for sales throughout the whole Latvia.

Caring for clients' conveniences, AAS BALTA Dzīvība established a possibility to make insurance premium payments by direct debit payments through a bank. In the same way, the company worked on restructuring of claims system by centralizing all claims matters, which would serve as a basis for faster claims settlement and disbursement of indemnity.

In order to provide the clients with more comprehensive information about the policy bought, since the year 2002 the existing clients once a year get informed about the status of their insurance contract and the calculated additional bonus (profit).

All of these activities have permitted BALTA Dzīvība to increase the premium portfolio in 2002 for life insurance by 4.1% and totally write insurance premiums of 1,367,398 lats, thus embracing 24% of life insurance market in Latvia. While, in insurance claims the company paid 433,728 Ls in 2002.

AAS BALTA Dzīvība realized a successful investment policy in 2002, as a result of which the year 2002 was closed with the largest profit over the recent years. AAS BALTA Dzīvība profit for 2002 was 535,148 LVL, which allowed the company to increase its statutory reserves and consider a possibility to distribute a part of the company's profit to dividends.



INVESTMENTS

Successful business of insurance companies very much depend on their investment policy.

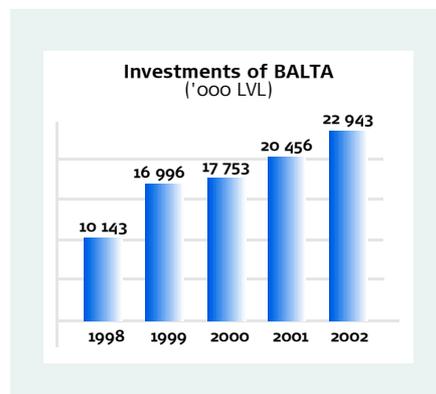
At the end of 2002, the total investments of Latvian non-life insurance companies were 66.9 million lats, which, compared to the year-end of 2001, is by 10.2% or 6.2 million more. Comparing the investment structure of non-life insurers for the years 2001 and 2002, we can conclude that they are not materially different. At the end of the last year, the investment volume of non-life insurers in term deposits of credit institutions has increased, which in the total investment portfolio reached 38%, whereas at the end of 2001 they were 31% of the total investments. The next largest investments were made in debt securities and other securities with fixed income, which at the end of the last year reached 26% of the investment portfolio. Moreover, non-life insurers in 2002 invested money in shares and other securities with non-fixed income (11%), as well as the land and buildings (10%). Investments made by non-life insurers in 2002 have been considerably less essential according to their volume.

In 2002, the insurance group BALTA approved a new investment policy, which provides establishment of a more conservative investment portfolio with stable investment return guarantees. During the last year, the volume of BALTA's consolidated investment portfolio increased by 2,479,000 Ls, at the year-end reaching 22,943,000 Ls. Investment income was 1,941,000 Ls, net expenses for exchange rate fluctuations and investment management was 43,000 Ls. Totally, it ensured a portfolio return for IG BALTA in 2002 of 8.60%.

In the prior year, the amount of government guaranteed (9,736,000 Ls) and other fixed income securities (1,254,000 Ls) decreased in BALTA's investment portfolio by reaching 47.9% of the portfolio volume at the year-end. The average return for this part of the portfolio is 10.3% per annum. This high level of profitability was reached thanks to the changes of interest rates in the market and the growth of prices of the related fixed income securities. In 2002, the amount of deposits has considerably grown in the IG BALTA investment portfolio from 4% at the beginning of the year up to 22% at the end of the year. The total interest income from deposits was 189,000 Ls, which makes up a profitability of 6.11%, which against the average deposit rate in the country of 5.0% can be estimated as a good achievement.

In the last year, investments of IG BALTA in fund certificates have slightly decreased and make up 16.6 % of the volume of portfolio, with the average profitability of 6.65% per annum.

Similarly, in the last year the amount of mortgaged loans issued decreased from 1,652,000 Ls at the beginning of the year to 827,000 Ls at the end of the year by ensuring the average profitability of 9.8% per annum.



IT ACTIVITIES

For the year 2002, AAS BALTA had set several priorities for the information technology area, namely, they were: improvement of the financial system, set-up of a new web-based sales system, enhancement of security of the company's information technologies and ensuring compatibility with Royal & SunAlliance standards.

A significant achievement in 2002 was the launch of the extensive and labor-consuming project Navision. In its essence, it is an implementation of a new accounting system and its integration with the existing core business accounting systems. The implementation of Navision can be estimated as the first step towards development of integrated systems with a purpose to make the business process management more effective and efficient. Realization of this project will allow the Company to optimise its data control. Within the part of the project carried out last year, the Company completed the centralization of financial accounting.

In 2002, the same significance was devoted to the insurance sales supporting project, which was successfully finalized last year. Within the scope of this project, the Company developed a web-based policy sales software I-agent, which is meant for external insurance distributors and convenient operation of external sales channels. This program will permit our cooperation partners, such as banks and broker companies, to issue insurance policies online.

In the prior year, the Company also started working on the project e-documents, which includes development of personnel management and office documentation systems. The personnel management system will provide full processing of personnel information on a centralized basis and its management in an electronic accounting format. Whereas, the introduction of electronic office documentation system will provide an option to avoid a considerable amount of paper flow in hard copies. It will also materially improve the speed of information search and, in view of this, promote the client service too.

One of the main objectives of IG BALTA for 2002 was the improvement of data security. The IT department has much contributed to upgrading security of information systems in order to ensure safeguarding of client data and avert any potential unauthorized access of third parties.

But, for the purposes of improving computer skills for the Company's staff, in 2002 the Company continued organizing staff training for computer literacy and licensing in accordance with ECDL requirements.



