AAS Balta

Consolidated annual accounts of the year 2005

CONTENTS

The Risk Insurance Market in Latvia

The risk insurance sector continued to develop in 2005. Laws related to the sector were improved, and the most important element was the approval of amendments to the law on insurance companies and their supervision. Additional requirements were set out for the supervision of insurance, and the requirements of the relevant EU directives were introduced.

Also taking effect in 2005 was a law on insurance and reinsurance intermediaries. This is an important step in improving the operations of intermediaries and in ensuring a better level of consumer protections. Those who use the services of intermediaries are the primary beneficiaries of the new law.

In co-operation with professional organisations, several Cabinet of Ministers regulations were drafted and approved in 2005. These speak to mandatory civil liability insurance in several areas. In the first half of 2005, a regulation, which speaks to the civil liability insurance of sworn notaries and court executors, took effect. Since mid-2005, mandatory civil liability insurance has also been required for construction companies.

During the course of 2005, work continued on improving the system of mandatory civil liability insurance (OCTA) for motor vehicle owners. At the beginning of the year, the Cabinet of Ministers approved an OCTA Guarantee Fund and a procedure for its administration. The fund is used to provide insurance compensation in those cases that are defined in the law on OCTA. Also taking effect were Cabinet of Ministers regulations on the amount of compensation and the process for calculating OCTA compensation when people who are involved in road traffic accidents suffer non-material losses.

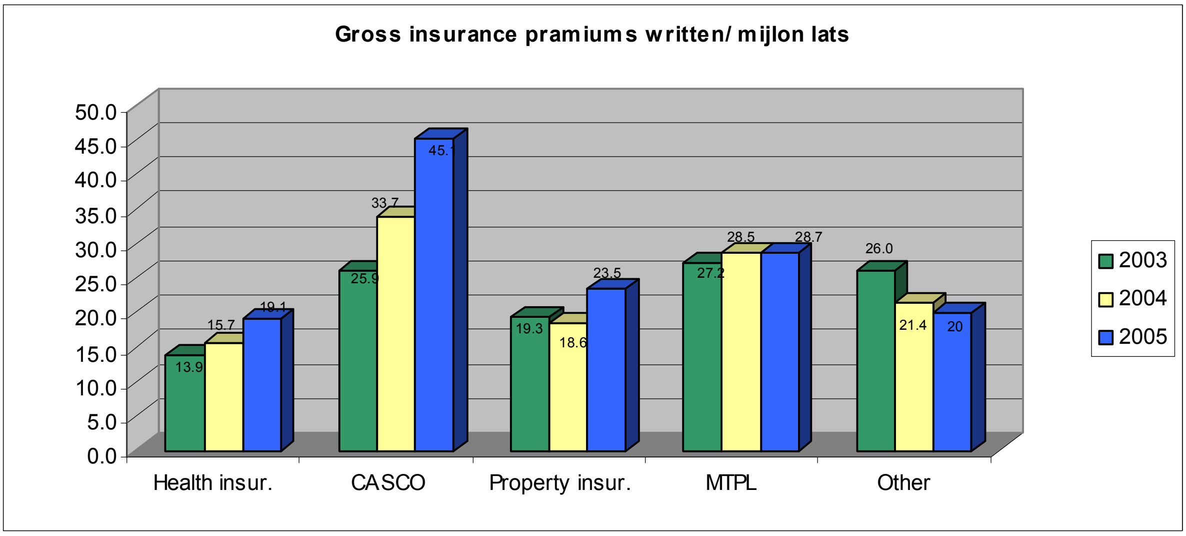
Toward the end of the year, work was completed on the Bonus-Malus System, which allows Latvian insurers to set the price of OCTA services individually and in accordance with each driver’s history of insurance and driving skills.

A high level of market concentration in 2005 also influenced the stability and development of the risk insurance market. In accordance with gross insurance premiums, the five largest insurance companies handled 71.8% of risk insurance in Latvia in 2005. The total sum of premiums in 2005 amounted to LVL 139.6 million – 14.4% more than in 2004. Paid compensation increased more rapidly in 2005 than in 2004 (up by 27%) – a total of LVL 61.7 million. That was largely due to a major windstorm, which was experienced in Latvia in January 2005. Insurers paid out more than LVL 4 million to compensate for damage caused to clients by the storm.

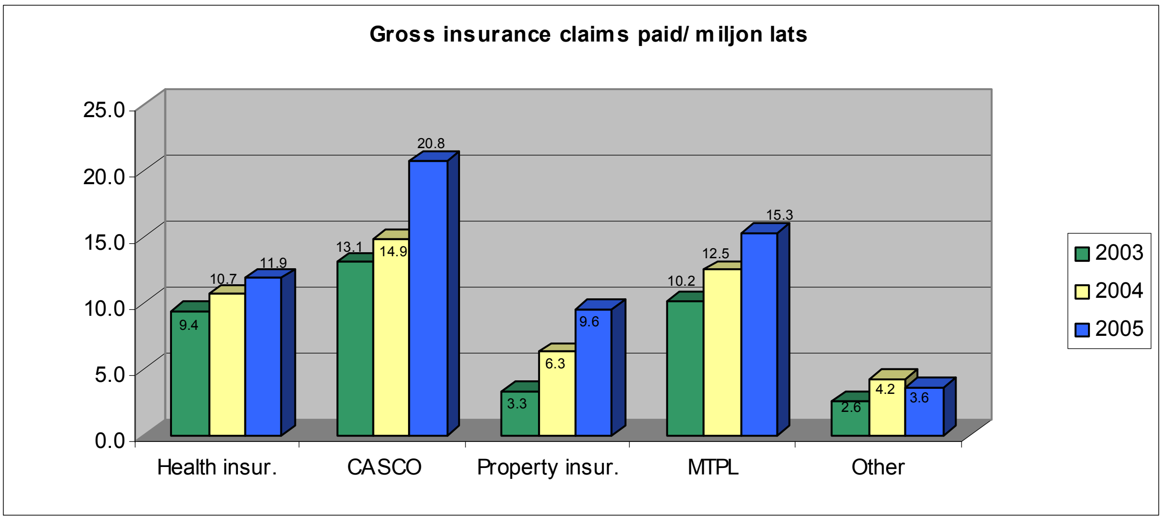
The level of gross insurance compensation increased more rapidly than did the total sum of gross insurance premiums in 2005, but the development of the sector in that year must still be seen as stable. Insurance companies continued to uphold a trend, which first occurred in previous years – most insurance transactions involve legal entities (61% of gross insurance premiums).

Legal entities also received more compensation than private individuals did (62% of all paid compensation).

There have not been any significant changes in the insurance portfolios of risk insurance companies over the course of 2005. Four types of insurance dominate – voluntary motor vehicle insurance (KASKO), OCTA, property insurance and health insurance. The proportions of these various kinds of insurance did change a bit in 2005 – the share of KASKO in risk insurance portfolios increased to 32.4% from 27.6% in 2004. Health and property insurance represented 13.7% and 16.9% of the portfolio in 2005 (12.9% and 15.3% in 2004, respectively). The share of OCTA in the portfolio declined from 23.4% in 2004 to 20.6% in 2005.



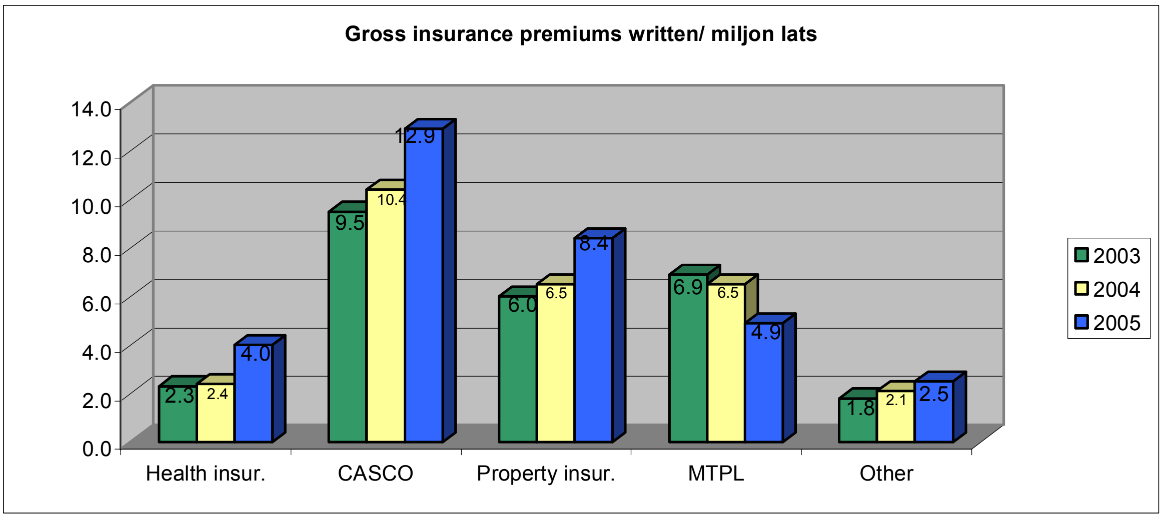
KASKO insurance and OCTA insurance involved the greatest amount of paid compensation in 2005 – 32.5% and 24.7% of paid compensation in all. This situation did not change from 2004 until 2005.



