



ANNUAL REPORT

2003

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REPORT OF THE AAS BALTA SUPERVISORY COUNCIL AND THE BOARD

Admittedly year 2003 is significant with the considerable growth of trust of individuals to Latvian insurance industry, more and more insurance contracts were signed and ever more funds were invested in insurance of various risks. Gradually the trust to life insurers was restored. This is increasingly important because life insurance agreements are signed for a longer period of time. The Latvian insurance market has been growing at a considerably higher rate during 2003 as compared to 2002. Total gross premiums written reached LVL 122.6 million in 2003, which is a growth by almost 21.6% as compared to 7% growth in 2002. The gross amount of claims paid grew gradually, reaching LVL 43.6 million and demonstrating a growth of 7.3% as compared to 2002.

Considering the types of insurance markets, it must be noted that the life insurance market has been developing faster than the non-life insurance in 2003 and increased the volumes by 10.6% compared to the non-life insurance market in Latvia. Gross premiums written in life insurance during the year comprised LVL 7,577 thousand, which is an increase by 21% if compared to the prior year. The gross volume of claims paid by life insurance companies during the year has increased by 67% and comprised LVL 4,304 thousand.

Non-life insurance market development can also be considered as successful in 2003. Total gross premiums written in non-life insurance comprised LVL 115,034 thousand, which is an increase by 32% compared to 2002. Growth in non-life insurance market is related to a large extent to the successful work done by the insurers and also to development of the real estate market and mortgage secured loans.

The gross volume of claims paid has grown slightly during the year and reached LVL 39,333 thousand, which is an increase by 3%, compared to 2002.

The year 2003 was remarkable for the history of AAS BALTA with the number of changes in the Company's management. AAS BALTA changed the chairmen of both the Council and the Board. Some members of the Board have been replaced. The same changes have occurred also in the subsidiary of AAS BALTA, AAS BALTA Dzīvība new chairman of the Board and members of the Council and the Board have been elected.

Great effort has been put in order to make services provided by AAS BALTA more attractive, convenient and market-oriented for the customers. In order to encourage sales of insurance services, AAS BALTA started a number of long-term projects, including development and implementation of TIA application, which is a business IT system for insurance companies to make insurance process in AAS BALTA easier and more coordinated.

In 2003 the Company has finished the first phase of the project in BPR claims, which provided significant improvements in insurance claims payment system organization. Electronic queuing systems have been set up in the offices for application for insurance claims. That has allowed to improve coordinated client service. Our customers have acknowledged the usefulness of this system.

In 2003 there have been many efforts to make Company's branch offices pleasant and easy accessible for clients. Therefore the Company's branches in Alūksne, Jūrmala and Preiļi started working in new premises during the year.

Significant work has been done to improve the quality of insurance services. In 2003 new insurance regulations, methods and tariffs were introduced using accrued knowledge and experience and in order to be compliant with the changes in the law On Insurance Contract.

During the reporting year BALTA has made several decisions regarding subsidiaries. In 2003 BALTA has offered to repurchase the shares from minority shareholders of AAS BALTA Dzīvība. As a result of that AAS BALTA acquired additional 59.817 AAS BALTA Dzīvība shares. The minority shareholders of AAS BALTA Dzīvība still own 1.94% of AAS BALTA Dzīvība shares. The reorganization process of AAS Rīgas Apdrošināšanas Sabiedrība was started in accordance with the decision of the extraordinary shareholders'

REPORT OF THE AAS BALTA SUPERVISORY COUNCIL AND THE BOARD

meeting. The reorganization of AAS Rīgas Apdrošināšanas Sabiedrība was registered on 11 February 2004 in the Register of Enterprises of the Republic of Latvia. As a result of the reorganization process, AAS BALTA took over all rights and obligations of A/S Rīgas Apdrošināšanas Sabiedrība.

As a result of all the above-mentioned activities this year has been positive for AAS BALTA and it reached good financial results and strengthened its market position in non-life insurance. In 2003 AAS BALTA and its subsidiaries have strengthened their market leadership position, covering 22.8% of Latvian non-life insurance market and has written gross premiums of LVL 26,174,250 and covering 18.2% of life insurance market and has written gross premiums of LVL 1,355,236. The volume of net earned insurance premiums in non-life insurance reached LVL 24,199,196 and in life insurance LVL 1,350,529.

Last year gross claims paid by AAS BALTA and its subsidiaries was LVL 11,870,828 which is 30.1% of gross claims paid of the non-life insurance market. But in life insurance, the total amount of claims paid was LVL 664,109. The level of claims paid reached 46.3% in non-life insurance and 67% - in life insurance. In 2003 the consolidated combined ratio was at the level of 95.53%, which is better than the Company planned at the beginning of the reporting year.

Both conservative reinsurance and investment policies were of importance in achieving the 2003 operational result. The size of investment portfolio reached LVL 23,406,411 as at the end of the year. It ensured yield of 4.8% and net investment revenue of LVL 1,016,192.

In view of the above, we are pleased to inform that AAS BALTA has gained consolidated profit of LVL 1,733,768, which after taxes and minority interests is LVL 1,297,815.

On behalf of the management of AAS BALTA and its subsidiaries we would like to thank all our clients, shareholders and employees for the trust they have placed in us.

Jesper Rasmussen
Chairman of the Council

Jānis Abāšins
Chairman of the Board

3 March 2004

STATEMENT OF THE RESPONSIBILITY OF THE MANAGEMENT

The Council and the Board of the AAS BALTA confirm that the consolidated annual accounts for the year ended 31 December 2003 are prepared in accordance with the statutory requirements of the Republic of Latvia, based on relevant accounting methods that have been applied in a consistent manner, and give a true and fair view of the financial position of the Group, as well as the results of its operations and cash flows as at the end of the reporting year.

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

Jesper Rasmussen
Chairman of the Council

Jānis Abāšins
Chairman of the Board

3 March 2004

NON-LIFE INSURANCE IN LATVIA

In the Latvian non-life insurance market the year 2003 was marked with its further development and stronger competition. During the year, material changes were made in several legislation acts. Thus, for example, in order to ensure integration of Latvia's undertaken international commitments into the national legislation, amendments were made in the law On Insurance Companies and their Supervision. They provide a new order in granting of insurance licenses and implement the so-called unified licensing principle. Whereas, in order to protect the interests of policyholders, hereinafter the law will strictly regulate the activities of insurance broker companies.

In the prior year, the Latvian Insurers Association (LIA) developed and submitted to the Financial and Capital Market Commission (FCMC) proposals on the duties and financing scheme of the newly established insurance ombudsman. In order to legitimize the ombudsman, LIA has also asked FCMC to ensure changes in the insurance sphere regulating normative acts.

During the year 2003, minor changes have occurred in the composition of insurance market. Thus, for example, all the insurance operation licenses issued to the insurance company Zurich Latvia Limited were revoked, but the Company's liabilities were taken over by AAS If Latvia. Last year operations were started by several insurance broker companies.

Last year Latvian non-life insurance market rapidly faced stronger and stronger competition. Smaller market players enforced aggressive market acquisition methods, which has also been reflected in the growth of their business volume. Namely, several small market players, compared to the ratios for 2002, have managed to achieve growth of gross insurance premiums even by 60% and 84%. Whereas, the insurance companies being in the leading market positions have been more reserved in activating their business volume. Under the influence of these activities, during the year the consolidation ratios of non-life insurance market have slightly decreased, namely, the market share of five largest insurance companies according to gross premiums written fell down to 73%. In 2002, this ratio was at the level of 76%.

In 2003, non-life insurance companies wrote gross insurance premiums of LVL 116.7 million and, compared to the year 2002, reached a business volume of 19.3%.

The growth of premiums written has been promoted by several factors. Last year the real estate management market continued to develop, the number of loans and leasing transactions increased, which promoted the growth of property and transport insurance. The Latvian society becomes more and more informed of insurance issues, and its understanding about the essence of insurance services increases. Also employees become more aware and are willing to receive higher social guarantees from the employer. On other hand employers more and more appreciate the potential of health insurance for raising of employee motivation. Overall it made the use of health insurance services more popular. Also the businessmen, when planning their business development, perceive insurance as additional stability guarantee and choose the most applicable business insurance services.