PERSONNEL MANAGEMENT

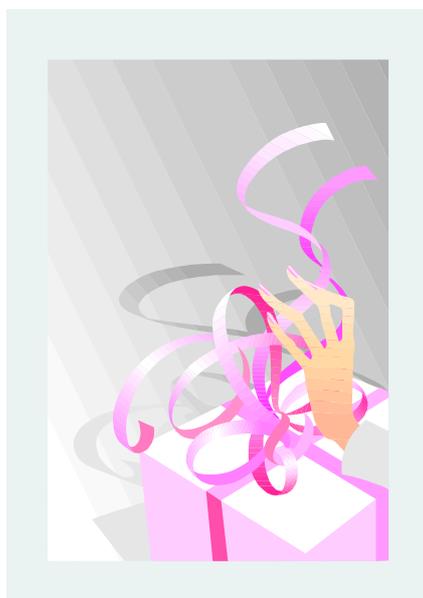
One of the priorities of the personnel management in AAS BALTA for 2002 was the introduction of personnel management model and increase of employee work effectiveness.

In order to carry out a centralized personnel accounting and planning, during the year the Company restructured personnel documentation and circularization systems, and an electronic recording system was introduced, which includes both the basic information about personnel maintenance and the necessary compatibility with other Company's IT software. Realization of this project provides a possibility for staff training and career, as well as analysis of targets and target fulfillment for each employee. This personnel accounting system is also one of the firsts steps in the provisional stage to the electronic personnel document flow in the Company.

When the data accrue over the time, there will be a possibility to make operative and systematic personnel data analysis and satisfaction assessment. The introduction of personnel recording system allows to increase work effectiveness and provides a possibility for managers to regularly follow the ratios of their managed structural unit employees.

In 2002, the Company developed and started to introduce staff assessment and bonus systems, as well as assessed the positions taken in the company and compared the salaries with the Latvian employment market.

Taking into account the fact that optimisation of information flow is defined as one of the main AAS BALTA's priorities, in personnel training the main emphasis is still on computer science and improvement of knowledge and skills. But, for the purposes of improving the information flow in the company and promoting the feedback of employees, the changes will be continued in almost all structural units of the Company.



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Abbreviated accounts of BALTA Dzīvība for 2002
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AAS BALTA CONSOLIDATED ANNUAL ACCOUNTS FOR 2002

Auditor's Report to the shareholders of AAS BALTA

We have audited the consolidated financial statements on pages 16 to 36 of AAS BALTA (the Company) and its subsidiaries (the Group) for 2002. The audited consolidated financial statements include the consolidated balance sheet as at 31 December 2002, related consolidated profit and loss account, consolidated cash flow statement of changes in equity for 2002 and note disclosure. These consolidated financial statements are the responsibility of Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing issued by International Federation of Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company's management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis our opinion.

In our opinion, the consolidated financial statements of the Group give a true and fair view of financial position of the Group as of 31 December 2002, and of the results of its operations and its cash flows for the year then ended in accordance with the Financial and Capital Market Commission Rulings on the Preparation of Annual Accounts and Consolidated Annual Accounts of Insurance Joint Stock Companies and Mutual Co-operative Insurance Societies.

PricewaterhouseCoopers SIA
Audit company licence No.5

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

Member of the Board

11 March 2003

AAS BALTA CONSOLIDATED ANNUAL ACCOUNTS FOR 2002

Internal Audit Report

We have audited the consolidated annual accounts of AAS BALTA Group for 2002.

The consolidated annual accounts are the responsibility of the Company's Council and the Board. Our responsibility is to express an opinion on the consolidated annual accounts based on our audit.

Basis of Opinion

We conducted our audit on the basis of the International Standards on Auditing issued by International Federation of Accountants. Based on materiality and risk we have evaluated the business procedures, the accounting policies used and the significant estimates made and verified the basis for amounts and disclosures in the consolidated annual accounts. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not resulted in any qualification.

Opinion

In our opinion, the consolidated annual accounts give a true and fair view of the financial position at 31 December 2002 of the Group and of the results of the Group's operations and consolidated cash flows for the financial year 2002 in accordance with the Financial and Capital Market Commission Rulings on the Preparation of Annual Accounts and Consolidated Annual Accounts of Insurance Joint Stock Companies and Mutual Co-operative Insurance Societies.

Anders Hybertz Pedersen
Chief Internal Auditor
AAS BALTA

11 March 2003

AAS BALTA CONSOLIDATED ANNUAL ACCOUNTS FOR 2002

Board and Council as at the date of signing these financial statements and during 2002:

Council

First Name, Surname	Position	
Laars Haakan Danielsson	Member of the Council	(Since 11.04.2002)
	Chairman of the Council	(Since 15.05.2002)
Mogens Andersen	Member of the Council	
	Deputy Chairman of the Council	(Since 15.05.2002)
Jan Per Jensen	Member of the Council	(Since 11.04.2002)
Sven Staffan Eberhard Crona	Member of the Council	
Svend Jorgen Heineke	Member of the Council	
Søren Theilgaard	Member of the Council	
Poul Mortensen	Member of the Council	
	Chairman of the Council	(Until 11.04.2002)
Jan Kauffmann	Member of the Council	(Until 11.04.2002)

Board

First Name, Surname	Position	
Andris Laizāns	Chairman of the Board	
Ināra Meija	Deputy Chairman of the Board	
Andris Upmiņš	Member of the Board	
Rolands Gritāns	Member of the Board	
Andris Ņikitins	Member of the Board	
Ilze Cīrule	Member of the Board	
Andris Ruselis	Member of the Board	(Until 11.04.2002)

Auditor and responsible certified auditor

PricewaterhouseCoopers SIA

Audit company licence No. 5
Kr. Valdemāra 19
Rīga LV-1010
Latvia

Responsible certified auditor:

Juris Lapshe
Certified auditor
Certificate Nr. 116

AAS BALTA CONSOLIDATED ANNUAL ACCOUNTS FOR 2002

Consolidated profit and loss account

	Notes	2002 LVL	2001 LVL
Written premiums			
Gross premiums written	1	25,777,919	21,048,674
Outward reinsurance premiums	1	(1,109,551)	(697,722)
Change in the technical provision for unearned premiums			
Gross premiums	4	(2,101,404)	(440,602)
Reinsurers' share	4	344,150	(60,369)
<u>Earned premiums, net of reinsurance</u>		<u>22,911,114</u>	<u>19,849,981</u>
<u>Other technical income</u>	3	<u>104,882</u>	<u>162,004</u>
Claims paid			
Gross amount	2	(11,396,416)	(10,064,603)
Reinsurers' share	2	89,514	189,286
Change in the technical provisions for claims			
Gross amount	5	(1,308,806)	(265,562)
Reinsurers' share	5	655,033	(102,772)
<u>Claims incurred, net of reinsurance</u>		<u>(11,960,675)</u>	<u>(10,243,651)</u>
Technical provision for life insurance			
Gross amount	7	(631,886)	(483,503)
Reinsurers' share	7	(1,151)	1,698
Change in provision for life insurance, net of reinsurance		<u>(633,037)</u>	<u>(481,805)</u>
Client acquisitions costs	8	(5,404,624)	(4,475,961)
Change in deferred client acquisition costs		191,566	60,132
Administrative expenses	9	(5,071,289)	(5,391,183)
Reinsurance commission income		68,289	94,464
<u>Net operating expenses</u>		<u>(10,216,058)</u>	<u>(9,712,548)</u>
<u>Other technical expenses</u>	10	<u>(215,326)</u>	<u>(210,061)</u>
<u>Change in equalisation provision</u>	6	-	<u>31,822</u>
Regular investment income	11a	1,263,112	1,590,098
Value adjustments on investments	11b	304,769	503,684
Profit on disposal of investments	11c	474,917	175,098
<u>Total investment income</u>		<u>2,042,798</u>	<u>2,268,880</u>
Investment management costs	12a	(39,840)	(504,826)
Value adjustments on investments	12b	(104,756)	(144,650)
Loss from disposal of investments		(273)	(50,468)
<u>Total investment charges</u>		<u>(144,869)</u>	<u>(699,944)</u>
<u>Other income</u>	13	<u>141,302</u>	<u>128,880</u>
<u>Other expenses</u>	14	<u>(206,730)</u>	<u>(248,562)</u>
Profit before tax		<u>1,823,401</u>	<u>844,996</u>

AAS BALTA CONSOLIDATED ANNUAL ACCOUNTS FOR 2002

Consolidated profit and loss account

	Notes	2002 LVL	2001 LVL
Profit before tax		1,823,401	844,996
<u>Income tax</u>	15	(267,507)	(68,598)
<u>Other taxes</u>		(37,840)	(45,303)
Profit after tax		1,518,054	731,095
Minority share in profit		(22,044)	(7,543)
Net profit for the period		1,496,010	723,552
Earnings per share (in lats)	16	0.32	0.16

Notes on pages 22 to 36 are an integral part of these financial statements.

Laars Haakan Danielsson
Chairman of the Council

Andris Laizāns
Chairman of the Board, President

Rolands Gritāns
Chief accountant

7 March 2003

AAS BALTA CONSOLIDATED ANNUAL ACCOUNTS FOR 2002

Consolidated balance sheet

ASSETS

	Notes	31.12. 2002 <u>LVL</u>	31.12. 2001 <u>LVL</u>
Other intangible assets	17	102,004	121,175
Total intangible assets		102,004	121,175
Investments			
Investments in an associate	18	196,418	261,995
Variable interest securities	19	53,680	37,253
Fixed income securities	20	10,989,988	11,129,971
Units in an investment fund	21	3,808,623	3,781,339
Mortgage loans	22	826,707	1,652,223
Other loans	22	73,684	69,420
Deposits with banks		5,037,093	811,092
Other investments		-	2,186
Total investments		20,986,193	17,745,479
Direct insurance debtors			
Due from policyholders		3,461,957	2,776,899
Due from intermediaries		132,406	173,319
Reinsurance debtors		89,798	231,620
Other debtors	23	310,658	236,957
Total debtors		3,994,819	3,418,795
Tangible fixed assets	24	2,812,365	3,649,442
Cash and cash equivalent	25	874,051	781,424
Other assets		1,627	911
Total other assets		3,688,043	4,431,777
Accrued interest and rent		275,496	300,833
Deferred client acquisition costs		1,621,777	1,429,630
Other prepayments and deferred expense		98,690	53,470
Total accrued income and deferred expense		1,995,963	1,783,933
Total assets		30,767,022	27,501,159

Notes on pages 22 to 36 are an integral part of these financial statements.

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AAS BALTA CONSOLIDATED ANNUAL ACCOUNTS FOR 2002

Consolidated balance sheet

CAPITAL, RESERVES AND LIABILITIES

	Notes	31.12. 2002 LVL	31.12. 2001 LVL
Share capital	26	4,652,067	4,652,067
Share premium		1,121,332	1,121,332
Mandatory reserves		926,776	854,423
Other reserves		2,135,429	2,135,429
Prior period retained earnings		651,199	-
Current period profit		1,496,010	723,552
<u>Total capital and reserves</u>		<u>10,982,813</u>	<u>9,486,803</u>
Minority interests		142,593	130,408
Provisions for unearned premiums			
Gross amount	4	10,245,611	8,144,207
Reinsurers' share	4	(445,562)	(101,412)
Provisions for life insurance			
Gross amount	7	3,715,596	3,083,710
Reinsurers' share	7	(916)	(2,067)
Provisions for claims			
Gross amount	5	4,684,862	3,376,056
Reinsurers' share	5	(710,209)	(55,176)
Equalisation provisions	6	200,000	200,000
<u>Total technical provisions</u>		<u>17,689,382</u>	<u>14,645,318</u>
Due to policyholders		534,682	277,066
Reinsurance creditors		243,277	294,359
Credit institutions	27	3,575	1,497,631
Taxes and social insurance	28	188,073	229,522
Other creditors	29	432,115	418,061
<u>Total creditors</u>		<u>1,401,722</u>	<u>2,716,639</u>
Deferred reinsurance commissions		35,753	19,003
Deferred tax liability	30	153,730	199,313
Unrealised loss on derivative financial instruments		-	109,728
Other		362,029	193,947
<u>Total accrued expenses and deferred income</u>		<u>550,512</u>	<u>521,991</u>
Total capital, reserves and liabilities		<u>30,767,022</u>	<u>27,501,159</u>

Notes on pages 22 to 36 are an integral part of these financial statements.