Risk insurance companies earned profits of LVL 7.5 million in 2005 (LVL 4.9 million in 2004). The combined co-efficient of risk insurance companies in 2005 was 99.6%, down by 2.3% since 2004.

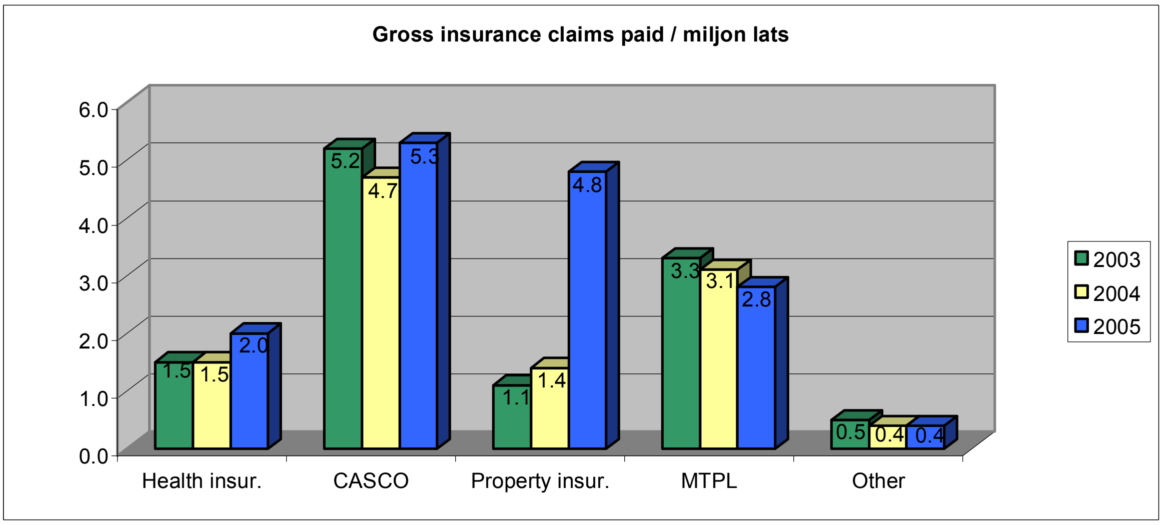
In 2005, Balta signed gross insurance premiums at a value of LVL 32.6 million (18% growth on the year). This put Balta at the top of the risk insurance market, with a 24% market share. The increase in Balta operations exceeded average growth in the risk insurance market by 3%.

Balta experienced the greatest growth in health insurance when it comes to gross insurance premiums – an increase of LVL 1.6 million (40%) over 2004. Property insurance was the area in which the next highest level of growth was experienced – up by 23% over 2004.



The overall Balta insurance portfolio in 2005 was not much different than the overall portfolio of Latvian insurance companies – 39% for KASKO (up by 2% over 2004), 26% for property insurance (up by 2.5%), and 15% for OCTA.

Balta paid out LVL 15.5 million in gross compensation in 2005, which was 36% (LVL 4.1 million) more than in 2004. The January 2005 storm led to the increase in compensation, as did four major insurance events experienced by legal entities that were Balta clients. Balta received more applications for compensation than any other participant in the Latvian insurance market when the storm had passed – nearly 3,000 applications with a total request of LVL 1.9 million in compensation. As a result of this, gross compensation paid out by Balta increased by 226.3%, or LVL 3.3 million, in 2005. The largest share of compensation (34.9%) related to KASKO in 2005, followed by property insurance (30.9%) and OCTA (18.3%).



In 2005, the combined co-efficient for Balta was 101% (95.8% in 2004). The rapid increase in paid compensation was the main reason for this increase.

Personnel Management

In 2005, Balta launched a personnel management development programme for the period between 2005 and 2008. The company's Personnel Management Group evaluated the professionalism of company personnel, the ability of employees to develop and improve their professional skills, and the extent to which employees are motivated. Over the course of the year, the group developed a unified personnel selection system, and it expanded the company's Training Centre. A multi-level training programme was introduced so as to help new employees to learn and develop the necessary knowledge, skills and abilities.

Also in 2005, work on determining levels for insurance salespersons was completed. The aim was to improve the contributions of employees and to encourage workers to link their long-term career plans to Balta. A system to evaluate achievements and to develop personnel has been developed, and managers and employees have been assessed. After development discussions with each staff member, a "balance score card" is used. The SMART method is increasingly applied to this process.

In the spring of 2005, a study was conducted to determine the level of satisfaction among employees. The aim was to determine those factors, which lead to employee satisfaction so that problems could be resolved. Plans of action were prepared for individual structural units and for the company as a whole so as to reverse shortcomings and to improve the process. Balta will conduct this study on a yearly basis in future.

The training programme in 2005 involved both internal and external training, prepared for Balta employees by the Training Centre. Staff spent 24,368 hours at these training sessions – 499 employees in all who attended lectures and seminars during the course of the year. Most of the training had to do with the new TIA insurance information system and its introduction. There was also training to improve the skills of insurance salespeople. Training related to the information technologies of Balta was offered in 2005 to a series of co-operation partners and distributors.

In accordance with tradition, Balta selected its "Employees of the Year" and it's "Managers of the Year" in 2005. Employees nominated candidates, and a commission was appointed to determine the winners on the basis of motivation letters that were submitted. Eight employees and eight managers from the central office, regional centres and regional divisions were so honoured.

No less important for Balta employees have been various informal events that have been organised. An employee retreat is now a long-standing tradition – in 2005, the 22nd retreat was held near Lake Ungure. Nearly 900 Balta employees and family members gathered from all over Latvia. There were nearly 40 teams to compete for various athletic and less-than-athletic prizes and titles.

IT Development

The main duty for Balta's IT units in 2005 was to introduce the massive and labour-intensive TIA (The Insurance Application) insurance IT system at Balta. The work was completed on schedule and without overspending the budget.

TIA is a unified and integrated information technology system, which allows Balta to ensure client services at a higher level of quality. TIA covers sale of policies, administration of compensation, documentation of processes, and financial billing.

Introduction of TIA began in 2004 and involved three phases of work. The system's functionality was established in early 2005; at that time it involved a small number of products. The number of products was increased during the next project phases. In mid-2005, major products such as OCTA (mandatory civil liability insurance) and KASKO (voluntary motor vehicle insurance) were introduced. This made it possible to test the system's speed and capacities. TIA currently handles 30 insurance products and 57 lines. More than 60 specialists from Balta and from the Mebius IT development company were involved in the project, and total costs exceeded LVL 3 million.

On the basis of the TIA system, a new Web-based solution was introduced in 2005. Third parties, which work with Balta, can sell our insurance services online. Introduction of TIA involved an exchange of information with the Latvian Motor Vehicle Insurance Bureau. Balta joined the CSNGS and the All-Latvian Bonus-Malus System, which was used actively in selling OCTA policies after 1 January 2006.

During 2005, Balta also worked on creating a data warehouse, and this work is to be completed in 2006. Telephone centrals at the central office were upgraded, as were local centrals.

Allowing computer users to improve the speed and quality of their work was the aim in improving Balta's IT Assistance Service, and a new call management system was introduced.

The Balta computer system was upgraded and expanded in 2005. New sales workstations were established at Balta offices. All Balta sales facilities were hooked up to the TIA system.

Also in 2005, Balta completed the introduction of the global security programme of Royal & Sun Alliance – now all of the companies in the R&SA Group, including Balta, conform to the requirements of the ISO 17799 security standard.

The Latvian Finance and Capital Markets Commission audited the security of Balta's information systems in the autumn of 2005, concluding that the use of the systems, the security steps that are taken, etc., are in line with the commission's information security requirements.

Full IT support for business functions was ensured throughout the course of the year.

MEMBERS OF THE COUNCIL AND THE BOARD, THE AUDITORS

Council

Name, Surname	*Position*
Jesper Rasmussen	Chairman of the Council
Søren Theilgaard	Deputy of Chairman of the Council
Sven Staffan Eberhard Crona	Member of the Council
Svend Jorgen Heineke	Member of the Council
Mogens Andersen	Member of the Council (until 21.04.2005)
Jan Per Jensen	Member of the Council (until 21.04.2005)
Sune Mikkelsen	Member of the Council (since 21.04.2005)
Catarina Boijort	Member of the Council (since 21.04.2005)
Kestutis Serpytis	Member of the Council (since 21.04.2005)

Board

Name, Surname	*Position*
Jānis Abāšins	Chairman of the Board
Uldis Dzintars	Member of the Board
Nastasja Frīdmane	Member of the Board
Madara Melnmate	Member of the Board (since 18.03.2005)
Ilze Cīrule	Member of the Board (until 03.10.2005)
Uģis Vorons	Member of the Board (until 23.08.2005)

Name and address of the auditor and responsible certified auditor:

PricewaterhouseCoopers SIA
Audit company licence No. 5
Kr. Valdemāra 19
Riga LV-1010
Latvia

Responsible certified auditor:
Juris Lapshe
Certified auditor
Certificate No. 116

REPORT OF THE COUNCIL AND THE BOARD

The growth of the Latvian economy in year 2005 was one of the highest in the European Union. Latvian insurance market has grown by 20% in year 2005. Non-life insurance sector went up by 14.4%, while gross premiums written rose to 139.6 million lats.