If we take a look at the premiums written portfolio of non-life insurance companies, then it comes to conclude that, compared to 2002, last year major changes have not been evident. In the total premium portfolio, transport related insurance classes are still prevalent. The largest share of 23% therein is taken by the compulsory motor third party liability insurance (compulsory motor TPL). It should be added that in 2002 the share of compulsory motor TPL was larger and reached 26% of the total insurance portfolio.

The second largest part of insurance portfolio of 22% is comprised by motor own damage insurance, which last year wrote premiums of LVL 25,953 million.

Moreover, the gross premiums written of LVL 19,357 millions in property insurance have brought 17% share of the total insurance portfolio. It should be added that also in 2002 property insurance had third largest part of

NON-LIFE INSURANCE IN LATVIA

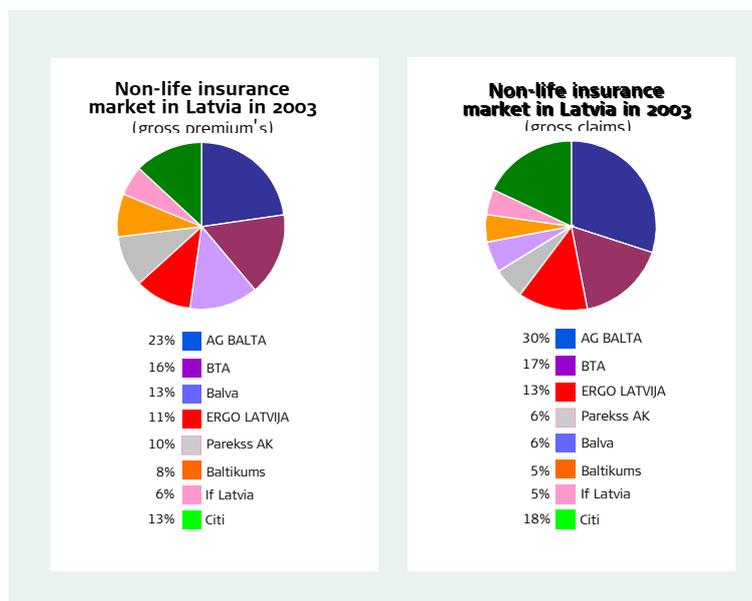
with legal persons, i.e., 65% of gross premium's written in non-life insurance have been underwritten with legal persons.

In 2003, the amount of gross claims paid by non-life insurance, compared to 2002, has increased by 1%, reaching LVL 39.6 million. In the same way as with premiums written, also in claims paid transport insurance types are dominating. Namely, 33% of total gross claims paid were due to voluntary transport insurance. Whereas, 26% was paid for compulsory motor TPL. Upon growth of popularity of health insurance and decrease of state-paid health services, the third largest share in gross claims paid is for health insurance, i.e. 24%.

In 2003, the amount of consolidated premiums written by BALTA's non-life insurance share after compulsory deductions LVL 26,174,249 and comprised 22.8% of the non-life insurance market in Latvia. It should be added that BALTA last year reached a business growth by 4.95%.

Moreover, the amount of consolidated claims in 2003 by BALTA's non-life insurance share reached LVL 11,870,828, which makes up 30.1% of the claims paid in the non-life insurance market.

If having a closer look at BALTA's insurance portfolio, we can conclude that there are tendencies observed which are similar to the whole market. Namely, the largest share in BALTA's portfolio was transport insurance, i.e., 35.62%. The second largest part in BALTA's insurance portfolio is compulsory motor TPL taking 26.09%, which is followed by property insurance with 22.48% share of insurance portfolio.



LIFE INSURANCE IN LATVIA

In the same way as in 2002, also in 2003 the life insurance market in Latvia has developed more rapidly and more dynamically than the non-life insurance area. In 2003, the volume of premiums written by life insurance companies reached LVL 7,517,800. The total amount of premiums written in the area has increased by 32%. The main factors that impacted such development speed are the improvement of economic situation in the country and its stable development, as well as legislation favorable to life and pension insurance. The growth of life insurance market was mainly promoted by the marketing activities of the companies, which in 2003 focused on making pension endowments just in insurance companies.

However, it should be admitted that, compared to the closest neighboring countries and the European Union, Latvia's life insurance market share against the total market is fairly small. In Latvia, this percentage is 6.2%, in Estonia 18%, in Lithuania 26.3%, but the average level of EU countries reaches even 60% of the total life insurance market. It indicates that the Latvian life insurance market is still free for development and there is a potential for growth.

The number of claims paid by life insurers has also much increased, which in 2003 reached LVL 4,288,414. Growth of claims is connected with the fact that a large amount of endowment life insurance policies had their expiry dates and insured persons received the funds and additional profit accrued during 5 years.

Total investments of life insurance companies have grown in 2003 and at the year-end they were LVL 30.6 million. It is by 6% more than at the year-end of 2002.

It should be added that in Latvia there were six life insurance companies operating in the market.

Moreover, upon assessment of operating and financial results of BALTA Dzīvība in 2003, it should be admitted that the prior year was very successful for the company and the objectives and tasks set forth by shareholders have been met.

In 2003, the Company's shareholders made a strategic decision that BALTA Dzīvība hereinafter would provide only life and pension insurance services, fully with drawing from personal accident insurance, which in 2002 made up about 30% of the Company's total volume of premium's written. In



LIFE INSURANCE IN LATVIA

order to reach at least the same sales volume in 2003 as in 2002, BALTA Dzīvība had to considerably increase life and pension insurance sales volumes. It was realized and the new business was increased by even more than three times. Premiums written by BALTA Dzīvība in 2003 reached LVL 1,377,286 placing the company in the third position amongst life insurers in Latvia.

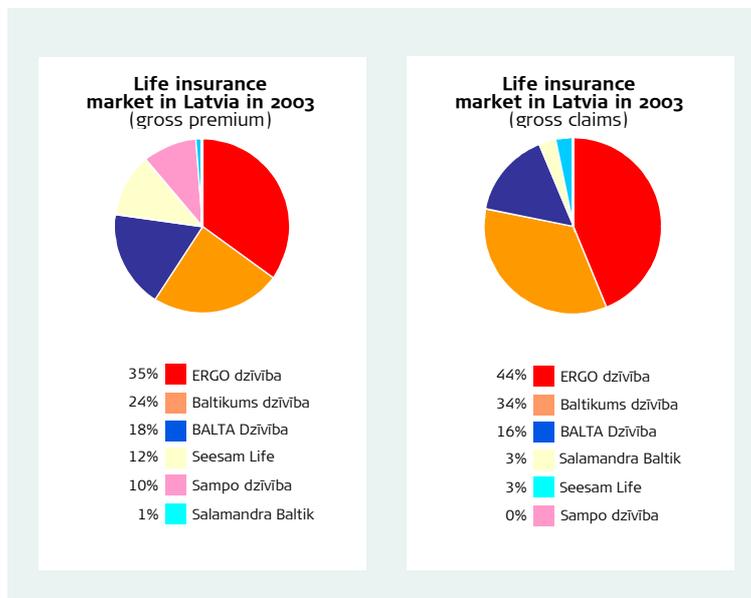
In order to achieve the rapid growth of new business, BALTA Dzīvība last year fully reorganized its sales structure and prepared professional life and pension insurance sellers both in Riga and in the Latvian regions. In 2003 BALTA Dzīvība successfully realized several marketing campaigns, which were mainly focused on such services as pension insurance and accruals for education of children (endowment insurance).

In order to realize the Company's strategic plans for ensuring qualitative, convenient and operative client servicing, at the end of last year BALTA Dzīvība opened a new client servicing centre. In 2003 BALTA Dzīvība, thinking about the customer conveniences, created a possibility to pay insurance premiums also through direct debit settlements in banks.

At the year-end BALTA Dzīvība concluded an agreement with one of the leading world reinsurance companies Munich Re on life and personal accident risks reinsurance, which still more strengthened the Company's undertaken risk structure and financial results.

In 2003, BALTA Dzīvība realized a stable and safe investment policy by ensuring good additional profit for the customers, irrespective of general investment income decreasing tendencies in Latvia and the world.

BALTA Dzīvība closed the year 2003 with a loss of LVL 130,189. This result was preplanned and corresponds to the Company's shareholders' prescribed long-term strategic plan. Losses are connected with the growth of insurance contracts, which causes cost concentration just during the first years of insurance contracts.