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7 March 2003

AAS BALTA CONSOLIDATED ANNUAL ACCOUNTS FOR 2002

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital LVL	Share premium LVL	Mandatory reserves LVL	Other reserves LVL	Retained Earnings LVL	Treasury shares LVL	Total equity LVL
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
Transfer to reserves	-	-	72,353	-	(72,353)	-	-
Profit for the year	-	-	-	-	1,496,010	-	1,496,010
Balance as at 31 December 2002	4,652,067	1,121,332	926,776	2,135,429	2,147,209	-	10,982,813

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

Notes on pages 22 to 36 are an integral part of these financial statements.

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7 March 2003

AAS BALTA CONSOLIDATED ANNUAL ACCOUNTS FOR 2002

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	2002 LVL	2001 LVL
Cash flow from insurance activities			
Gross premiums received		25,479,635	20,308,745
Gross claims paid		(10,972,063)	(9,426,235)
Premiums received from co-insurance		592,280	796,330
Payments made concerning co-insurance contracts		(265,917)	(426,402)
Payments made to reinsurers		(1,214,047)	(829,806)
Payments received from reinsurers		191,039	671,892
Premiums for assumed reinsurance		68,749	37,201
Payments made for assumed reinsurance		(27,863)	(56,116)
Client acquisition costs		(4,527,182)	(3,627,707)
Administrative expenses		(3,701,532)	(3,649,284)
Taxation and deductions paid		(2,251,854)	(2,309,412)
Payments made to the Traffic Bureau		(229,728)	(229,980)
Other net payments (made)/received		276,075	(104,084)
Net cash flow from insurance activities		3,417,592	1,155,142
Cash flow from investing activities			
Income on investments and proceeds from disposals		4,335,376	2,282,151
Investments made and investment management expenses		(7,672,753)	(3,270,303)
Net cash flow from investing activities		(3,337,377)	(988,152)
Dividends paid		(6,326)	(604,841)
Net cash flow from financing activities		(6,326)	(604,841)
Increase of currency exchange rate		18,738	27,952
Net increase/(decrease) in cash		92,627	(409,899)
Cash and cash equivalents at the beginning of the period		781,424	1,191,323
Cash and cash equivalents at the end of the period	25	874,051	781,424

Notes on pages 22 to 36 are an integral part of these financial statements.

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Chief accountant

7 March 2003

AAS BALTA CONSOLIDATED ANNUAL ACCOUNTS FOR 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 1998 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 insurance 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 2002 reflect the position as at the close of business on that date.

(1) Basis of preparation

These financial statements are prepared based on rulings of the Financial and Capital Market Commission "Regulations on the Preparation of Annual Accounts and Consolidated Annual Accounts of Insurance Joint Stock Companies and Mutual Co-operative Insurance Societies".

The measurement basis used is historical cost method, modified by the revaluation of certain types of investments in accordance with accounting policies set out below. All amounts presented in these financial statements are denominated in 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 insurance premiums comprise the premium attributable to insurance year commencing during the period, irrespective of whether the premium has become due or not. Written premiums are decreased by the amount of premiums cancelled or suspended during the year.

(4) Claims incurred

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

(5) Interest income and expenses

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

(6) Goodwill

Goodwill represents the difference of the cost of an acquisition over 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.

AAS BALTA CONSOLIDATED ANNUAL ACCOUNTS FOR 2002

Notes to the consolidated financial statements

Negative goodwill is recognised as income on a systematic basis over the period when respective losses and expenses are expected to incur.

(7) Investments

Investments in securities are initially recognized at cost (which includes transaction costs).

Securities listed on stock exchanges as well as units in investment funds are subsequently re-measured at fair value based on bid prices quoted on listed securities or over-the-counter market prices. All gains and losses from revaluation and trading in these securities are reported in the profit and loss account.

Other securities are stated at cost. Impairment review for these securities is performed by the end of each reporting period. If the estimated realisable value of the securities is less than the carrying amount, its carrying amount is decreased to its recoverable value by establishing provisions. Provision charges are included in the profit and loss account. Decrease in provisions due to an event occurring after the write-down is included in the profit and loss account as income.

Interest earned whilst holding trading securities is reported as interest income. Dividends received are included in dividend income.

All purchases and sales of trading securities that require delivery within the time frame established by market convention ('regular way' purchases and sales) are recognized at trade date, which is the date that the Group commits to purchase or sell the asset. Otherwise such transactions are treated as derivatives until settlement occurs.

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.

(8) Loans and provision for loan impairment

Loans originated by the Group by providing money directly to the borrower are categorised as loans and are carried at amortised cost, which is defined as the fair value of cash

consideration given to originate those loans. All loans and advances are recognised when cash is advanced to borrowers.

An allowance for loan impairment is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms of loans. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans. If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is included in the profit and loss account.

(9) 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.

(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:

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

The unearned premiums technical provision represents the proportion of premiums written which relates to the period of risk subsequent to the accounting year.

The technical provision for claims is an amount provided at the end of the year in respect of estimated losses incurred but not yet settled. The provision for claims includes direct loss adjustment expenses, which will incur on settlement of claims incurred in the reporting and prior years. Estimated

AAS BALTA CONSOLIDATED ANNUAL ACCOUNTS FOR 2002

Notes to the consolidated financial statements

future proceeds from salvage and subrogation related to claims incurred in the reporting and prior years have been deducted from the claims provision.