In 2005 non-life insurance market gross insurance claims rose faster than written premiums. In comparison to year 2004, the amount of claims paid in 2005 grew by 27% and reached 61.7 million lats. This was to a great degree the result of the storm in the beginning of the year, for the damages of which nearly 3 million lats were paid out by the insurers to their clients in Latvia.

The development of non-life insurance market was facilitated by the availability of mortgage credit and lease services as well as the development of the real estate market. Despite the efforts of the responsible state authorities to solve the urgent problems of health care system, the disorder in this field remains. This in turn has facilitated the rise in interest for acquiring the services of health insurance. More and more enterprises include health insurance in their employee wage and bonus systems.

In Latvian life insurance market year 2005 has been the most dynamic and richest in changes in terms of events, growth and development. Total amount of written premiums has grown by 87%, reaching 16.8 million lats, where written premiums in health and accident insurance has grown by 129%, reaching 5.5 million lats, whereas life insurance with and without savings has risen by 71%, reaching 11.3 million lats.

As a result of dynamic development, the share of life insurance sector in the insurance market has also risen by 4% and reached 11%.

In implementing the long-term operating strategy – concentrating on non-life insurance, in the middle of 2005 insurance joint stock company (further - AAS) BALTA exited from life insurance market and sold AAS BALTA Dzīvība shares to A/S SEB Unibanka.

AAS BALTA in 2005 developed faster than the non-life insurance market as a whole and reached 18% growth in the amount of gross written insurance premiums. In 2005 AAS BALTA wrote gross insurance premiums in the amount of 32.6 million lats, which is 5 million lats more than in year 2004. AAS BALTA paid out 15.5 million lats in gross insurance claims to its clients in 2005, which is 36% or 4.1 million lats more than in 2004. The sharp increase in paid-out gross insurance claims was brought forth by the aforementioned January storm and four big insurance cases in AAS BALTA clients'-legal persons' real estates in the middle of the year.

It must be mentioned that after the storm AAS BALTA received the highest number of insurance claims applications, in total almost 3 thousand applications from members of Latvian non-life insurance market, which amounted to 1.9 million lats. This was the highest amount of claims applications in Latvian non-life insurance market.

Due to compensation to clients for losses created by the storm, the claims level of AAS BALTA and accordingly the combined ratio have risen significantly, from 95.8% in 2004 to 101% in 2005.

AAS BALTA's subsidiary AAS BALTA Dzīvība in the period of year 2005 until the sale of its shares had written gross premiums in amount of 1.8 million lats, while paying out 427.6 thousand lats in gross claims.

In 2005 the development of TIA, the most encompassing and financially capacious insurance information technology system in Latvian insurance market, continued in AAS BALTA. The total investment in TIA development is 3 million lats. The system given at the disposal of BALTA workers and cooperation partners is an instrument which will help to put in order and monitor insurance processes fully, starting from insurance proposal development to claims pay-out and accounting. TIA will allow AAS BALTA significantly improve client service and will increase the Company's effectiveness.

During 2005 AAS BALTA has started the centralization of claims regulation process, which has allowed for reduced claims administration and payout time, as well as increased claims case review effectiveness. It should be mentioned that the centralization of claims regulation will continue and will be completed in 2006.
* Proportion of net insurance claims incurred and company's costs against net insurance premiums earned.

REPORT OF THE COUNCIL AND THE BOARD (continued)

Along with this, in 2005 AAS BALTA has started the restructurization of sales process. The Sales development department, which is responsible for new sales models development and their implementation, market research, unified service standard implementation and customer support throughout AAS BALTA sales structure, has been established. In the framework of sales reorganization in 2005 the reorganization of the Parent Company's branches operations has already been carried out.

At the end of the year AAS BALTA started a change program Silverstones, which includes several strategic projects set by the Company's management. They relate to organizational culture, insurance process improvement and client service. Members of AAS BALTA highest management, employees of diverse levels, consultants from the parent company Codan, which let utilize best global practices in realization of similar goals, are involved in the realization of Silverstones projects.

Quality client service would not be possible without professional staff. In 2005 we have significantly increased amounts invested in employee training, which reached 93.6 thousand lats per year. The highest proportion in employee training was user training for new information technology system TIA. Likewise, comparatively many training hours were donated to sales training and raising of sales qualification.

The operations of AAS BALTA, especially investment management activities are under several financial risks. The most important of these are credit risk, liquidity risk and market risk, which includes interest rate risk, currency risk, as well as share price risk. AAS BALTA management has set policies that limit possible financial risk to reduce potential financial risk effect on the Company's financial situation. In managing credit risk, AAS BALTA complies to policy stipulated limits regarding deals with one trading partner or similar trading partner groups, as well as deposit issuer credit ratings. Liquidity risk is managed by placing funds in high liquidity financial instruments and keeping funds in credit institution payment accounts, as well as by planning cash flow from insurance, administration and investment activities. In managing market risks term difference analysis, duration analysis and sensitivity analysis are performed, admissible limits in currency positions are set. Financial risks are reviewed at least once a year. Asset management commission regularly supervises the compliance of deals under risk to limits.

AAS BALTA constantly receives demands for insurance claim payments. For maintenance of liquidity and reduction of cash flow risk AAS BALTA performs certain activities, namely, the Company's management manages cash flow from direct insurance operations balancing it with investment cash flow. Hence a minimal amount of cash necessary for claims payments is assured.

The accomplishments during the year have secured AAS BALTA a profit before tax of 2,906,016 lats, which is 2,571,180 lats after tax. It must be noted that the biggest fraction of profit is constituted by the income from sale of BALTA Dzīvība shares. The management of the AAS BALTA suggests to the shareholders that the profit for 2005 is not distributed in dividends.

In 2006, while continuing with the sales restructurization and realization of the change program, AAS BALTA plans a 25% increase in the amount of written premiums, as well as a profit at the end of the year that corresponds to the shareholder projections.

On behalf of the insurance joint stock company BALTA we express gratitude to all our clients, shareholders for the trust manifested towards the Company. Special gratitude to AAS BALTA employees for invested effort in the Company's development, expression of ideas and solutions for improvements in operating efficiency.

Jesper Rasmussen
Chairman of the Council
16 March 2006

Jānis Abāšins
Chairman of the Board

STATEMENT OF RESPONSIBILITY OF THE MANAGEMENT

The Council and the Board of the AAS BALTA confirm that the consolidated Annual accounts for the year 2005 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	Jānis Abāšins
Chairman of the Council	Chairman of the Board

16 March 2006

CONSOLIDATED INCOME STATEMENT

	Note	2005 LVL	2004 LVL
Earned premiums			
Gross premiums			
Gross written premiums	1	34,740,918	30,366,717
OMTPL mandatory deductions	1	(360,753)	(571,748)
Reinsurance premiums	1	(1,302,140)	(1,395,812)
Change in gross provision for unearned premiums and unexpired risk	4	(3,598,370)	(1,570,320)
Change in provision for unearned premiums, reinsurers' share	4	(318,027)	125,416
Earned premiums, net of reinsurance		**29,161,628**	**26,954,253**
Other technical income, net	3	**302,255**	**89,481**
Claims paid, net			
Gross claims			
Claims paid		(16,658,518)	(13,755,731)
Claims settlement expense		(591,903)	(497,193)
Surrenders		-	(70,210)
Recovered loss amount		1,263,829	1,119,612
Gross amount in total	2	**(15,986,592)**	**(13,203,522)**
Reinsurers' share	2	949,132	57,089
Change in the provision for claims, net			
Gross amount	5	(643,511)	(729,118)
Reinsurers' share	5	25,674	32,149
Claims incurred, net of reinsurance		**(15,655,297)**	**(13,843,402)**
Change in provision for life insurance			
Gross amount	7	(1,602,281)	(136,732)
Reinsurers' share	7	765	2,593
Change in provision for life insurance, net		**(1,601,516)**	**(134,139)**
Net operating expense			
Client acquisition costs	8	(5,396,217)	(5,048,095)
Change in deferred client acquisition costs		773,873	(337,595)
Administrative expense	9	(8,500,230)	(7,185,045)
Reinsurance commission income		42,448	76,636
Net operating expense total		**(13,080,126)**	**(12,494,099)**
Other technical expense, net	10	**(228,026)**	**(91,709)**
Change in equalisation provision	6	**20,000**	**-**
Technical result		**(1,081,082)**	**480,385**

Notes on pages 22 to 41 are an integral part of these consolidated financial statements.