INVESTMENTS

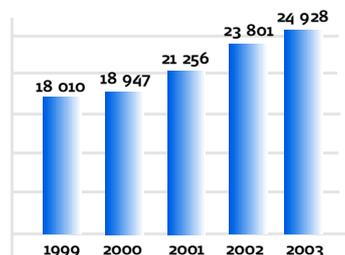
For ensuring successful business of insurance companies, they should pay major attention to their followed investment policy.

At the end of 2003, total investments of Latvian non-life insurance companies reached LVL 66.5 million, which compared to the end of 2002, is by 11.7% or 7.0 million lats more. Comparing the investment structure of non-life insurance companies at the end of 2002 and 2003, we can conclude that they do not essentially differ. At the end of 2003 investment volume of non-life insurers shows that investments in debt securities and other securities with fixed income in the total investment portfolio reached 21.5%, whereas at the end of 2002 they made up 18.3% of total investments. Last year the largest investments proportionally were made in term deposits in credit institutions, which as at 31 September 2003 made up 21.7% of the total investment portfolio of non-life insurers. Similarly, non-life insurers in the year 2003 invested funds in related companies (15%), as well as land properties and buildings (7.8%). Other investments made by non-life insurers at closing of 2003 were less significant.

During the year 2003, AAS BALTA continued to follow its investment policy, which is based on the principles of establishing a conservative portfolio with stable investment return. Last year the volume of BALTA's consolidated investment portfolio increased by LVL 481,859 and at the year-end reached LVL 21,501,069. Net income from investments in 2003 were LVL 1,083,599, but investment management expenses reached LVL 67,407. Totally it brought an investment yield of 4.8% for AAS BALTA in 2003.

Last year AAS BALTA's investment portfolio slightly decreased by Latvian state treasury bonds, their total amount was LVL 8,764,832. Whereas, the amount of other fixed income debt securities increased up to LVL 2,239,787. Thus at the end of 2003, the total investments of AAS BALTA in fixed income debt securities made up 47% of the investment portfolio. The average yield for this part of portfolio was 5% per annum. Such a comparatively low level of income has established due to changes in the interest rates in the market and the related changes in securities prices. During 2003 the deposits have grown by 15.6% of AAS BALTA investment portfolio, which at the year-end reached LVL 5,821,383. Total interest income from deposits last year was LVL 318,782 which makes up a yield of 6% and against the average deposit rate in the country can be assessed as a good success.

Investments of BALTA
('000 LVL)



IT ACTIVITIES

In 2003, AAS BALTA IT priorities were focused on internal environment framework and its improvements. It refers both to the technical infrastructure, as well as software and support processes. Such an operating direction was largely driven by the necessity to prepare for starting of the TIA project, as well as the circumstance that BALTA as part of the international insurance group Royal&SunAlliance (R&SA), had to take part in implementation of R&SA global safety program.

In order to ensure the Company's competitiveness in a long term on the Latvian insurance market, the Council of AAS BALTA in May of last year decided to invest resources in development and implementation of new business processes by selecting the information system TIA as the technical basis. In November 2003, the first stage of this project was started, i.e., the feasibility study.

Yet the global safety program of R&SA started already in 2002 stipulates that until 2005 all the companies involved in R&SA group shall ensure compliance with the international information safety standard ISO-17799. Within the program, in 2003 a range of new internal procedures were implemented in AAS BALTA, as well as several software network protection components were improved, i.e., firewalls, anti-breaking system, anti-virus and critical software innovations management.

The most essential improvements in the technical infrastructure of the central office are construction of a new server premises and introduction of NAS (Network-Attached Storage). Whereas, in regional centres of AAS BALTA, as well as several branch offices hardware and local computer networks were modernized and standardized. In order to relieve the management of technical resources, the Company started implementation of stock accounting and configuration management program Asset Navigator. But in the business support software, the major deliveries are Navision Attain, Personnel Management System, Office Record System and policy recording system Polvadis 2.

The introduction of the accounting system Navision Attain allowed to optimize the financial data control in the Company and finish centralization of financial accounting. In order to use the potential of Navision at maximum, the work was continued on improvement of integration with other business support systems.



IT ACTIVITIES

The Office record system allowed for AAS BALTA to transfer to drafting internal orders, their signing and publishing in electronic format, as a result of which it was possible to refuse from the many hard copies, which reduces the information search period and improves clearness of information. The same refers to review of incoming invoices, their agreement and sending for payment. In perspective it is planned to continue acquiring the options of the system in order to reduce the volume of paper document flow in the Company.

Following successful implementation of the web policy issuance program i-Agent in several Latvian leading banks Hansabanka, Unibanka and Hipotēku banka, it was decided to work out also the classical on-line policy issuance program for the customers on the basis of the existing program Polvadis in order to ensure for the cooperation partners their opportunities to select proper technologies at equal functionality. The first users of Polvadis 2 were staff of the petrol filling stations Statoil, but at the year-end several insurance broker companies were added.

For improvement of IT support processes, in November 2003, the IT BPR project was started. Based on the experience of R&SA Nordic IT, it is planned to implement corrections in the existing processes in order to ensure more effective cooperation between the IT department and other structural units of the Company. During the first project stages, the opinion of the Company's staff on the existing IT support processes was surveyed. It allowed to identify the places where changes are necessary and start reviewing these processes.



PERSONNEL MANAGEMENT

Personnel management was nominated to be one of AAS BALTA operating priorities for the year 2003. In order to enforce it, several major objectives were set forth in work on personnel management, including minimizing of staff circularization down to 14% and improve the personnel selection and assessment system. During the year, the centralized personnel accounting system was properly improved. According to AAS BALTA needs, additionally a personnel assessment module was adapted and implemented. Currently 100% of AAS BALTA regional managers and about 50% of the central office managers may work in the personnel accounting system and follow the performance ratios of their staff. Whereas, in 2004 it is planned to ensure access to the personnel accounting system also for the rest of structural units managers.

In 2003, the Company accrued such data as staff circularization, number of days being ill, movement of staff within the Company, training efficiency. These data are used by the Personnel Department to indirectly analyze personnel satisfaction in BALTA.

For the purposes of more effective planning and assessment, last year the Balanced Scorecards (BSC) were introduced for departmental managers, which critically relieve agreement between the individual aims of structural units and the respective staff with the Company's objectives. BSC also allows highlighting employee skills and knowledge, which are necessary to be improved and are significant for reaching the set objectives.

Last year also the annual appraisal of positions in the Company and comparison of their remuneration with the Latvian labor market was done. The research made us conclude that AAS BALTA is fundamentally competitive in the market related to financial services. Last year the staff of the Personnel Department in cooperation with specialists from other structural units prepared the insurance agents assessment methodology, within which they developed agent attitude and financial criteria. Whereas, the compiled insurance services tests helped to assess staff knowledge on the Company's offered insurance services. But at the closing of the year a part of insurance agents had a possibility to undergo professional assessment according to the described method and change their professional powers.

In 2003, BALTA's Training Centre organized training for various levels of employees, as well as sent them to training events outside BALTA. Having attended 14,739 training lessons, during the year training lectures and seminars were attended by 524 AAS BALTA employees. The training was undergone by 51% of BALTA's Central Office staff and 34% of regional staff. Last year it was still a priority in the training contents to organize personnel training in information technology area. As the next critical basic orientations for employee training were sales skills improvement and improvement of knowledge on insurance products.