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

The equalisation technical provision 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 year 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 Company were as follows:

	31.12.2002	31.12.2001
1 USD =	LVL 0.594	LVL 0.638
1 EUR =	LVL 0.610	LVL 0.560856

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 to the period when the asset is realized or the liability is settled, based on tax rates, which have been enacted or substantially enacted by the balance sheet date. 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 of tangible fixed assets, revaluation of certain investments in securities and accruals for expenses.

(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.

(17) Distribution of indirect income and expenses by types of insurance

Administrative and client acquisition costs, which are not directly attributable to a specific type of insurance, are allocated between type of insurance proportionally to the gross premiums written and number of insurance contracts entered into during the year. One half of the administrative expenses are allocated proportionally to the gross premiums written and the other half proportionally to the number of insurance contracts in each of the types of insurance during the year.

AAS BALTA CONSOLIDATED ANNUAL ACCOUNTS FOR 2002

Notes to the consolidated financial statements

1. PREMIUMS

	2002		2001	
	Gross amount	Reinsurers' share	Gross amount	Reinsurers' share
Personal accident	942,029	(41,542)	888,723	(4,410)
Health	2,191,233	-	1,473,567	-
Motor own damage	8,043,809	(180,161)	5,607,462	(129,866)
Marine	27,373	(3,776)	33,325	(9,919)
Cargo	264,320	(40,073)	261,492	(29,345)
Property fire	5,337,469	(284,879)	4,829,230	(224,471)
Voluntary motor Third Party Liability (TPL)	76,299	(3,828)	55,561	(4,720)
Loan insurance	22,307	(21,245)	-	-
General TPL	602,060	(290,444)	342,287	(169,618)
Guarantees	164,383	(127,575)	140,910	(84,457)
Financial risks	26,171	-	17,913	-
Travel accident	202,640	(52,084)	151,073	(1,490)
Obligatory motor TPL	6,863,956	(61,794)	6,272,365	(35,204)
Life insurance	1,013,870	(2,150)	974,766	(4,222)
	25,777,919	(1,109,551)	21,048,674	(697,722)

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

The Parent Company has signed an agreement with the Latvian insurance companies ERGO Latvia 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 - 4% (7% till May 2002)
- Guarantees Foundation - 9% (12% till May 2002) for Green Cards
- State Traffic Security Foundation - 0.6 %

AAS BALTA CONSOLIDATED ANNUAL ACCOUNTS FOR 2002

Notes to the consolidated financial statements

2. CLAIMS PAID

	2002		2001	
	Gross amount	Reinsurers' share	Gross amount	Reinsurers' share
Accident	(318,295)	400	(413,127)	4,977
Health	(1,888,267)	-	(952,505)	-
Motor own damage	(4,110,408)	18,166	(3,910,938)	134,661
Marine	(23,871)	-	(5,762)	-
Cargo	(22,637)	3,691	(80,398)	12,364
Property fire	(1,743,763)	38,620	(1,466,321)	35,488
Voluntary motor TPL	(687)	-	(742)	-
General TPL	(46,405)	-	(33,573)	362
Guarantees	(165,437)	28,637	(12,175)	1,434
Financial risks	-	-	(875)	-
Travel accident	(58,264)	-	(55,208)	-
Obligatory motor TPL	(2,728,222)	-	(2,649,435)	-
Life insurance	(290,160)	-	(483,544)	-
	<u>(11,396,416)</u>	<u>89,514</u>	<u>(10,064,603)</u>	<u>189,286</u>

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

3. OTHER TECHNICAL INCOME

	2002	2001
Income from pool administration *	40,661	139,079
Income from distribution of policies of other companies	56,311	-
Other income	7,910	22,925
	<u>104,882</u>	<u>162,004</u>

* For details on pool see Note 1

4. PROVISIONS FOR UNEARNED PREMIUMS

	Gross amount	Reinsurers' Share	Net amount
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	<u>8,144,207</u>	<u>(101,412)</u>	<u>8,042,795</u>
Change in the year	2,101,404	(344,150)	1,757,254
Balance as at 31 December 2002	<u>10,245,611</u>	<u>(445,562)</u>	<u>9,800,049</u>

AAS BALTA CONSOLIDATED ANNUAL ACCOUNTS FOR 2002

Notes to the consolidated financial statements

5. PROVISIONS FOR CLAIMS

	Gross amount	Reinsurer' s Share	Net amount
Balance as at 31 December 2000	3,110,494	(157,948)	2,952,546
Change in the year	265,562	102,772	368,334
Balance as at 31 December 2001	<u>3,376,056</u>	<u>(55,176)</u>	<u>3,320,880</u>
Change in the year	1,308,806	(655,033)	653,773
Balance as at 31 December 2002	<u>4,684,862</u>	<u>(710,209)</u>	<u>3,974,653</u>

6. EQUALISATION PROVISIONS

Balance as at 31 December 2000	231,822
Change in the year	(31,822)
Balance as at 31 December 2001	<u>200,000</u>
Change in the year	-
Balance as at 31 December 2002	<u>200,000</u>

7. PROVISIONS FOR LIFE INSURANCES

	Gross amount	Reinsurer' s Share	Net amount
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	<u>3,083,710</u>	<u>(2,067)</u>	<u>3,081,643</u>
Change in the year	631,886	1,151	633,037
Balance as at 31 December 2002	<u>3,715,596</u>	<u>(916)</u>	<u>3,714,680</u>

8. CLIENT ACQUISITION COSTS

a) Client acquisition costsi

	2002	2001
Commissions to intermediaries	3,564,019	2,665,170
Commissions and other agent related expenses	1,431,231	1,430,128
Social insurance for agents	406,271	362,605
Commissions paid on reinsurance assumed	3,103	18,058
	<u>5,404,624</u>	<u>4,475,961</u>