Jesper Rasmussen
Chairman of the Council

Jānis Abāšins
Chairman of the Board

16 March 2006

CONSOLIDATED INCOME STATEMENT (continued)

	Note	2005 LVL	2004 LVL
Technical result		**(1,081,082)**	**480,385**
Investment income			
Income from investments in land and buildings		16,698	36,032
Income from other financial investments	11a	1,205,743	1,173,318
Gain on value adjustments of investments	11b	602,669	619,986
Gain on disposal of investments	11c	2,641,688	8,000
Total investment income		**4,466,799**	**1,837,336**
Investment charges			
Investment management costs, including interest paid	12a	(256,085)	(78,144)
Loss from value adjustments of investments	12b	(283,299)	(415,883)
Total investment charges		**(539,384)**	**(494,027)**
Other income	13	**59,781**	**60,585**
Other expense, including revaluation	14	**(98)**	**(35,810)**
Profit before tax		**2,906,016**	**1,848,469**
Corporate income tax	15	(334,836)	(345,625)
Net profit		**2,571,180**	**1,502,844**
Earnings per share (in lats)	16	**0.55**	**0.32**

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Jesper Rasmussen
Chairman of the Council

Jānis Abāšins
Chairman of the Board

16 March 2006

CONSOLIDATED BALANCE SHEET

ASSETS

	Note	31.12.2005 LVL	31.12.2004 LVL
Intangible assets			
Goodwill		-	11,548
Other intangible assets		2,175,462	1,931,368
Total intangible assets	17	**2,175,462**	**1,942,916**
Investments			
Land and buildings	24	2,209,909	1,874,338
Other financial investments			
Shares and other variable income securities	18	151,837	887,286
Fixed income securities	19	12,904,922	12,612,047
Mortgage loans	20	79,813	244,165
Other loans	21	86,152	72,813
Deposits with banks		10,394,736	9,306,838
Total investments		**25,827,369**	**24,997,487**
Debtors			
Debtors from direct insurance operations			
Due from policyholders		5,291,507	4,961,065
Due from intermediaries		353,940	5,299
Reinsurance debtors	22	96,952	39,510
Other debtors	23	241,694	475,449
Total debtors		**5,984,093**	**5,481,323**
Other assets			
Tangible fixed assets	25	1,532,030	1,574,599
Cash		500	9,307
Demand deposits with banks		1,142,224	1,396,257
Other assets		1,405	4,316
Total other assets		**2,676,159**	**2,984,479**
Accrued income and deferred expense			
Accrued interest and rent		426,080	498,245
Deferred client acquisition costs		2,249,209	1,475,336
Other accrued income and deferred expense	26	25,157	87,142
Total accrued income and deferred expense		**2,700,446**	**2,060,723**
Total assets		**39,363,529**	**37,466,928**

Notes on pages 22 to 41 are an integral part of these consolidated financial statements.

Jesper Rasmussen
Chairman of the Council

Jānis Abāšins
Chairman of the Board

16 March 2006

CONSOLIDATED BALANCE SHEET (continued)

LIABILITIES

	Note	31.12.2005 LVL	31.12.2004 LVL
Capital and reserves			
Share capital	27	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
Retained earnings		2,761,458	2,002,943
Current year profit		2,571,180	1,502,844
Total capital and reserves		**14,168,242**	**12,341,391**
Technical reserves			
Provisions for unearned premiums and unexpired risks			
Gross amount	4	16,001,311	12,430,986
Reinsurers' share	4	(6,906)	(331,518)
Provisions for life insurance			
Gross amount	7	-	4,213,439
Reinsurers' share	7	-	(4,278)
Provisions for claims			
Gross amount	5	5,981,057	5,831,083
Reinsurers' share	5	(818,591)	(792,917)
Equalisation provisions	6	-	20,000
Total technical provisions		**21,156,872**	**21,366,795**
Provisions			
Provisions for taxes	28	304,857	225,021
Other provisions	29	384,114	411,591
Total provisions		**688,971**	**636,612**
Creditors			
Liabilities from direct insurance operations			
Due to policy holders		1,098,047	910,255
Due to intermediaries		44,405	-
Reinsurance creditors		551,260	477,669
Liabilities to credit institutions	30	3,141	286,995
Taxes and social insurance	31	318,639	496,427
Other creditors	32	997,076	678,671
Total creditors		**3,012,568**	**2,850,017**
Accrued expense and deferred income	33	336,877	272,113
Total liabilities		**39,363,529**	**37,466,928**

Notes on pages 22 to 41 are an integral part of these consolidated financial statements.

Jesper Rasmussen
Chairman of the Council

Jānis Abāšins
Chairman of the Board

16 March 2006

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Reserve capital and other reserves	Retained earnings	Total
Balance as at 31 December 2003	**4,652,067**	**1,121,332**	**3,062,205**	**2,468,090**	**11,303,694**
Dividends paid	-	-	-	(465,147)	(465,147)
Profit for the year	-	-	-	1,502,844	1,502,844
Balance as at 31 December 2004	**4,652,067**	**1,121,332**	**3,062,205**	**3,505,787**	**12,341,391**
Dividends paid	-	-	-	(744,329)	(744,329)
Profit for the year	-	-	-	2,571,180	2,571,180
Balance as at 31 December 2005	**4,652,067**	**1,121,332**	**3,062,205**	**5,332,638**	**14,168,242**

Notes on pages 22 to 41 are an integral part of these consolidated financial statements.

Jesper Rasmussen
Chairman of the Council

Jānis Abāšins
Chairman of the Board

16 March 2006

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	2005 LVL	2004 LVL
Cash flow from operating activities			
Premiums received from direct insurance		33,460,587	28,702,360
Claims paid		(15,861,487)	(12,902,271)
Premiums received from co-insurance		448,204	1,037,348
Payments made for co-insurance		(186,646)	(305,142)
Payments received from ceded reinsurance		892,927	45,046
Payments made for ceded reinsurance		(1,204,500)	(1,189,940)
Premiums received from accepted reinsurance		12,352	22,684
Payments made for accepted reinsurance		(20,396)	-
Income tax paid		(346,889)	(765,254)
Mandatory payments	34	(680,698)	(773,166)
Other expense		(13,961,017)	(10,124,921)
Other income		204,771	134,616
Total net cash flow from operating activities:		**2,757,208**	**3,881,360**
Cash flow from investing activities			
Acquisition of investments			
Land and buildings		(509,496)	(6,940)
Associated and affiliated companies		-	(66,983)
Shares and other variable income securities		-	(276,611)
Fixed income securities		(2,447,493)	(2,596,999)
Units in investment funds		-	(3,731)
Mortgage loans		(2,522)	-
Other loans		(19,380)	(157,550)
Deposits with banks		(3,397,501)	(3,490,130)
Other investments		(1,560,933)	(2,631,383)
Total acquisition of investments:		**(7,937,325)**	**(9,230,327)**
Disposal of investments			
Land and buildings		-	54,273
Sale of subsidiary		4,791,283	-
Shares and other variable income securities		94,427	18,858
Fixed income securities		-	1,083,799
Units in investment funds		-	3,141,293
Mortgage loans		161,098	58,395
Other loans		3,269	3,709
Other investments		32,218	-
Total disposal of investments:		**5,082,296**	**4,360,327**
Income from investing activities			
Land and buildings		20,218	22,801
Shares and other variable income securities		1,765	17,174
Fixed income securities		891,129	679,883
Mortgage loans		7,651	13,207
Other loans		6,022	13,430
Deposits with banks		131,586	313,726
Total income from investing activities:		**1,058,371**	**1,060,221**
Other income		**2,136**	**285,056**
Other expense		**(493,486)**	**(14,864)**
Total cash used in investing activities:		**(2,288,008)**	**(3,539,587)**

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

	Note	2005 LVL	2004 LVL
Cash flow from financing activities			
Dividends paid		(743,854)	(465,147)
Net cash used in financing activities:		**(743,854)**	**(465,147)**
Net decrease in cash and cash equivalents		**(274,654)**	**(123,374)**
Foreign exchange revaluation gain		**11,814**	**9,425**
Cash and cash equivalents at the start of the year		**1,405,564**	**1,519,513**
Cash and cash equivalent at the end of the year		**1,142,724**	**1,405,564**

Notes on pages 22 to 41 are an integral part of these consolidated financial statements.

Jesper Rasmussen
Chairman of the Council

Jānis Abāšins
Chairman of the Board

16 March 2006

NOTES TO THE FINANCIAL STATEMENTS

GENERAL INFORMATION

The Parent Company of the Group, BALTA Insurance Company, was incorporated in 1992 in Riga, Latvia as a joint stock company. The Parent Company was re-registered with Commercial Register on 6 June 2002. During 1998 the acquisition of controlling stake in 2 insurance companies led to the creation of the BALTA Group (the Group). On 19 February 2004 A/S Rīgas Apdrošināšanas Sabiedrība was reorganised and merged with the Group's Parent Company AAS BALTA. The Parent Company sold 100% of AAS "BALTA Dzīvība" shares on August 1, 2005.

The Parent Company provides non-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
State Revenue Service department:	Department of large taxpayers

Subsidiary involved in consolidation process:

Full name	Insurance Joint Stock Company BALTA Dzīvība (AAS BALTA Dzīvība)
Legal address:	Antonijas street 9, Riga, LV-1010, Latvia
% of share capital owned:	100.00%

ACCOUNTING POLICIES

The Group maintains its accounting records in accordance with the legislation of Latvia. These financial statements have been prepared from those accounting records. Balance sheet as at 31 December 2005 reflects the financial position of the Group as at the close of business on that date.

(1) Basis of preparation of financial statements

These financial statements are prepared 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.

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 Latvian lats (LVL), unless stated otherwise.

Cash flow statement has been prepared using the direct method.