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Abbreviated accounts of BALTA Dzīvība for 2003
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AAS BALTA CONSOLIDATED ANNUAL ACCOUNTS FOR 2003

Auditor's Report to the shareholders of AAS BALTA

We have audited the consolidated financial statements on pages 15 to 38 of AAS BALTA and its subsidiaries ("the Group") for 2003. The audited consolidated financial statements include the consolidated balance sheet as of 31 December 2003, related consolidated profit and loss account, statement of changes in equity and consolidated cash flow statement for 2003 and note disclosure. These consolidated financial statements are the responsibility of AAS BALTA management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the AAS BALTA as of 31 December 2003, 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

3 March 2004

AAS BALTA CONSOLIDATED ANNUAL ACCOUNTS FOR 2003

Board and Council as at the date of signing these financial statements and during 2003:

Council

First Name, Surname	Position	
Jesper Rasmussen	Member of the Council	(Since 22.09.2003)
	Chairman of the Council	(Since 11.11.2003)
Mogens Kaj Andersen	Deputy Chairman of the Council	
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	
Lars Haakan Danielsson	Chairman of the Council	(Until 11.11.2003)

Board

First Name, Surname	Position	
Jānis Abāšins	Chairman of the Board	(Since 01.12.2003)
Andris Ņikitins	Member of the Board	
Ilze Cīrule	Member of the Board	
Uldis Dzintars	Member of the Board	(Since 29.08.2003)
Uģis Vorons	Member of the Board	(Since 29.08.2003)
Hans Peter Hansen	Chairman of the Board	(Since 11.08.2003 until 01.12.2003)
Andris Laizāns	Chairman of the Board	(Until 15.07.2003)
Ināra Meija	Deputy of Chairman of the Board	(Until 07.08.2003)
Rolands Gritāns	Member of the Board	(Until 15.07.2003)
Andris Upmiņš	Member of the Board	(Until 29.08.2003)

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 2003

Consolidated profit and loss account

	Notes	2003 LVL	2002 LVL
Earned premiums			
Written premiums			
Gross premiums	1	28,156,007	26,554,700
OMTPL mandatory deductions	1	(626,521)	(776,781)
Outward reinsurance premiums	1	(1,125,246)	(1,109,551)
Change in the provision for unearned premiums and unexpired risk			
Gross amount	4	(615,055)	(2,101,404)
Reinsurers' share	4	(239,460)	344,150
Earned premiums, net of reinsurance		25,549,725	22,911,114
<u>Other technical income, net</u>	3	207,288	104,882
Claims paid			
Gross amount			
Claims paid		(12,621,245)	(10,844,455)
Claims settlement expenses		(704,964)	(805,277)
Surrenders		(72,644)	(97,638)
Recovered loss amount		863,916	350,954
Gross amount in total	2	(12,534,937)	(11,396,416)
Reinsurers' share	2	105,234	89,514
Change in the provisions for claims			
Gross amount	5	(417,103)	(1,308,806)
Reinsurers' share	5	50,559	655,033
Claims incurred, net of reinsurance		(12,796,247)	(11,960,675)
Change in provision for life insurance			
Gross amount	7	(361,111)	(631,886)
Reinsurers' share	7	769	(1,151)
Change in provision for life insurance, net		(360,342)	(633,037)
Net operating expenses			
Client acquisitions costs	8	(5,661,823)	(5,404,624)
Change in deferred client acquisition costs		191,154	191,566
Administrative expenses	9	(6,351,404)	(5,071,289)
Reinsurance commission income		65,065	68,289
Net operating expenses in total		(11,757,008)	(10,216,058)
<u>Other technical expenses, net</u>	10	(328,995)	(215,326)
<u>Change in equalisation provision</u>	6	180,000	-
Subtotal		694,421	(9,100)

Notes on pages 15 to 38 are an integral part of these financial statements.

AAS BALTA CONSOLIDATED ANNUAL ACCOUNTS FOR 2003

Consolidated profit and loss account

	Notes	2003 LVL	2002 LVL
Continued from previous page			
Subtotal		694,421	(9,100)
Investment income			
Income from investments in land and buildings		36,865	24,828
Other income from financial investments	11a	1,317,382	1,238,284
Profit on value adjustments on investments	11b	117,282	304,769
Profit on disposal of investments		206,350	474,917
<u>Total investment income</u>		<u>1,677,879</u>	<u>2,042,798</u>
Investment charges			
Investment management costs, including interest paid	12a	(67,407)	(39,840)
Loss from investments in affiliated and associated companies in accordance with equity method		(9,857)	-
Loss on value adjustments on investments	12b	(577,800)	(104,756)
Loss from disposal of investments		(6,623)	(273)
<u>Total investment charges</u>		<u>(661,687)</u>	<u>(144,869)</u>
<u>Other income</u>	13	<u>112,201</u>	<u>141,302</u>
<u>Other expenses</u>	14	<u>(89,046)</u>	<u>(206,730)</u>
Profit before tax		1,733,768	1,823,401
<u>Income tax</u>	15	<u>(409,912)</u>	<u>(267,507)</u>
<u>Other taxes</u>		<u>(28,573)</u>	<u>(37,840)</u>
Minority share in profit/ (loss)		2,532	(22,044)
Net profit		1,297,815	1,496,010
Earnings per share (in lats)	16	0.28	0.32

Notes on pages 15 to 38 are an integral part of these financial statements.

Jesper Rasmussen
Chairman of the Council

Jānis Abāšins
Chairman of the Board

Uldis Dzintars
Finance Director

3 March 2004

AAS BALTA CONSOLIDATED ANNUAL ACCOUNTS FOR 2003

Consolidated balance sheet

ASSETS

	Notes	31.12.2003 LVL	31.12.2002 LVL
Intangible assets	17	661,341	102,004
<u>Total intangible assets</u>		<u>661,341</u>	<u>102,004</u>
Investments			
Land and buildings	25	1,905,343	1,938,359
Investments in an associate	18	107,000	196,418
Variable interest securities	19	4,344,929	3,862,303
Fixed income securities	20	11,004,619	10,989,988
Mortgage loans	21	170,128	826,707
Other loans	22	53,009	73,684
Deposits with banks		5,821,383	5,037,093
<u>Total investments</u>		<u>23,406,411</u>	<u>22,924,552</u>
Debtors			
Debtors from direct insurance operations			
Due from policyholders		4,173,248	3,461,957
Due from intermediaries		6,189	132,406
Reinsurance debtors	23	100,222	89,798
Other debtors	24	274,053	310,658
<u>Total debtors</u>		<u>4,553,712</u>	<u>3,994,819</u>
Other assets			
Tangible fixed assets	26	878,479	874,006
Cash and cash equivalent	27	1,519,513	874,051
Other assets		1,429	1,627
<u>Total other assets</u>		<u>2,399,421</u>	<u>1,749,684</u>
Accrued income and deferred expense			
Accrued interest and rent		365,415	275,496
Deferred client acquisition costs		1,812,931	1,621,777
Other prepayments and deferred expense		143,614	98,690
<u>Total accrued income and deferred expense</u>		<u>2,321,960</u>	<u>1,995,963</u>
Total assets		<u>33,342,845</u>	<u>30,767,022</u>

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3 March 2004

AAS BALTA CONSOLIDATED ANNUAL ACCOUNTS FOR 2003

Consolidated balance sheet

LIABILITIES

	Notes	31.12.2003 <u>LVL</u>	31.12.2002 <u>LVL</u>
Capital and reserves			
Share capital	28	4,652,067	4,652,067
Share premium		1,121,332	1,121,332
Reserve capital and other reserves		3,062,205	3,062,205
Prior period retained earnings		1,170,275	651,199
Current year profit		1,297,815	1,496,010
<u>Total capital and reserves</u>		<u>11,303,694</u>	<u>10,982,813</u>
Minority interests		55,435	142,593
Technical reserves			
Provisions for unearned premiums and unexpired risks			
Gross amount	4	10,860,666	10,245,611
Reinsurers' share	4	(206,102)	(445,562)
Provisions for life insurance			
Gross amount	7	4,076,707	3,715,596
Reinsurers' share	7	(1,685)	(916)
Provisions for claims			
Gross amount	5	5,101,965	4,684,862
Reinsurers' share	5	(760,768)	(710,209)
Equalisation provisions	6	20,000	200,000
<u>Total technical provisions</u>		<u>19,090,783</u>	<u>17,689,382</u>
Provisions			
Provisions for taxes	29	128,483	152,730
<u>Total provisions:</u>		<u>128,483</u>	<u>152,730</u>
Creditors			
Liabilities from direct insurance operations			
Due to policy holders		789,508	457,034
Due to intermediaries		29,986	77,648
Reinsurance creditors	34	390,557	243,277
Liabilities to credit institutions	30	803	3,575
Taxes and social insurance	31	486,462	188,073
Other creditors	32	566,453	432,115
<u>Total creditors</u>		<u>2,263,769</u>	<u>1,401,722</u>
<u>Accrued expenses and deferred income</u>		<u>500,681</u>	<u>397,782</u>
Total liabilities		<u>33,342,845</u>	<u>30,767,022</u>

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3 March 2004

AAS BALTA CONSOLIDATED ANNUAL ACCOUNTS FOR 2003

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 2001	4,652,067	1,121,332	2,989,852		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	3,062,205		2,147,209		10,982,813
Dividends for 2001	-	-	-	-	(976,934)		(976,934)
Profit for the year	-	-	-	-	1,297,815		1,297,815
Balance as at 31 December 2003	4,652,067	1,121,332	3,062,205		2,468,090		11,303,694

“Reserve capital and other reserves” include “Mandatory reserves” in amount of Ls 926,776 (2002: Ls 926,776), which cannot be distributed as dividends. Changes in mandatory and other reserves can only be made with shareholders’ approval.