AAS BALTA CONSOLIDATED ANNUAL ACCOUNTS FOR 2002

Notes to the consolidated financial statements

b) Client acquisition costs by type of insurance

	2002	2001
Motor own damage	1,036,150	782,192
Property fire	1,246,418	1,131,352
Obligatory motor TPL	2,596,840	2,020,517
Other non-life insurance	450,710	421,576
Total non-life insurance	5,330,118	4,355,637
Life insurance	74,506	120,324
	5,404,624	4,475,961

9. ADMINISTRATIVE EXPENSES

	2002	2001
Salaries	2,284,891	2,477,706
Social insurance	524,165	552,383
Repairs and maintenance	157,629	428,189
Depreciation and amortisation	509,639	461,281
Maintenance of information and telecommunication systems	317,479	305,196
Office expenses	143,908	114,709
Advertising and PR	245,576	253,998
Transport	202,703	255,547
Professional services	144,963	232,997
Other expenses	540,336	309,177
	5,071,289	5,391,183

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 2002 was 521 (2001: 516) and 1,089 (2001: 1,211) agents.

10. OTHER TECHNICAL EXPENSES

	2002	2001
Increase in provision for doubtful debtors	8,418	3,970
Payments to Finance and Capital Market Commission and to the Insured Persons Protection Fund (non-life insurance)	193,352	145,791
Payments to Finance and Capital Market Commission and to the Insured Persons Protection Fund (life insurance)	5,061	10,309
Other technical expenses	8,495	49,991
	215,326	210,061

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 TPL and in amount of 0.7% from gross premiums collected in other types of insurance. Payments to the Insured Persons Protection Fund amount to 1% of premiums collected from individuals in voluntary types of insurance.

AAS BALTA CONSOLIDATED ANNUAL ACCOUNTS FOR 2002

Notes to the consolidated financial statements

11. INVESTMENT INCOME

a) Regular investment income

	2002	2001
Interest on investments in debt securities	765,158	1,214,398
Interest on deposits with banks	188,533	161,142
Interest on mortgage loans	122,530	112,083
Income from units in investment funds	139,709	53,020
Income from real estate management	24,828	-
Other income	22,354	49,455
	1,263,112	1,590,098

b) Value adjustments on investments

	2002	2001
Debt securities	252,921	361,523
Value adjustment to units in investment funds	28,834	80,100
Gains on foreign currency revaluation in investments	7,995	43,845
Other	15,019	18,216
	304,769	503,684

c) Profit on disposal of investments

	2002	2001
Debt securities	50,630	145,402
Units of investment funds	17,692	29,696
Disposal of buildings	342,973	-
Other	63,622	-
	474,917	175,098

12. INVESTMENT EXPENSE

a) Investment management costs

	2002	2001
Brokerage and intermediary commissions	19,902	18,323
Interest	6,206	424,421
Consulting services	-	60,000
Other	13,732	2,082
	39,840	504,826

b) Value adjustments on investments

	2002	2001
Investment in associates	65,577	-
Loss on foreign currency revaluation in investments	24,241	-
Debt securities	14,938	71,546
Other value adjustments	-	73,104
	104,756	144,650

AAS BALTA CONSOLIDATED ANNUAL ACCOUNTS FOR 2002

Notes to the consolidated financial statements

13. OTHER INCOME

	2002	2001
Gains on disposal of fixed assets	-	41,752
Rental income from premises	32,573	135
Compensation for overpaid social insurance	29,044	7,267
Revaluation gains on foreign exchange	16,863	22,811
Commissions received	13,616	5,203
Decrease in provision for bad debts	8,200	7,399
Other income	41,006	44,313
	141,302	128,880

14. OTHER EXPENSES

	2002	2001
Increase in provisions and write-offs of doubtful debts	94,037	62,258
Loss on disposal of fixed assets	45,433	58,476
Amortisation of goodwill	-	77,725
Other expenses	67,260	50,103
	206,730	248,562

15. INCOME TAX

	2002	2001
Corporate income tax payments related to previous years	-	12,451
Current tax	314,090	35,017
Deferred tax (See also Note 30)	(46,583)	21,130
	267,507	68,598

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

	2002	2001
Profit before tax	1,823,401	844,996
Expected income tax expense at 22% rate (year 2001 - 25% rate)	401,148	211,249
<u>Tax effect of:</u>		
Corporate income tax payments related to previous years	-	12,451
Expenses not deductible for tax purposes	190,342	81,829
Non-taxable income	(223,151)	(70,084)
Tax relief for donations	(24,801)	(8,754)
Effect of different tax rates on expected reversals	(76,031)	(26,527)
Deferred tax asset, unrecognised in previous periods	-	(131,566)
	267,507	68,598

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Notes to the consolidated financial statements

16. EARNINGS PER SHARE

	2002	2001
Current period profit (a)	1,496,010	723,552
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	0.32	0.16

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.

17. OTHER INTANGIBLE ASSETS

	Software
Cost	
At 31 December 2001	256,592
Additions	28,161
At 31 December 2002	<u>284,753</u>
Depreciation	
At 31 December 2001	(135,417)
Charge for the year	(47,332)
At 31 December 2002	<u>(182,749)</u>
Net Book Value at 31 December 2001	<u>121,175</u>
Net Book Value at 31 December 2002	<u>102,004</u>

18. INVESTMENTS IN ASSOCIATES

	31.12.2002		31.12.2001	
	Carrying value of investment	% in share capital	Carrying value of investment	% in share capital
SIA Ripo-2 (Latvia)	<u>196,418</u>	35%	<u>261,995</u>	35%
	<u>196,418</u>		<u>261,995</u>	

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

AAS BALTA CONSOLIDATED ANNUAL ACCOUNTS FOR 2002

Notes to the consolidated financial statements

19. VARIABLE INTEREST AN SECURITIE

Company	31.12.2002		31.12.2001	
	Carrying value of investment	% in share capital	Carrying value of investment	% in share capital
LVA Investīciju Sabiedrība (Latvia)	42,399	13%	20,485	13%
Other Latvian companies	1,000	-	1,000	-
Non-profit AS Public Pension Fund Social Security (Latvia)	1,000	1%	1,000	1%
Listed shares	9,281	-	14,768	-
	<u>53,680</u>		<u>37,253</u>	

All investments are made for investment purposes.