The reclassification of several financial statement positions has been made in 2005. The comparatives have been reclassified accordingly.

(2) Consolidation

The consolidated financial statements have been prepared using full consolidation method. 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. All intercompany transactions, balances and unrealised surpluses and deficits on transactions between group companies have been eliminated. Separate disclosure is made of minority interests. The consolidated income statement includes the result of subsidiary by date when subsidiary is sold or otherwise disposed, or the interest in subsidiary is reduced so that no control is retained.

On 1 August 2005 the shares of the subsidiary were sold. The comparatives of the balance sheet and the income statement represent the consolidated figures for 2004. The balance sheet as at 31 December 2005 represents the information on AAS BALTA. The consolidated income statement by 1 August 2005 includes consolidated information on the Group, but afterwards – that of AAS BALTA.

NOTES TO THE FINANCIAL STATEMENTS

(3) Premiums

Written non-life insurance premiums consist of the premiums in 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, as well as premiums, which have been received in the insurance year up to the year end, if the agreements of life endowment insurance are concluded with free schedule of payments. All written premiums are decreased by the amount of premiums cancelled or suspended during the reporting period.

(4) Claims incurred

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

(5) Interest income and expense

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

(6) Loans

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 that 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 actual interest rate of respective instruments. Impairment charges and decreases due to an event occurring after the write-down, are included in the income statement.

(7) Debtors

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

Debtor balances in non-life insurance consist of amounts that are due within one year and which are carried in the balance sheet at amortized cost less doubtful debt provisions. Taken into account that income from life insurance is recognized according to written premiums and premiums are paid according to the schedule set in the life insurance agreement, the debtor balances related to life insurance represent the difference between the written premiums and received premiums.

Other debtors are disclosed in recoverable amounts, less provision for doubtful debts.

Doubtful receivables are provided for when management identifies that the recovery of respective receivables as doubtful. Bad debts are written off when identified. The doubtful debt provision also covers losses with respect to which there is objective evidence that probable losses will occur from those debtors at the balance sheet date. These have been estimated based upon historical patterns of losses. 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.

NOTES TO THE FINANCIAL STATEMENTS

(8) Sale and repurchase agreements of securities

Securities sold subject to linked repurchase agreements ('repos') are retained in the financial statements, while funds received from sale are reflected as liabilities to asset buyer. Economic gains obtained through sale of assets remain as the property of the Group and are included in the Group's income statement.

(9) Investments

a) investments in securities

All Group's investments in securities are classified as available for sale investments.

Purchases or sales of investments are recognized on the trade date, which is the date the Group commits to purchase or sell the respective investment. Investments are initially recognized at fair value.

The investments are derecognised when the rights to receive cash flows from the financial assets have expired and when the Group has transferred substantially all risks and rewards of ownership.

Available for sale investments are subsequently re-measured at fair value. Fair values are obtained from quoted market prices or market prices of financial assets that are substantially the same, or, in the absence of an active market, using discounted cash flow models.

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

b) investments in associates

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, in accordance with which the Group includes in its income statement its share of associate's profit or loss during the year, excluding unrealised gains and unrealised losses on transactions between the Group and associated companies.

(10) Intangible assets and fixed assets

Tangible assets and intangible assets are stated at historical cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated on a straight-line basis to write down each intangible and tangible asset to its estimated residual value over its estimated useful life using following rates set by management:

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

Where the carrying amount of an intangible or a tangible asset exceeds its estimated recoverable amount, it is written down immediately to its recoverable amount. Recoverable amount is the higher of the fair value less costs to sell and the value in use of the related asset.

Minor repairs and maintenance below Ls 2,000 are charged to the income statement during the period in which they are incurred. Leasehold improvements above Ls 2,000 are written down during leasehold period, but not longer than 5 years.

The cost of major renovations is included in the carrying amount of the asset and is depreciated over the remaining useful life of the related asset. Capitalising the cost of mounted spare parts, the carrying value of the part replaced is written off to the income statement.

Gains or losses on disposals are determined by comparing carrying amount with proceeds and are charged to the income statement during the period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS

(11) Goodwill

Goodwill represents the difference between the cost of an acquisition and the fair value of the Group's share of the net assets of the acquired subsidiaries, associated companies or joint ventures at the date of acquisition. Such goodwill is reflected as intangible assets in the balance sheet and the amortisation is recognized in the income statement.

Positive goodwill is amortised using the straight-line method over its estimated useful life. Goodwill is generally amortised over the period no longer than 5 years. The carrying value of goodwill is reviewed annually and written off for permanent impairment where it is considered necessary. Negative goodwill is recognised as income when respective losses and expense incur.

(12) Technical provisions

The unearned premiums technical provision comprises written gross premium related to period from the balance sheet date to the expiry of insurance agreement to cover all claims and expenses in accordance with insurance agreements in force.

The claims technical provision is an amount provided at the end of the reporting year in respect of estimated losses incurred but not yet settled and statistically evaluated amounts of claims which have taken place but have not been reported yet. The claims provision includes direct loss adjustment expense, which will incur on settlement of claims incurred in the reporting and prior years. Estimated future proceeds from salvage and subrogation related to claims incurred in the reporting and prior years have been deducted from the claims provision.

The provision for life insurance comprises total obligations relating to the life insurance portfolio. The life insurance provision is stated based on actuarial calculations for each life insurance agreement. The prospective reserve valuation method is used for life insurance agreements with regular payments (reserve equals the difference between present value of insurance liability and present value of future insurance premiums). The retrospective reserve valuation method is used for life insurance agreements with irregular payments (the reserve equals the accumulated premiums and accumulated guaranteed interests less deductions defined in insurance contract).

The equalisation provision is made to cover future risk in areas where the claims performance may fluctuate significantly from one year to the next.

(13) Foreign currency translation

Group maintains its accounts in Latvian Lats. All transactions denominated in foreign currencies are converted to Lats at the exchange rate set by the Bank of Latvia prevailing on the day on which the transactions took place.

Monetary assets and liabilities denominated in foreign currencies are translated into Lats in accordance with the official Bank of Latvia exchange rate for the last day of the reporting period. The resulting profit or loss is charged to the income statement.

		31.12.2005	**31.12.2004**
1 USD	=	LVL 0.593	LVL 0.516
1 EUR	=	LVL 0.702804	LVL 0.703

(14) Operating leases

Assets that are leased out under operating lease terms are recorded within fixed assets at historic cost less depreciation. Depreciation is calculated on a straight-line basis to write down each asset to its estimated residual value over its estimated useful life using rates set for similar Group's assets. Rental income from operating lease including advances received is recognised on a straight-line basis over the period of the lease.

(15) 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 expense incurred by the Group in distribution of its policies through external intermediaries or agents network of the Group.

NOTES TO THE FINANCIAL STATEMENTS

(16) Taxation

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

Deferred tax is provided for, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred tax is calculated based on currently enacted tax rates that are expected to apply when the temporary differences reverse. The principal temporary differences arise from different fixed asset depreciation rates, accrued expense and revaluation of certain investments in securities. The deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

(17) Related parties

Related parties are defined as shareholders of the Parent company, members of the Supervisory Council and Board of Directors of the Parent company, their close family members, and companies in which the aforementioned persons have control or significant influence.

(18) Distribution of direct and indirect income and expense by types of insurance

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

Administrative expenses, which relate to Group administration and are not directly attributable to a particular unit of the Group, are divided as follows:

a) total indirect costs are attributed against total earned premiums in period and thus average indirect costs coefficient is obtained;
b) multiplying earned premium by type of customer (legal entity or individual) in each type of insurance with average indirect costs coefficient, hence obtaining the total for indirect costs, which are attributable to corresponding type of insurance.

Other technical income and expense are allocated between types of insurance proportionally to the gross premiums written during the year.

Net investment result allocated to technical account is allocated by types of insurance proportionally to the amount of technical provisions as at the year-end.

(19) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, current accounts and deposits held at call with banks or callable within 24 hours or one working day.

(20) Provisions for unused annual leave

The amount of provision is determined by multiplying average daily salary in the reporting year by the amount of accrued but unused vacation days at the end of the year.

NOTES TO THE FINANCIAL STATEMENTS

1. PREMIUMS

	2005		2004	
	Gross amount	Reinsurers' share	Gross amount	Reinsurers' share
Personal accident	1,003,266	(40,193)	922,165	(38,020)
Health	4,076,842	-	2,424,191	-
Motor own damage	12,964,730	(119,523)	10,462,484	(92,443)
Marine	24,409	(2,653)	19,281	(1,894)
Cargo	394,904	(83,011)	348,037	(124,600)
Property	8,494,021	(730,867)	6,519,243	(701,728)
Voluntary motor Third Party Liability (TPL)	2,722	-	25,921	(7,303)
General TPL	696,002	(105,999)	552,213	(154,912)
Guarantees	60	-	(434)	209
Financial risks	152,034	-	142,538	-
Travel accident	266,247	(5,862)	183,268	(5,584)
Obligatory motor TPL	4,954,695	(202,300)	6,582,984	(259,441)
Life insurance	1,710,986	(11,732)	2,184,826	(10,096)
	34,740,918	**(1,302,140)**	**30,366,717**	**(1,395,812)**

The Group's Parent company has signed an agreement with the Latvian insurance companies AS Parex Insurance Company and AAS ERGO Latvia 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 management and receives commissions from these operations, which are included in Other Technical Income (note 3). Respective written premium part is included in total written premiums.