Notes on pages 15 to 38 are an integral part of these financial statements.

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3 March 2004

AAS BALTA CONSOLIDATED ANNUAL ACCOUNTS FOR 2003

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	2003 LVL
Cash flow from operating activities		
Premiums received from direct insurance		26,873,760
Claims paid		(12,095,995)
Premiums received from co-insurance		489,740
Payments made for co-insurance		(317,433)
Payments received for ceded reinsurance		49,464
Payments made for ceded reinsurance		(877,932)
Premiums for assumed reinsurance		22,001
Payments for assumed reinsurance		(21,901)
Income tax paid		(314,506)
Mandatory payments	33	(900,182)
Other expense		(12,013,163)
Other income		568,451
Total cash flow from operating activities		1,462,305
Cash flow from investing activities		
Acquisition of investments		
Land and buildings		(5,528)
Associated and affiliated companies		(75,013)
Variable interest securities		(506,137)
Fixed income securities		(4,595,654)
Units in investment funds		(323,257)
Deposits with banks		(784,290)
Other investments		(390,683)
Acquisition of investments total:		(6,680,562)
Disposal of investments		
Land and buildings		41,000
Variable interest securities		95,469
Fixed income securities		4,324,232
Units in investment funds		156,356
Mortgage loans		619,717
Other loans		17,940
Disposal of investments total:		5,254,714
Income from investing activities		
Land and building		23,227
Variable interest securities		2,872
Fixed income securities		1,119,716
Units in investment funds		134,589
Mortgage loans		53,171
Other loans		8,248
Deposits with banks		318,782
Other investments		(25,860)
Income from investing activities total:		1,634,745
Other income		
		936
Other expense		
		(36,797)
Total cash flow from investing activities		173,036
Cash flow from financing activities		
Dividends paid		(996,505)
Other income		1,345
Total cash flow from financing activities		(995,160)
Net increase in cash and cash equivalents		640,180
Foreign exchange recalculation gain		5,282
Cash and cash equivalents at the start of the year		874,051
Cash and cash equivalents at the end of the year	27	1,519,513

AAS BALTA CONSOLIDATED ANNUAL ACCOUNTS FOR 2003

CONSOLIDATED STATEMENT OF CASH FLOWS

	<u>Notes</u>	<u>2002 LVL</u>
Cash flow from operating activities		
Gross premiums received		25,479,635
Gross claims paid		(10,972,063)
Premiums received from co-insurance		592,280
Payments made concerning co-insurance contracts		(265,917)
Payments made to reinsurers		(1,214,047)
Payments received from reinsurers		191,039
Premiums for assumed reinsurance		68,749
Payments made for assumed reinsurance		(27,863)
Commissions to intermediaries		(4,527,182)
Administrative expenses		(3,701,532)
Taxation and deductions paid		(2,251,854)
Payments made to the Traffic Bureau		(229,728)
Other income		276,075
<u>Net cash flow from operating activities</u>		<u>3,417,592</u>
Cash flow from investing activities		
Income from investments and sale of investments		4,335,376
Cost of purchase of investments and management costs		(7,672,753)
<u>Net cash flow from investing activities</u>		<u>(3,337,377)</u>
Cash flow from financing activities		
Dividends paid		(6,326)
<u>Net cash flow from financing activities</u>		<u>(6,326)</u>
Net foreign exchange gain		18,738
Net changes in cash and cash equivalents		<u>92,627</u>
Cash and cash equivalents at the start of the year		781,424
Cash and cash equivalent at the end of the year	27	<u>874,051</u>

In year 2003 the Council of the Financial and Capital Market Commission issued new regulations. As a result of those, classification of cash flow statement was changed significantly; hence comparative data for year 2002 are presented separately as classification for the year is significantly different from classification for year 2003.

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Uldis Dzintars
Finance Director

3 March 2004

AAS BALTA CONSOLIDATED ANNUAL ACCOUNTS FOR 2003

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 (AAS BALTA)**
Legal address: **Raunas street 10/12, Riga, LV-1039, Latvia**
Phone, fax numbers: **371 7082333, 371 7082345**
Tax registration No **LV40003049409**

Subsidiaries involved in the consolidation process:

Full name **Insurance Joint Stock Company BALTA Dzīvība (AAS BALTA Dzīvība)**
Legal address: **Raunas street 10/12, Riga, LV-1039, Latvia**
% of share capital owned: **98.06%**

Full name **Insurance Joint Stock Company Rīgas Apdrošināšanas Sabiedrība**
Legal address: **Raunas street 10/12, Riga, LV-1039, Latvia**
% of share capital owned **100%**

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 in accordance with Financial and Capital Market Commission's regulation "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, 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 year, irrespective of whether the premium has become due or not. Written life insurance premiums comprise the premium attributable to insurance year commencing during the reporting year, irrespective of whether the premium has become due or not. All written premiums are decreased by the amount of premiums cancelled or suspended during the year.

(4) Claims incurred

Claims incurred comprise claims attributable to the year and loss adjustment 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

AAS BALTA CONSOLIDATED ANNUAL ACCOUNTS FOR 2003

Notes to the consolidated financial statements

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 financial 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 used to discount the future cash flows for the purpose of measuring the recoverable amount.

(6) Loans and provision for loan impairment

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

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

(7) Debtors

Once amounts due from policyholders and intermediaries are overdue the policy is cancelled and respective amounts are reversed against premium written. 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. The amount of provisions is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers. Doubtful receivables are provided for when management identify the recovery of the specifically identified receivables as doubtful. Bad debts are written off when identified. The bad and doubtful debt provision also covers losses where there is objective evidence that probable losses are present in debtors at the balance sheet date. These have been estimated based upon historical patterns of losses.

(8) Investments

a) investments in securities

The management of the Group has classified investments in the following categories: trading investments, investments held to maturity and investments available-for-sale.

Trading investments are investments, which were acquired for generating a profit from short-term fluctuations in price. Investments in debt securities and other securities with fixed income and fixed maturity date, which management has the intent and the Group is able to hold to maturity are classified as held-to-maturity. In the reporting year the Group did not have any investments in this category. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available-for-sale. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

All purchases and sales of investments are recognised of the trade date, which is the date that the Group commits to purchase or sell the respective investment. All investments are initially recognised at cost of purchase that includes transaction costs.

Trading and available for sale investments are subsequently carried at fair value, based on quoted market prices or net asset value of the company in which investments are made in cases where no market prices are available. Trading or available-for-sale investments in units in investment funds that are not listed are subsequently re-measured at fair value based on net assets value of investment fund.

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

b) investments in associated companies

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

AAS BALTA CONSOLIDATED ANNUAL ACCOUNTS FOR 2002

Notes to the consolidated financial statements

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 unamortized goodwill on acquisition.

(9) 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
Software	25% 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 life while other repairs and renewals are charged directly to the profit and loss account when the expenditure is incurred.

Lease-hold improvements are depreciated using the straight-line method over the shortest of useful economic life of those improvements or lease period.

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

The provision for life insurance comprises total obligations relating to the life insurance portfolio 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 year 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.

(11) 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:

	31.12.2003	31.12.2002
1 USD =	LVL 0.541	LVL 0.594
1 EUR =	LVL 0.674	LVL 0.610

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.

(12) 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.

(13) Taxation

The charge for income 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 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 tax 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 reasonable certainty.

AAS BALTA CONSOLIDATED ANNUAL ACCOUNTS FOR 2003

Notes to the consolidated financial statements

The principal temporary differences arise from depreciation of tangible fixed assets, revaluation of certain investments in securities and accrued expense.

(14) 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.