20. FIXED INCOME SECURITIES

	31.12.2002	31.12.2001
Latvian government debt securities	9,906,648	10,357,288
Lithuanian government debt securities	-	170,499
Lithuanian corporate debt securities	262,172	-
Debt securities issued by Latvian banks	721,168	125,900
Other corporate debt securities	100,000	239,680
Kazakhstanian eurobonds	-	84,931
Mortgage backed debt securities	-	151,673
	<u>10,989,988</u>	<u>11,129,971</u>

All investments have been made for trading purposes.

21. UNITS IN AN INVESTMENT FUND

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 where the Group owns 13% of its shares as at 31 December 2002. Majority of investments of this fund are made in Latvian government and corporate debt securities and deposits held within banks registered in Latvia.

22. LOANS

	31.12.2002	31.12.2001
Mortgage loans	826,707	1,652,223
Loans to employees	73,684	58,516
Other loans	-	16,569
Provision on loans	-	(5,665)
	<u>900,391</u>	<u>1,721,643</u>

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Notes to the consolidated financial statements

23. OTHER DEBTORS

	<u>31.12.2002</u>	<u>31.12.2001</u>
Security deposits with Courts	14,520	10,776
Advance payments for corporate income tax	54,427	99,966
Over payment for personal income tax	2,114	-
Over payment for social insurance	14,138	-
Settlements for sold buildings	95,638	-
Other debtors	129,821	126,215
	<u>310,658</u>	<u>236,957</u>

24. FIXED ASSETS

	Land and buildings and leasehold improvements	Transport vehicles	Computer equipment	Furniture and fittings	Total
Cost					
At 31 December 2001	3,103,092	490,809	932,548	422,772	4,949,221
Additions	42,536	16,120	319,405	92,373	470,434
Disposals	(949,957)	(58,737)	(185,170)	(107,238)	(1,301,102)
Reclassification	-	-	(21,030)	21,030	-
At 31 December 2002	<u>2,195,671</u>	<u>448,192</u>	<u>1,045,753</u>	<u>428,937</u>	<u>4,118,553</u>
Depreciation					
At 31 December 2001	(376,163)	(279,429)	(420,307)	(223,880)	(1,299,779)
Charge for the year	(60,826)	(78,640)	(235,710)	(87,131)	(462,307)
Disposals	179,677	38,625	168,535	69,061	455,898
Reclassification	-	-	(9,103)	9,103	-
At 31 December 2002	<u>(257,312)</u>	<u>(319,444)</u>	<u>(496,585)</u>	<u>(232,847)</u>	<u>(1,306,188)</u>
Net Book Value at 31 December 2001	<u>2,726,929</u>	<u>211,380</u>	<u>512,241</u>	<u>198,892</u>	<u>3,649,442</u>
Net Book Value at 31 December 2002	<u>1,938,359</u>	<u>128,748</u>	<u>549,168</u>	<u>196,090</u>	<u>2,812,365</u>

25. CASH IN HAND AND AT BANK

	<u>31.12.2002</u>	<u>31.12.2001</u>
Cash in hand	12,980	51,948
Deposits at call with banks	861,071	729,476
	<u>874,051</u>	<u>781,424</u>

AAS BALTA CONSOLIDATED ANNUAL ACCOUNTS FOR 2002

Notes to the consolidated financial statements

26. SHARE CAPITAL

a) registered share capital

	31.12.2002		31.12.2001	
	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
	<u>5,000,000</u>	<u>5,000,000</u>	<u>5,000,000</u>	<u>5,000,000</u>

b) issued and fully paid share capital

	31.12.2002		31.12.2001	
	Number	LVL	Number	LVL
Shares of the Board	800	800	800	800
Shares with nominal value LVL 1	4,651,267	4,651,267	4,651,267	4,651,267
	<u>4,652,067</u>	<u>4,652,067</u>	<u>4,652,067</u>	<u>4,652,067</u>

c) major shareholders

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

	31.12.2002		31.12.2001	
	Number of shares	Shareholding	Number of shares	Shareholding
Codan	2,415,421	51.94%	3,508,819	75.42%
Development Capital Corporation & Vista Capital ERAB	1,116,496	24.00%	-	-
	<u>1,116,496</u>	<u>24.00%</u>	<u>1,116,496</u>	<u>24.00%</u>
	<u>4,648,413</u>	<u>99.94%</u>	<u>4,625,315</u>	<u>99.42%</u>

27. LIABILITIES TO CREDIT INSTITUTIONS

	31.12.2002	31.12.2001
Loans under repo agreement	-	1,493,987
Liabilities for credit cards	3,575	2,809
Accrued interest on short-term loan	-	835
	<u>3,575</u>	<u>1,497,631</u>

28. TAXES AND SOCIAL INSURANCE

	31.12.2002	31.12.2001
Social insurance	107,587	109,375
Personal income tax	68,475	73,798
Property taxes	-	2,942
VAT	3,186	(5,967)
Corporate income tax	8,826	49,374
	<u>188,073</u>	<u>229,522</u>

AAS BALTA CONSOLIDATED ANNUAL ACCOUNTS FOR 2002

Notes to the consolidated financial statements

29. OTHER CREDITORS

	2002	2001
Personnel	186,933	174,939
Liability for payments on Obligatory motor TPL insurance	66,485	73,904
Government and public institutions and organisations	51,079	13,068
Liability to Finance and Capital Market Commission	49,542	42,565
Other creditors	78,076	113,585
	432,115	418,061