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

OMTPL Guarantees Foundation	Fixed sum for certain type of vehicle
State Traffic Security Foundation	2% of received premium
Motor Insurers' Bureau of Latvia	0.80 per contract
Until 24 March 2005 OMTPL Guarantees Foundation	4% of gross premium
Until 24 March 2005 OMTPL Guarantees Foundation for Green Cards	9% of gross premium
Until 24 March 2005 OMTPL Foundation of insured interests protection	1% of gross premium

In year 2005 OMTPL mandatory deductions summed up to Ls 360,753 (Ls 571,748 in year 2004).

NOTES TO THE FINANCIAL STATEMENTS

2. CLAIMS PAID

	2005		2004	
	Gross amount	Reinsurers' share	Gross amount	Reinsurers' share
Personal accident	(298,158)	-	(287,229)	1,512
Health	(2,067,712)	-	(1,596,322)	-
Motor own damage	(5,361,444)	10,119	(4,786,728)	11,361
Marine	(1,100)	-	(75)	-
Cargo	(27,831)	13,788	(47,219)	13,281
Property	(4,803,072)	916,264	(1,472,039)	4,158
Voluntary motor TPL	1,278	-	-	-
Loan insurance	501	-	470	-
General TPL	(53,213)	(7,126)	(108,791)	26,777
Guarantees	(17,959)	14,367	-	-
Financial risks	-	-	(2,728)	-
Travel accident	(93,855)	-	(48,541)	-
Obligatory motor TPL	(2,848,116)	-	(3,103,435)	-
Life insurance	(415,911)	1,720	(1,750,885)	-
	(15,986,592)	**949,132**	**(13,203,522)**	**57,089**

3. OTHER TECHNICAL INCOME, NET

	2005	2004
Income from distribution of policies of SEB Dzīvības Apdrošināšana	60,582	-
Repayment by Motor Insurers' Bureau of Latvia of guaranty funds accumulated by A/S Rīgas Apdrošināšanas Sabiedrība	146,685	-
Income from pool administration (see Note 1)	29,987	51,530
Gain from foreign currency fluctuations	21,192	10,087
Expertise income	12,323	3,339
Income from cancellation of policies	9,006	1,163
Commissions for distribution of other insurance companies' products	12,240	19,705
Other income	10,240	3,657
	302,255	**89,481**

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

	2005	2004
Personal accident	46,286	8,172
Health	657	495
Motor own damage	1,964	631
Marine	11	17
Cargo	(72)	3
Property	3,790	2,763
Voluntary motor TPL	-	(4)
General TPL	1,331	509
Guarantees	4,576	3617
Financial risks	(7)	-
Travel accident	72	(57)
Obligatory motor TPL	243,647	73,335
	302,255	**89,481**

NOTES TO THE FINANCIAL STATEMENTS

4. PROVISION FOR UNEARNED PREMIUMS AND UNEXPIRED RISK

	Gross amount	Reinsurers' share	Net amount
Balance as at 31 December 2003	**10,860,666**	**(206,102)**	**10,654,564**
Change in the year	1,570,320	(125,416)	1,444,904
Balance as at 31 December 2004	**12,430,986**	**(331,518)**	**12,099,468**
Change in the year	3,598,370	318,027	3,916,397
Sale of subsidiary	(28,045)	6,585	(21,460)
Balance as at 31 December 2005	**16,001,311**	**(6,906)**	**15,994,405**

Changes in provision for unearned premiums and distribution by type of insurance:

Personal accident	47,307	(2,181)	45,126
Health	845,757	-	845,757
Motor own damage	1,604,625	52,251	1,656,876
Marine	4,641	1,220	5,861
Cargo	29,056	1,663	30,719
Property	1,186,963	121,052	1,308,015
Voluntary motor TPL	(3,053)	-	(3,053)
General TPL	80,549	61,795	142,344
Guarantees	(2,924)	2,091	(833)
Financial risks	(3,750)	-	(3,750)
Travel accident	4,877	37	4,914
Obligatory motor TPL	(195,678)	80,099	(115,579)
	3,598,370	**318,027**	**3,916,397**

5. PROVISION FOR CLAIMS

	Gross amount	Reinsurers' share	Net amount
Balance as at 31 December 2003	**5,101,965**	**(760,768)**	**4,341,197**
Change in the year	729,118	(32,149)	696,969
Balance as at 31 December 2004	**5,831,083**	**(792,917)**	**5,038,166**
Change in the year	643,511	(25,674)	617,837
Sale of subsidiary	(493,537)	-	(493,537)
Balance as at 31 December 2005	**5,981,057**	**(818,591)**	**5,162,466**

NOTES TO THE FINANCIAL STATEMENTS

5. PROVISION FOR CLAIMS (continued)

Changes in provision for claims and distribution by type of insurance:

	Gross amount	Reinsurers' share	Net amount
Personal accident	(17,542)	-	(17,542)
Health	167,352	-	167,352
Motor own damage	538,103	-	538,103
Marine	4,458	-	4,458
Cargo	132	(4,536)	(4,404)
Property	129,548	(283,955)	(154,407)
Voluntary motor TPL	507	-	507
General TPL	40,243	(1,069)	39,174
Guarantees	(58,650)	54,074	(4,576)
Financial loss	89,355	-	89,355
Travel accident	(24,082)	-	(24,082)
Obligatory motor TPL	(225,913)	209,812	(16,101)
	643,511	**(25,674)**	**617,837**

6. EQUALISATION PROVISION

Balance as at 31 December 2003	**20,000**
Change in the year	-
Balance as at 31 December 2004	**20,000**
Change in the year	(20,000)
Balance as at 31 December 2005	**-**

Equalisation provisions had been established for Guarantees insurance.

7. PROVISION FOR LIFE INSURANCE

	Gross amount	Reinsurers' share	Net amount
Balance as at 31 December 2003	**4,076,707**	**(1,685)**	**4,075,022**
Change in the year	136,732	(2,593)	134,139
Balance as at 31 December 2004	**4,213,439**	**(4,278)**	**4,209,161**
Change in the year	1,602,281	(765)	1,601,516
Sale of subsidiary	(5,815,720)	5,043	(5,810,677)
Balance as at 31 December 2005	**-**	**-**	**-**

8. CLIENT ACQUISITION COSTS

	2005	2004
Commissions to brokers and other intermediaries	(1,752,469)	(2,639,801)
Commissions and other agent related expense	(2,880,546)	(1,902,118)
Social insurance expense	(759,384)	(504,295)
Commissions on reinsurance accepted	(897)	(1,881)
Other client acquisition costs	(2,921)	-
	(5,396,217)	**(5,048,095)**

NOTES TO THE FINANCIAL STATEMENTS

8. CLIENT ACQUISITION COSTS (continued)

Distribution of client acquisition costs by type of insurance has been as follows:

	2005	2004
Personal accident	(231,087)	(185,141)
Health	(262,074)	(137,428)
Motor own damage	(1,883,506)	(1,321,702)
Marine	(2,460)	(1,505)
Cargo	(23,636)	(19,288)
Property fire	(2,335,127)	(1,582,527)
Voluntary motor TPL	(2,124)	(1,698)
General TPL	(89,459)	(50,876)
Guarantees	(1,050)	(18)
Financial risks	(23,706)	(7,061)
Travel accident	(45,463)	(15,013)
Obligatory motor TPL	(426,364)	(1,575,456)
Total non-life insurance	**(5,326,056)**	**(4,897,713)**
Life insurance	(70,161)	(150,382)
	(5,396,217)	**(5,048,095)**

9. ADMINISTRATIVE EXPENSE

Salaries to staff	(3,430,332)	(3,055,444)
Social insurance expense	(704,528)	(618,740)
Depreciation and amortisation	(1,055,027)	(621,500)
Professional services	(302,235)	(381,644)
Information and communication expense	(683,889)	(461,970)
Advertising and public relations	(482,114)	(415,539)
Rent of premises	(381,972)	(356,759)
Premise maintenance and repair expense	(264,310)	(222,699)
Office expense	(283,989)	(213,904)
Transport	(215,218)	(186,964)
Payments to Financial and Capital Market Commission	(197,938)	(170,740)
Payments to Foundation of Insured Interests Protection	(102,244)	(86,956)
Other administrative expense	(396,434)	(392,186)
	(8,500,230)	**(7,185,045)**

In accordance with requirements of legislation of the Republic of Latvia payments to Finance and Capital Market Commission have to be made in amount of 0.4% from gross premiums collected in life insurance with savings, 0.2% from gross premiums collected in Obligatory Motor Third Party Liability insurance after all deductions and in amount of 0.7% from gross premiums collected in other types of insurance. Payments to Foundation of Insured Interests Protection amount to 1% of premiums collected from individuals in voluntary types of insurance.

Members of the Council and the Board have not received separate remuneration for their job in the Council and the Board of the Group Companies.

At the end of year 2005, 517 employees (566 in 2004) and 858 agents (899 in 2004) were employed in the Parent Company. As at 31 December 2005, 286 employees were working in the central office, and 231 employees and 858 agents in branches.