(15) Related parties

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) 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 is 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

	2003		2002	
	Gross amount	Reinsurers' share	Gross amount	Reinsurers' share
Personal accident	870,462	(28,027)	942,029	(41,542)
Health	2,320,844	-	2,191,233	-
Motor own damage	9,572,051	(119,877)	8,043,809	(180,161)
Marine	18,230	(4,560)	27,373	(3,776)
Cargo	244,941	(45,515)	264,320	(40,073)
Property	6,024,756	(606,257)	5,337,469	(284,879)
Voluntary motor Third Party (TPL)	62,506	(9,042)	76,299	(3,828)
Loan insurance	(183)	-	22,307	(21,245)
General TPL	472,852	(116,000)	602,060	(290,444)
Guarantees	7,948	(5,526)	164,383	(127,575)
Financial risks	63,195	(2,548)	26,171	-
Travel accident	157,754	(6,394)	202,640	(52,084)
Obligatory motor TPL	6,985,415	(176,793)	7,640,737	(61,794)
Life insurance	1,355,236	(4,707)	1,013,870	(2,150)
	28,156,007	(1,125,246)	26,554,700	(1,109,551)

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.

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

Traffic Bureau - 3 %;

OMTPL Foundation of insured interests protection - 1 %;

OMTPL Guarantees Foundation 4%;

OMTPL Guarantees Foundation 9% for Green Cards;

State Traffic Security Foundation - 0.6 %;

In 2003 mandatory deductions summed up to LVL 626,506 (LVL 776,708 in year 2002)

AAS BALTA CONSOLIDATED ANNUAL ACCOUNTS FOR 2003

Notes to the consolidated financial statements

2. CLAIMS PAID

	2003		2002	
	Gross amount	Reinsurers' share	Gross amount	Reinsurers' share
Personal accident	(319,344)	-	(318,295)	400
Health	(1,553,454)	-	(1,888,267)	-
Motor own damage	(5,289,927)	66,220	(4,110,408)	18,166
Marine	(67,106)	36,326	(23,871)	-
Cargo	(9,203)	431	(22,637)	3,691
Property	(1,177,084)	116	(1,743,763)	38,620
Voluntary motor TPL	(106)	-	(687)	-
Loan insurance	931	-	-	-
General TPL	(69,521)	383	(46,405)	-
Guarantees	(4,925)	1,758	(165,437)	28,637
Travel accident	(49,105)	-	(58,264)	-
Obligatory motor TPL	(3,331,984)	-	(2,728,222)	-
Life insurance	(664,109)	-	(290,160)	-
	<u>(12,534,937)</u>	<u>105,234</u>	<u>(11,396,416)</u>	<u>89,514</u>

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

3. OTHER TECHNICAL INCOME, NET

	2003	2002
Income from pool administration *	20,753	40,661
Income from distribution of policies of other companies	83,102	56,311
Other income	103,433	7,910
	<u>207,288</u>	<u>104,882</u>

* For details on pool see Note 1.

4. PROVISIONS FOR UNEARNED PREMIUMS AND UNEXPIRED RISKS

	Gross amount	Reinsurers' Share	Net amount
Balance as at 31 December 2001	8,144,207	(101,412)	8,042,795
Change in the year	2,101,404	(344,150)	1,757,254
Balance as at 31 December 2002	10,245,611	(445,562)	9,800,049
Change in the year	615,055	239,460	854,515
Balance as at 31 December 2003	10,860,666	(206,102)	10,654,564

AAS BALTA CONSOLIDATED ANNUAL ACCOUNTS FOR 2002

Notes to the consolidated financial statements

5. PROVISIONS FOR CLAIMS

	Gross amount	Reinsurers' Share	Net amount
Balance as at 31 December 2001	3,376,056	(55,176)	3,320,880
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>
Change in the year	417,103	(50,559)	366,544
Balance as at 31 December 2003	<u>5,101,965</u>	<u>(760,768)</u>	<u>4,341,197</u>

6. EQUALISATION PROVISIONS

Balance as at 31 December 2001	200,000
Change in the year	-
Balance as at 31 December 2002	<u>200,000</u>
Change in the year	(180,000)
Balance as at 31 December 2003	<u>20,000</u>

7. PROVISIONS FOR LIFE INSURANCE

	Gross amount	Reinsurers' Share	Net amount
Balance as at 31 December 2001	3,083,710	(2,067)	3,081,643
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>
Change in the year	361,111	(769)	360,342
Balance as at 31 December 2003	<u>4,076,707</u>	<u>(1,685)</u>	<u>4,075,022</u>

8. CLIENT ACQUISITION COSTS

a) client acquisition costs

	2003	2002
Commissions to intermediaries	(3,497,381)	(3,564,019)
Commissions and other agent related expenses	(1,730,640)	(1,431,231)
Social insurance for agents	(421,967)	(406,271)
Commissions paid on reinsurance assumed	(11,835)	(3,103)
	<u>(5,661,823)</u>	<u>(5,404,624)</u>

AAS BALTA CONSOLIDATED ANNUAL ACCOUNTS FOR 2002

Notes to the consolidated financial statements

b) client acquisition costs by type of insurance

	2003	2002
Motor own damage	(1,119,108)	(1,036,150)
Property	(1,319,427)	(1,246,418)
Obligatory motor TPL	(2,675,801)	(2,596,840)
Other non-life insurance	(415,795)	(450,710)
Total non-life insurance	<u>(5,530,131)</u>	<u>(5,330,118)</u>
Life insurance	(131,692)	(74,506)
	<u>(5,661,823)</u>	<u>(5,404,624)</u>

9. ADMINISTRATIVE EXPENSES

	2003	2002
Salaries	(2,960,157)	(2,284,891)
Social insurance	(543,707)	(524,165)
Office and repair expense	(190,918)	(157,629)
Depreciation and amortisation	(543,177)	(509,639)
Maintenance of information and telecommunication systems	(334,048)	(317,479)
Office expenses	(274,435)	(143,908)
Advertising and PR	(264,968)	(245,576)
Transport	(223,145)	(202,703)
Professional services	(469,107)	(144,963)
Other expenses	(547,742)	(540,336)
	<u>(6,351,404)</u>	<u>(5,071,289)</u>

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 2003 was 527 (2002: 521) and 1,016 (2002: 1,089) agents.

10. OTHER TECHNICAL EXPENSES, NET

	2003	2002
Payments to the Finance and Capital Market Commission and to the Insured Persons Protection Fund	(226,702)	(198,413)
Provisions for doubtful debts	(60,666)	(8,418)
Other technical expenses	(41,627)	(8,495)
	<u>(328,995)</u>	<u>(215,326)</u>

In accordance with requirements of legislation of the Republic of Latvia, payments to the Finance and Capital Market Commission have to be made in the amount of 0.2% from gross premiums collected in Obligatory motor TPL and in the amount of 0.7% from gross premiums collected in other types of insurance (0.4% from endowment life insurance premiums). Payments to the Insured Interests Protection Fund amount to 1% of premiums collected from individuals in

AAS BALTA CONSOLIDATED ANNUAL ACCOUNTS FOR 2002

Notes to the consolidated financial statements

11. INVESTMENT INCOME

a) income from other investments

	2003	2002
Fixed income securities	699,172	780,249
Variable interest securities	219,057	124,618
Deposits with the credit institutions	318,782	188,533
Mortgage loans	51,981	122,530
Other income	28,390	22,354
	<u>1,317,382</u>	<u>1,238,284</u>

b) profit on value adjustments on investments

	2003	2002
Fixed income securities	31,268	164,124
Investments in associated companies	4,392	5,466
Variable interest securities	81,622	117,631
Positive foreign currency revaluation in investment assets	-	7,995
Other	-	9,553
	<u>117,282</u>	<u>304,769</u>
Included above:		
Trading investments	112,890	181,672
Available for sale	-	117,631

12. INVESTMENT EXPENSE

a) investment management costs

	2003	2002
Brokerage and intermediary commissions	(55,636)	(19,902)
Interest paid	(2,898)	(6,206)
Other	(8,873)	(13,732)
	<u>(67,407)</u>	<u>(39,840)</u>

b) loss on value adjustments on investments

	2003	2002
Variable interest securities	(127,723)	(14,938)
Long-term fixed income securities	(330,569)	-
Investment in associates	(93,811)	(65,577)
Loss on foreign currency revaluation in investments	(8,185)	(24,241)
Other value adjustments	(17,512)	-
	<u>(577,800)</u>	<u>(104,756)</u>
Include above:		
Trading investments	(466,477)	(24,241)
Available for sale	-	(14,938)

AAS BALTA CONSOLIDATED ANNUAL ACCOUNTS FOR 2003

Notes to the consolidated financial statements

13. OTHER INCOME

	2003	2002
Gains on disposal of fixed assets	40,202	-
Income from office maintenance services	28,992	32,573
Compensation for overpaid social insurance	-	29,044
Commissions received	-	13,616
Decrease in provision for bad debts	-	8,200
Other income	43,007	57,869
	112,201	141,302

14. OTHER EXPENSES

	2003	2002
Increase in provisions and write-offs of doubtful debts*	-	(94,037)
Loss on disposal of fixed assets	(22,406)	(45,433)
Other expenses	(66,640)	(67,260)
	(89,046)	(206,730)

* In 2003 provisions for doubtful debts included in "Other technical expenses" (see note 10).