30. DEFERRED TAX LIABILITIES

	31.12. 2002	31.12.2001
	LVL	LVL
Deferred tax liabilities at the beginning of the year	199,313	178,183
(Decrease)/increase of deferred tax liabilities during reporting period (see Note 15)	(46,583)	21,130
Deferred tax liabilities at the year end	152,730	199,313

Deferred tax is calculated from the following temporary differences:

	2002	2001
Temporary difference on depreciation of fixed assets	183,730	309,702
Carry forward tax losses	-	(104,115)
Temporary difference on accruals for expenses	(42,862)	(38,721)
Temporary difference on revaluation of securities	36,788	50,300
Carry forwards losses on sale of securities	(5,375)	(10,080)
Temporary difference on provisions on bad debts	(19,551)	(7,773)
Net deferred tax liability	152,730	199,313

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

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

The 22% tax rate set for year 2002 has been used with respect to all temporary differences in calculating deferred tax liability as at 31 December 2001.

AAS BALTA CONSOLIDATED ANNUAL ACCOUNTS FOR 2002

Notes to the consolidated financial statements

31. RELATED PARTY TRANSACTIONS

The Parent Company is a subsidiary of the insurance company Codan (Denmark) which owns 52% of Parent Company shares. Codan owns 51.5% of shares in Lietuvas Draudimas.

The Parent Company has common members of management with the investment company Bastions ZS. Salons Efekts SIA is a Company which was 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.

The Group owns 35% of shares in Ripo-2 SIA, where it has significant influence.

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

Outstanding balances with related parties

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

	2002	2001
Mortgage loans issued to the Board Members of the Group companies	-	299,763
Investment in shares of LVA Ieguldījumu Sabiedrība	42,399	20,485
Liabilities due to Codan	-	10,434
	<u>42,399</u>	<u>330,682</u>

32. SUBSIDIARY UNDERTAKINGS

<u>Name</u>	<u>Business</u>	<u>Share</u>	<u>Country of incorporation</u>
		2002	2001
AAS BALTA Dzīvība	Life insurance	95,90%	95,79%
AS Rīgas apdrošināšanas sabiedrība	Non-life insurance	100%	100%

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

33. 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.

Litigation

As at 31 December 2002 there were 12 open legal claims against the Group companies amounting to LVL 138 thousands. The management is of opinion that no material unprovided liabilities will arise from these claims (2001: total amount of claims- LVL 126).

Credit related commitments

As at 31 December 2002 the Group does not have off balance sheet credit related commitments.

Capital commitments

As at 31 December 2002 the Group does not have capital commitments.

Subordinated deposit investment

The Parent Company has made subordinated deposit investment in A/S Hansabanka in amount of USD 450,000 and EUR 255 646 (equivalent in total to LVL 423,244 translating the amount at the exchange rate set by the Bank of Latvia on the balance sheet date) with maturity in March 2003. The collectability of this deposit before maturity date is restricted.

ABBREVIATED ACCOUNTS OF BALTA Dzīvība

Balance

ASSETS

	<u>2002</u> LVL	<u>2001</u> LVL
Investments	6,988,952	7,057,476
Cash on hand and at the bank	67,190	39,887
Insurance debtors	427,348	495,706
Other debtors	291,179	42,504
Fixed assets	24,887	25,783
Accrued income and deferred expenses	141,216	170,957
Total assets	<u>7,940,772</u>	<u>7,832,313</u>

CAPITAL, RESERVES AND LIABILITIES

	<u>2002</u> LVL	<u>2001</u> LVL
Capital and reserves		
Share capital	2,800,000	2,800,000
Reserves	121,256	94,728
Current year profit	535,148	166,528
Total capital and reserves	<u>3,456,404</u>	<u>3,061,256</u>
Technical provisions	4,215,968	3,589,712
Creditors	237,184	1,130,648
Accrued expenses and prepayments received	31,216	50,697
Total capital, reserves and liabilities	<u>7,940,772</u>	<u>7,832,313</u>

Jānis Medens
Chairman of the Board

Arnolds Čulkstēns
Chief accountant

1 April 2003

ABBREVIATED ACCOUNTS OF BALTA Dzīvība

Profit and loss account

	<u>2002</u> <u>LVL</u>	<u>2001</u> <u>LVL</u>
Earned premiums of life insurance		
Written premiums	1,013,870	974,765
Reinsurers' share	-2,150	-4,222
Net earned premiums of life insurance	<u>1,011,720</u>	<u>970,543</u>
Net investment result	937,500	579,990
Claims incurred, net	-304,656	-490,234
Changes in life technical provisions	-633,037	-481,805
Net operating expenses	-331,671	-345,890
Other technical expenses, net	-11,059	-10,309
Allocated investment result transfer to non-technical account	-467,062	-277,213
Result of tehncial account of life insurance	<u>201,735</u>	<u>-54,918</u>
Earned premiums of non-life insurance		
Written premiums	353,528	418,897
Reinsurers' share	-168	-922
Change in the provision for unearned premiums	41,507	-187,772
Net earned premiums of non-life insurance	<u>394,867</u>	<u>230,203</u>
Allocated investment result transferred from non-technical account	22,359	18,299
Claims incurred, net	-163,798	-90,260
Net operating expenses	-197,110	-151,143
Other technical expenses, net	-3,856	-4,418
Result of tehncial account of non-life insurance	<u>52,462</u>	<u>2,681</u>
Allocated investment result transferred from technical account of life insurance	467,062	277,213
Allocated investment result transferred to technical account of non-life insurance	-22,359	-18,299
Other income/ expense	-20,058	323
Profit before tax	<u>678,842</u>	<u>207,000</u>
Taxes	-143,694	-40,472
Profit for the year	<u>535,148</u>	<u>166,528</u>

Jānis Medens
Chairman of the Board

Arnolds Čulkstēns
Chief accountant

1 April 2003