NOTES TO THE FINANCIAL STATEMENTS

9. ADMINISTRATIVE EXPENSE (continued)

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

	2005	2004
Personal accident	(318,304)	(272,424)
Health	(786,250)	(490,193)
Motor own damage	(3,104,133)	(2,388,178)
Marine	(4,933)	(4,047)
Cargo	(84,479)	(71,430)
Property	(2,175,392)	(1,608,137)
Voluntary motor TPL	(1,181)	(10,223)
General TPL	(176,792)	(134,526)
Guarantees	(560)	(2,567)
Financial risks	(33,770)	(20,411)
Travel accident	(109,328)	(77,320)
Obligatory motor TPL	(1,192,687)	(1,471,183)
Life insurance	(512,421)	(634,406)
	(8,500,230)	**(7,185,045)**

10. OTHER TECHNICAL EXPENSE, NET

Provisions for doubtful debts	(120,736)	(8,144)
Other technical expense	(107,290)	(83,565)
	(228,026)	**(91,709)**

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

	2005	2004
Personal accident	(6,208)	(2,864)
Health	(26,768)	(7,901)
Motor own damage	(85,124)	(34,099)
Marine	(160)	(63)
Cargo	433	(1,134)
Property	(70,763)	(21,248)
Voluntary motor TPL	(18)	(84)
General TPL	(4,212)	(1,800)
Guarantees	-	1
Financial risks	(998)	(465)
Travel accident	(1,748)	(597)
Obligatory motor TPL	(32,460)	(21,455)
	(228,026)	**(91,709)**

11. INVESTMENT INCOME

a) income from other financial investments

Fixed income securities	643,181	698,598
Shares and other variable income securities	38,770	17,174
Deposits with banks	471,826	408,025
Mortgage loans	15,282	20,166
Other loans	36,684	29,355
	1,205,743	**1,173,318**

NOTES TO THE FINANCIAL STATEMENTS

11. INVESTMENT INCOME (continued)

b) gain on value adjustments of investments

	2005	2004
Fixed income securities	313,515	254,819
Investments in associates	-	21,592
Shares and other variable income securities	190,301	86,391
Share in investment funds	-	196,678
Positive currency fluctuations in invested assets	58,767	56,695
Other income	40,086	3,811
	602,669	**619,986**

c) gain on disposal of investments

Fixed income securities	-	8,000
Investments in subsidiaries	2,641,688	-
	2,641,688	**8,000**

12. INVESTMENT COSTS

a) investment management costs, including interest paid

Affiliated and associated companies	(193,032)	-
Commissions to intermediaries and brokers*	(32,133)	(35,573)
Interest paid	(383)	(5,006)
Other costs	(30,537)	(37,565)
	(256,085)	**(78,144)**

*Comprises the salaries and social security expenses of investment department employees.

b) Loss from value adjustments of investments

	2005	2004
Shares and other variable income securities	(91,697)	(186,139)
Long-term fixed income securities	(186,174)	(178,590)
Losses due to currency fluctuations in securities	(5,428)	(50,692)
Other loans	-	(462)
	(283,299)	**(415,883)**

13. OTHER INCOME

Gain on sale of tangible assets	19,856	23,151
Bad debt recovery income	17,063	-
Excess social security payments	8,283	-
Decrease in bad debt provision	1,322	-
Insurance claims received	-	18,806
Other income	13,257	18,628
	59,781	**60,585**

NOTES TO THE FINANCIAL STATEMENTS

14. OTHER EXPENSE, INCLUDING REVALUATION

	2005	2004
Provisions for doubtful debts	-	(24,954)
Other expense	(98)	(10,856)
	(98)	**(35,810)**

15. CORPORATE INCOME TAX

	2005	2004
Corporate income tax for the reporting year	(341,798)	(249,087)
Change in deferred tax balances (Note 28)	6,962	(96,538)
	(334,836)	**(345,625)**

Corporate income tax differs from the theoretically calculated tax amount that would arise applying the rate stipulated by the law (15%) to profit before taxation:

	2005	2004
Profit before tax, including real estate tax	**2,906,016**	**1,848,469**
Real estate tax	30,354	27,105
Profit before tax	**2,936,370**	**1,875,574**
Theoretically calculated tax at a tax rate of 15% (2004 – 15%)	(440,456)	(281,334)
Tax effect:		
Expenses not deductible for tax purposes	(49,418)	(121,975)
Non-taxable income	112,935	48,610
Tax discount for donations	42,056	30,577
Tax rebate for foreign tax payment	47	-
Adjustment to previous years Corporate income tax	-	(21,503)
Tax charge	**(334,836)**	**(345,625)**

16. EARNINGS PER SHARE

	2005	2004
Net profit (a)	2,571,180	1,502,844
Weighted average number of ordinary shares outstanding during the year (b)	4,652,067	4,652,067
Basic earnings per share during the year (a/b) in lats	**0.55**	**0.32**

Since there have been no transactions with potential effect on the share capital during the year, diluted earnings per share are equivalent to basic earnings per share.

NOTES TO THE FINANCIAL STATEMENTS

17. OTHER INTANGIBLE ASSETS

	Goodwill	Software	Advances for intangible assets	Total
Cost				
At 31 December 2004	11,548	2,198,581	144,550	2,354,679
Additions	-	921,234	28,910	950,144
Disposals	(11,548)	-	-	(11,548)
Sale of subsidiary	-	(11,922)	(173,460)	(185,382)
At 31 December 2005	**-**	**3,107,893**	**-**	**3,107,893**
Amortisation				
At 31 December 2004	-	(411,763)	-	(411,763)
Charge for the year	-	(521,357)	-	(521,357)
Sale of subsidiary	-	689	-	689
At 31 December 2005	**-**	**(932,431)**	**-**	**(932,431)**
Net Book Value at 31 December 2004	**11,548**	**1,786,818**	**144,550**	**1,942,916**
Net Book Value at 31 December 2005	**-**	**2,175,462**	**-**	**2,175,462**

18. SHARES AND OTHER VARIABLE INCOME SECURITIES

	31.12.2005		31.12.2004	
	Carrying amount of investment	Cost	Carrying amount of investment	Cost
Other companies	-	-	530,787	502,934
Listed shares	151,837	81,868	356,499	287,786
	151,837	**81,868**	**887,286**	**790,720**

According to the Group's policy all investments in shares and other non-fixed income securities are classified as available for sale.

19. FIXED INCOME SECURITIES

	31.12.2005		31.12.2004	
	Carrying amount of investment	Cost	Carrying amount of investment	Cost
Latvian government bonds*	9,985,678	9,891,190	10,172,384	10,053,146
Bonds of international institutions	846,064	850,691	352,221	351,887
Latvian corporate bonds	-	-	558,334	570,332
German government bonds	1,102,699	1,103,701	-	-
Mortgage backed debt securities	970,481	937,925	1,529,108	1,516,472
	12,904,922	**12,783,507**	**12,612,047**	**12,491,837**

According to the Group's policy all investments in bonds and other fixed income securities are classified as available for sale.

* According to bond reverse repo agreement which was signed with Nordea Bank Finland Plc, 2,800 Latvian government bonds with maturity date of 14 February 2013 were pledged long term investments as at 31 December 2004. The received loan has been repaid on 11 January 2005.

NOTES TO THE FINANCIAL STATEMEN

20. MORTGAGE LOANS

According to the Group's policy, the mortgage for the loan is insured for the loan issuer's benefit.

21. OTHER LOANS

	31.12.2005	31.12.2004
Loans to employees	69,493	50,812
Loans secured by a car pledge	16,659	22,001
	86,152	**72,813**

According to the Group's policy, the pledge for the loan is insured for the loan issuer's benefit.

22. DEBTORS FROM REINSURANCE ACTIVITIES

The Group operates with ceded reinsurance and accepted reinsurance. As at 31 December 2005 Group's claims against reinsurance debtors are Ls 96,952 of which Ls 96,378 (Ls 39,510 in 2004) is ceded reinsurance, but Ls 574 is receivables from accepted reinsurance (Ls 5,299 in 2004, which were classified in the balance sheet position – "Debtors due from direct insurance activities – intermediaries").

23. OTHER DEBTORS

	31.12.2005	31.12.2004
Real estate tax overpayment	1,853	-
Receivables from pool PAREX-BALTA-ERGO	94,615	91,251
Receivables from other insurance companies	46,048	29,613
Receivables from the Motor Insurers' Bureau of Latvia	22,194	11,696
Corporate income tax advance payments	-	240,857
Other debtors	76,984	102,032
	241,694	**475,449**

24. LAND AND BUILDINGS

	Construction work in progress	Land and buildings	Total
Cost			
As at 31 December 2004	2,189,040	-	2,189,040
Additions	248,753	354,440	603,193
Disposals	(29,302)	-	(29,302)
Sale of subsidiary	(236,396)	-	(236,396)
As at 31 December 2005	**2,172,095**	**354,440**	**2,526,535**
Depreciation			
As at 31 December 2004	(314,702)	-	(314,702)
Charge for the year	(45,326)	-	(45,326)
Depreciation on disposed buildings	3,111	-	3,111
Sale of subsidiary	40,291	-	40,291
As at 31 December 2005	**(316,626)**	**-**	**(316,626)**
Net Book Value at 31 December 2004	**1,874,338**	**-**	**1,874,338**
Net Book Value at 31 December 2005	**1,855,469**	**354,440**	**2,209,909**

Substantially all land and buildings were for Group's own use.