15. INCOME TAX

	2003	2002
Corporate income tax for the reporting years	(434,159)	(314,090)
Deferred tax (See also Note 29)	24,247	46,583
	(409,912)	(267,507)

Corporate income tax differs from the theoretically calculated tax amount that would arise applying the 19% rate stipulated by the law to profit before taxation:

	2003	2002
Profit before tax	1,733,768	1,823,401
Expected income tax expense at 19% rate (2002:22%)	(329,416)	(401,148)
Tax effect of:		
Expenses not deductible for tax purposes	(152,038)	(190,342)
Non-taxable income	76,383	223,151
Tax relief for donations	2,550	24,801
Effect of different tax rates	(13,075)	76,031
Tax relief for small companies	5,684	-
Total income tax charge for the reporting year	(409,912)	(267,507)

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Notes to the consolidated financial statements

16. EARNINGS PER SHARE

	2003	2002
Net profit (a)	1,297,815	1,496,010
Weighted average number of ordinary shares outstanding during the year (b)	4,652,067	4,652,067
Basic earnings per share during the period (a/b) in lats	0.28	0.32

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 ASSETS

	Software
Cost	
At 31 December 2002	284,753
Additions	528,290
Disposals	(41,292)
Reclassified from tangible assets	155,405
At 31 December 2003	927,156
Amortisation	
At 31 December 2002	(182,749)
Charge for the year	(122,171)
Disposals	41,289
Depreciation on reclassified tangible assets	(2,184)
At 31 December 2003	(265,815)
Net Book Value at 31 December 2001	102,004
Net Book Value at 31 December 2002	661,341

18. INVESTMENTS IN ASSOCIATES

	31.12.2003		31.12.2002	
Company	Carrying value of investment	% in share capital	Carrying value of investment	% in share capital
SIA Ripo-2* (Latvia)	107,000	47,67%	196,418	35.00%
	107,000		196,418	

*SIA Ripo-2 provides car repair services

AAS BALTA CONSOLIDATED ANNUAL ACCOUNTS FOR 2002

Notes to the consolidated financial statements

19. VARIABLE INTEREST SECURITIES

Company	31.12.2003		31.12.2002	
	Carrying value of investment	% in share capital	Carrying value of investment	% in share capital
Investment fund LVA Naudas Fonds (Latvia)	3,784,669		3,808,623	
Other Latvian companies	523,103		1,000	
JSC LVA Ieguldījumu Sabiedrība (Latvia)	37,157	13%	42,399	13%
Non-profit AS Public Pension Fund				
Social Security (Latvia)	-	-	1,000	1%
Listed shares	-		9,281	
	<u>4,344,929</u>		<u>3,862,303</u>	
Included above:				
Trading investments	4,344,929		11,281	
Available for sale	-		<u>3,851,022</u>	

20. FIXED INCOME SECURITIES

	31.12.2003	31.12.2002
Latvian government debt securities	8,764,832	9,906,648
Lithuanian government debt securities	395,383	262,172
Latvian corporate debt securities	1,177,444	821,168
Mortgage backed debt securities	666,960	-
	<u>11,004,619</u>	<u>10,989,988</u>

All investments have been made for trading purposes.

21. MORTGAGE LOANS

Almost all the mortgage loans have additional collateral of insurance policies.

22. OTHER LOANS

	31.12.2003	31.12.2002
Loans to employees	37,831	73,684
Loans with car pledge	15,178	-
	<u>53,009</u>	<u>73,684</u>

Almost all the mortgage loans have additional collateral of insurance policies.

AAS BALTA CONSOLIDATED ANNUAL ACCOUNTS FOR 2003

Notes to the consolidated financial statements

23. REINSURANCE DEBTORS

The Group operates with ceded reinsurance and accepted reinsurance. Accounts receivable from debtors in the amount of LVL 83,420 is from ceded reinsurance and LVL 16,671 from accepted reinsurance.

24. OTHER DEBTORS

	31.12.2003	31.12.2002
Corporate income tax advance payments	123,528	54,427
Security deposits with Courts	-	14,520
Over payment of personal income tax	-	2,114
Over payment of social insurance contributions	-	14,138
Settlements for sold real estates	-	95,638
Other debtors	150,525	129,821
	274,053	310,658

As the tax computations and returns are prepared for each of the Group's companies separately, no mutual offsetting of tax settlements has been done.

25. LAND AND BUILDINGS

	Land and buildings
Cost	
At 31 December 2002	2,190,223
Additions	34,176
Disposals	(28,170)
Reclassification to other intangible assets	-
At 31 December 2003	2,196,229
Depreciation	
At 31 December 2002	(251,864)
Charge for the year	(41,332)
Depreciation on disposed fixed assets	2,310
Depreciation on reclassified fixed assets	-
At 31 December 2003	(290,886)
Net Book Value at 31 December 2002	1,938,359
Net Book Value at 31 December 2003	1,905,343

All land and buildings were for Group's own use.

AAS BALTA CONSOLIDATED ANNUAL ACCOUNTS FOR 2003

Notes to the consolidated financial statements

26. TANGIBLE FIXED ASSETS

	Transport vehicles	IT systems	Office equipment and others	Total
Cost				
At 31 December 2002	362,138	1,131,811	428,939	1,922,888
Additions	247,560	235,733	81,586	564,879
Disposals	(212,523)	(100,811)	(68,129)	(381,463)
Reclassification to other intangible assets	86,262	(241,461)	(206)	(155,405)
At 31 December 2003	483,437	1,025,272	442,190	1,950,899
Depreciation				
At 31 December 2002	(233,391)	(564,434)	(251,057)	(1,048,882)
Charge for the year	(77,445)	(221,428)	(80,801)	(379,674)
Depreciation on disposed fixed assets	193,150	94,061	66,740	353,951
Depreciation on reclassified fixed assets	(86,075)	88,241	19	2,185
At 31 December 2003	(203,761)	(603,560)	(265,099)	(1,072,420)
Net Book Value at 31 December 2002	128,747	567,377	177,882	874,006
Net Book Value at 31 December 2003	279,676	421,712	177,091	878,479

All tangible assets were for Group's own use.