NOTES TO THE FINANCIAL STATEMENTS

25. TANGIBLE FIXED ASSETS

	Leasehold improvements	Transport vehicles	Computer equipment	Furniture and fittings	Total
Cost					
As at 31 December 2004	**177,881**	**712,973**	**1,517,563**	**567,576**	**2,975,993**
Additions	67,555	178,969	248,684	115,450	610,658
Disposals	-	(126,836)	(407,479)	(140,793)	(675,108)
Sale of subsidiary	-	(32,688)	(87,732)	(49,412)	(169,832)
As at 31 December 2005	**245,436**	**732,418**	**1,271,036**	**492,821**	**2,741,711**
Depreciation					
As at 31 December 2004	**(22,361)**	**(238,007)**	**(802,632)**	**(338,394)**	**(1,401,394)**
Charge for the year	(34,395)	(141,165)	(273,583)	(73,596)	(522,739)
Depreciation on disposed assets	-	117,253	406,333	139,160	662,746
Sale of subsidiary	-	11,899	29,041	10,766	51,706
As at 31 December 2005	**(56,756)**	**(250,020)**	**(640,841)**	**(262,064)**	**(1,209,681)**
Net Book Value at 31 December 2004	**155,520**	**474,966**	**714,931**	**229,182**	**1,574,599**
Net Book Value at 31 December 2005	**188,680**	**482,398**	**630,195**	**230,757**	**1,532,030**

All tangible assets were for the Group's own use.

26. OTHER ACCRUED INCOME AND DEFERRED EXPENSE

	31.12.2005	31.12.2004
Prepayments for software maintenance	2,062	46,813
Prepayments for rent	19,832	34,290
Other accrued income and deferred expense	3,263	6,039
	25,157	**87,142**

27. SHARE CAPITAL

a) issued and fully paid share capital

	31.12.2005		31.12.2004	
	Number	LVL	Number	LVL
Ordinary shares with nominal value LVL 1	**4,652,067**	**4,652,067**	**4,652,067**	**4,652,067**

NOTES TO THE FINANCIAL STATEMENTS

27. SHARE CAPITAL (continued)

b) major shareholders

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

	31.12.2005		31.12.2004	
	Number of shares	**Share-holding**	**Number of shares**	**Share-holding**
Codan AS	2,416,055	51.94%	2,416,055	51.94%
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%
	4,649,047	**99.94%**	**4,649,047**	**99.94%**

The shares of the Group's companies are not listed.

28. PROVISIONS FOR TAXES

	2005	**2004**
Deferred tax liabilities as at the beginning of the year	225,021	128,483
Increase/(decrease) in deferred tax liabilities during the reporting year (see Note 15)	(6,962)	96,538
Sale of subsidiary	86,798	-
Deferred tax liabilities as at the end of the year	**304,857**	**225,021**

Deferred tax is calculated from the following temporary differences between assets and liabilities and their values for the purpose of the calculations of corporate income tax:

	31.12.2005	**31.12.2004**
Temporary difference on depreciation of buildings and tangible assets	440,856	271,936
Temporary difference for accrued expenses	(104,321)	(105,932)
Temporary difference for provisions on doubtful debtors	(33,401)	(25,008)
Temporary difference for value adjustments on securities	1,723	84,025
Deferred tax liabilities	**304,857**	**225,021**

29. OTHER PROVISIONS

	Provisions for other personnel expense	**Provisions for unused annual leave**	**Total**
Balance as at 31 December 2004	**204,065**	**207,526**	**411,591**
Net change	102,604	(3,283)	99,321
Sale of subsidiary	(104,669)	(22,129)	(126,798)
Balance as at 31 December 2005	**202,000**	**182,114**	**384,114**

NOTES TO THE FINANCIAL STATEMENTS

30. LIABILITIES TO CREDIT INSTITUTIONS

	31.12.2005	31.12.2004
Repo deal *	-	285,000
Credit cards	3,141	1,995
	3,141	**286,995**

* Repo deal as at 31 December 2004 represents short term liability to Nordea Bank Finland Plc according to bond reverse repo agreement with the repayment date 11 January 2005 (see Note 19).

31. TAX AND SOCIAL INSURANCE PAYMENTS

	31.12.2005	31.12.2004
Corporate income tax	5,093	-
Social insurance	171,583	151,711
Personal income tax	127,034	335,922
Value added tax	14,449	8,756
Other taxes	480	38
	318,639	**496,427**

32. OTHER CREDITORS

Personnel	440,300	266,526
Liability to intermediaries	307,286	-
Liability for payments to Motor Insurers' Bureau of Latvia	43,357	57,923
Liability to Finance and Capital Market Commission	69,246	59,294
Other creditors	136,887	294,928
	997,076	**678,671**

33. ACCRUED EXPENSE AND DEFERRED INCOME

Accruals for intermediary commissions	160,276	96,499
Unearned reinsurance commissions	1,702	25,721
Deferred income	6,220	-
Accruals for other expenses	168,679	149,893
	336,877	**272,113**

34. MANDATORY PAYMENTS

	2005	2004
Motor Insurers' Bureau of Latvia	384,359	531,443
Finance and Capital Market Commission	296,339	241,723
	680,698	**773,166**

NOTES TO THE FINANCIAL STATEMENTS

35. RESULTS OF THE CEDED REINSURANCE

	2005	2004
Reinsurers' share in premiums	(1,302,140)	(1,395,812)
Reinsurers' share in changes in unrealised premiums and unexpired risk provision	(318,027)	125,416
Reinsurers' share in claims	949,132	57,089
Reinsurers' share in changes in provision for claims	25,674	32,149
Reinsurers' share in changes in life insurance technical provisions	765	2,593
Reinsurers' commission income	42,448	76,636
	(602,148)	**(1,101,929)**

36. RELATED PARTY TRANSACTIONS

The Group's Parent company is the subsidiary of insurance company AS CODAN (Denmark) that owns 51.94% of the Company's shares. Royal Sun Alliance (United Kingdom) is the ultimate parent company. Other companies listed in this note are Royal Sun Alliance Group companies.

On August 1 2005 the Group sold AAS Balta Dzīvība shares. At the time of the sale AS SEB Latvijas Unibanka became a 100% owner of AAS Balta Dzīvība. After the sale, the name of AAS BALTA Dzīvība was changed to AAS SEB Dzīvības Aprošināšana.

a) transactions with related parties

Reinsurance

	2005
Lietuvos Draudimas:	
Reinsurance premiums ceded	(14,982)
Reinsurance commissions received	853
Recovered loss amounts	501
	(13,628)
Royal Sun Alliance:	
Reinsurance premiums ceded	(108,824)
Reinsurance commissions paid	(3,939)
Claims received	872,896
	760,133

During the reporting year the Group used management consulting services provided by AS Codan for Ls 280.5 thousand (2004: Ls 114 thousand) and by Lietuvos Draudimas for Ls 9 thousand (2004: Ls 7 thousand). These fees are included in administrative expense.

b) balances with related parties

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

	31.12.2005	31.12.2004
Liabilities to Codan AS	**34,714**	**25,180**

37. SUBSIDIARIES

Company	Type of insurance	Share in equity (%) 31.12.2005	Share in equity (%) 31.12.2004	Country
AAS BALTA Dzīvība	Life insurance	-	100%	Latvia

All the investments were held in ordinary shares which were not listed.

NOTES TO THE FINANCIAL STATEMENTS

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 2005 there was 21 open legal claim outstanding against the Group amounting to LVL 148 thousand. The management is of the opinion that no material unprovided losses will be incurred (31 December 2004: total amount of claims - LVL 188 thousand).

Capital commitments.
As at 15 November 2005, the Group's parent company signed an agreement with SIA "CONSTRUCTUS" on construction works in the building at Biķernieku 17, Riga. According to this agreement the contracted sum is 747,611 lats. The parent company has to make monthly payments in line with the works carried out. Works are scheduled to commence in January 2006. The object is planned to be put in operation by 22 May 2006.

Apart from the aforementioned the Group does not have any capital commitments as at 31 December 2005.

39. SUBSEQUENT EVENTS

There are no subsequent events since the last date of the reporting year, which would have a significant effect on the financial position of the Group as at 31 December 2005.

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers SIA
Kr. Valdemāra iela 19
Rīga LV 1010
Latvija
Telephone +371 709 4400
Facsimile +371 783 0055

AUDITORS' REPORT

To the shareholders of AAS BALTA

We have audited the consolidated financial statements on pages 6 to 32 of AAS BALTA and its subsidiary ("the Group") for the year ended 31 December 2005. The audited consolidated financial statements include the consolidated balance sheet as of 31 December 2005, related consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended 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 AAS BALTA management, as well as evaluating the overall consolidated financial statement presentation. We read the Council and Board report set out on pages 3 to 4 and did not identify material inconsistencies with the audited 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 Group as of 31 December 2005, 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
Certified auditor
Certificate No. 116

Member of the Board

16 March 2006