27. CASH AND CASH EQUIVALENTS

	31.12.2003	31.12.2002
Cash in hand	10,174	12,980
Deposits at call with banks	1,509,339	861,071
	1,519,513	874,051

28. SHARE CAPITAL

a) registered share capital

	31.12.2003		31.12.2002	
	Number	LVL	Number	LVL
Ordinary shares with nominal value of LVL 1	4,999,200	4,999,200	4,999,200	4,999,200
Shares of the Board with nominal value LVL 1	800	800	800	800
	5,000,000	5,000,000	5,000,000	5,000,000

AAS BALTA CONSOLIDATED ANNUAL ACCOUNTS FOR 2003

Notes to the consolidated financial statements

28. SHARE CAPITAL (continued)

b) issued and fully paid share capital

	31.12.2003		31.12.2002	
	Number	LVL	Number	LVL
Ordinary shares with nominal value LVL 1	4,651,267	4,651,267	4,651,267	4,651,267
Shares of the Board with nominal value LVL 1	800	800	800	800
	<u>4,652,067</u>	<u>4,652,067</u>	<u>4,652,067</u>	<u>4,652,067</u>

The Parent Company's shares are not listed.

c) major shareholders

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

	31.12.2003		31.12.2002	
	Number of shares	Shareholding	Number of shares	Shareholding
Codan JSC	2,415,421	51.92%	2,415,421	51.92%
IO Fund (The Danish Investment Fund for Central and Eastern Europe)	1,116,496	24.00%	1,116,496	24.00%
European Bank For Reconstruction and Development	1,116,496	24.00%	1,116,496	24.00%
	<u>4,648,413</u>	<u>99.92%</u>	<u>4,648,413</u>	<u>99.92%</u>

29. PROVISIONS FOR TAXES

	31.12.2003	31.12.2002
Deferred tax liabilities at the beginning of the year	152,730	199,313
Decrease of deferred tax liabilities during the reporting year (see Note 15)	(24,247)	(46,583)
Deferred tax liabilities at the year end	<u>128,483</u>	<u>152,730</u>

Deferred tax has been calculated from the following temporary differences between assets and liabilities values for financial and tax purposes:

Temporary difference on depreciation of fixed assets	198,308	183,730
Temporary difference on accruals for expenses	(72,659)	(42,862)
Temporary difference on provisions on doubtful debtors	(14,790)	(19,551)
Temporary difference on revaluation of securities	23,637	36,788
Carry forward losses on sale of securities	(6,013)	(5,375)
Net deferred tax liability	<u>128,483</u>	<u>152,730</u>

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

2003	-10%
2004 and thereto	-15%

30. LIABILITIES TO CREDIT INSTITUTIONS

	31.12.2003	31.12.2002
Liabilities for credit cards	803	3,575
	<u>803</u>	<u>3,575</u>

AAS BALTA CONSOLIDATED ANNUAL ACCOUNTS FOR 2003

Notes to the consolidated financial statements

31. TAXES AND SOCIAL INSURANCE

	31.12.2003	31.12.2002
Corporate income tax	253,228	8,826
Social insurance contributions	121,636	107,587
Personal income tax	91,786	68,475
Value added tax	17,749	3,185
Property taxes	2,063	-
	486,462	188,073

As the tax computations and returns are prepared for each of the Group's companies separately no mutual offsetting of tax settlements has been done.

32. OTHER CREDITORS

	31.12.2003	31.12.2002
Personnel	244,166	186,933
Liability for payments to Traffic Bureau	68,042	66,485
Government and public institutions and organisations	-	51,079
Liability to Finance and Capital Market Commission	55,203	49,542
Other creditors	199,042	78,076
	566,453	432,115

33. MANDATORY PAYMENTS

		2003
Traffic Bureau		635,933
Finance and Capital Market Commission		264,249
		900,182

34. REINSURANCE CREDITORS

The Group operates with ceded reinsurance and accepted reinsurance. Creditors liabilities in the amount of LVL 386,254 is from ceded reinsurance and LVL 4,303 from accepted reinsurance.

35. RESULTS OF THE CEDED REINSURANCE

	2003	2002
Reinsurer's share in premiums	(1,125,246)	(1,109,551)
Reinsurer's share in changes in provision for unrealised premiums and unexpired risk	(239,460)	344,150
Reinsurer's share in claims	105,234	89,514
Reinsurer's share in changes in the provision for claims	50,559	655,033
Reinsurer's share in change of life insurance provisions	769	(1,151)
Reinsurer's commission income	65,066	68,289
	1,143,078	46,284

AAS BALTA CONSOLIDATED ANNUAL ACCOUNTS FOR 2003

Notes to the consolidated financial statements

36. TRANSACTIONS WITH RELATED PARTIES

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

The Group owns 41.67% of shares in Ripo-2 SIA, where it has significant influence.

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

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

During the reporting year the Group used management consulting services of Codan for LVL 71 thousand (2002: LVL 18 thousand).

The Group is using services rendered by Ripo-2 SIA as part of claims paid for motor vehicles insurance. Total value of services received in 2003 was LVL 116 thousand (2002: LVL 71 thousand).

37. SUBSIDIARIES

<u>Name</u>	<u>Business</u>	<u>Share</u>		<u>Country of incorporation</u>
		2003	2002	
AAS BALTA Dzīvība	Life insurance	98.60%	95.90%	Latvia
AS Rīgas apdrošināšanas sabiedrība	Non-life insurance	100%	100%	Latvia

All holdings are in the ordinary share capital of the undertaking concerned, none of which are listed. AAS LATVA was renamed to AAS BALTA Dzīvība as at 28 January 2003.

38. OFF BALANCE SHEET ITEMS

General claims

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

Litigation

As at 31 December 2003 there were 18 open legal claims against the Company amounting to LVL 176 thousands. The management is of the opinion that no material unprovided losses will be incurred. (31 December 2002: total amount of claims - LVL 138 thousand).

Credit related commitments

As at 31 December 2003 the Group does not have any off balance sheet credit related commitments.

Capital commitments

39. POST BALANCE SHEET EVENTS

On 11 February 2004 reorganization of AAS Rīgas Apdrošināšanas Sabiedrība was registered in the Commercial Register of the Republic of Latvia. AAS Rīgas Apdrošināšanas Sabiedrība was incorporated in its parent company AAS BALTA. As a result of reorganization all the rights and obligations of A/S Rīgas Apdrošināšanas Sabiedrība were transferred to AAS BALTA.

Except for the above, there are no subsequent events since the last date of the reporting year, which would have a significant effect on the financial position of the Group as at 31 December 2003.

ABBREVIATED ACCOUNTS OF BALTA Dzīvība

Balance sheet as at 31 December 2003

ASSETS

	<u>2003</u> LVL	<u>2002</u> LVL
Investments	6,643,444	6,988,952
Cash on hand and at the bank	284,802	67,190
Insurance debtors	422,198	427,348
Other debtors	161,995	291,179
Fixed assets	45,564	24,887
Accrued income and deferred expenses	69,410	141,216
Total assets	<u>7,627,413</u>	<u>7,940,772</u>

CAPITAL, RESERVES AND LIABILITIES

	<u>2003</u> LVL	<u>2002</u> LVL
Capital and reserves		
Share capital	2,800,000	2,800,000
Reserves	180,404	121,256
Loss for the current year	-130,189	535,148
Total capital and reserves	<u>2,850,215</u>	<u>3,456,404</u>
Technical provisions, net	4,648,280	4,215,968
Creditors	99,946	237,184
Accrued expenses and prepayments received	28,972	31,216
Total capital, reserves and liabilities	<u>7,627,413</u>	<u>7,940,772</u>

Full Financial statements of the Company are available at the registered office of AAS BALTA Dzīvība in Rīga, Antonijas street 9.

Uģis Vorons
Chairman of the Board

Arnolds Čulkstēns
Chief Accountant

ABBREVIATED ACCOUNTS OF BALTA Dzīvība

Profit and loss account for 2003

	<u>2003</u> <u>LVL</u>	<u>2002</u> <u>LVL</u>
Earned premiums of life insurance		
Gross premiums written	1,355,236	1,013,870
Reinsurers' share	-4,707	-2,150
Net earned premiums of life insurance	1,350,529	1,011,720
Net investment result	423,796	937,500
Claims incurred, net	-899,112	-304,656
Changes in life technical provisions	-360,342	-633,037
Net operating expenses	-624,141	-331,671
Other technical expenses, net	-11,171	-11,059
Allocated investment result transfer to non-technical account	-162,248	-467,062
Result of tehcnical account of life insurance	-282,689	201,735
Earned premiums of non-life insurance		
Gross premiums written	22,050	353,528
Reinsurers' share	-1,641	-168
Change in the provision for unearned premiums	38	41,507
Net earned premiums of non-life insurance	20,447	394,867
Allocated investment result transferred from non-technical account	1,161	22,359
Claims incurred, net	-17,174	-163,798
Net operating expenses	-8,839	-197,110
Other technical expenses, net	-182	-3,856
Result of tehcnical account of non-life insurance	-4,587	52,462
Allocated investment result transferred from technical account of life insurance	162,248	467,062
Allocated investment result transferred to technical account of non-life insurance	-1,161	-22,359
Other income/ expense	-4,093	-20,058
Loss before tax	-130,282	678,842
Taxes	93	-143,694
Loss for the year	-130,189	535,148

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Uģis Vorons
Chairman of the Board

Arnolds Čulkstēns
Chief Accountant