AAS BALTA ANNUAL ACCOUNTS FOR 2009

AAS BALTA

Annual report in accordance with the requirements of International Financial Reporting Standard as adopted by the European Union for the year ended 31 December 2009 and Independent Auditor's Report

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MEMBERS OF THE COUNCIL AND THE BOARD OF DIRECTORS, THE AUDITORS

Council

Name, Surname	*Position*
Andrew John Burke	Chairman of the Council (since 19.06.2009)
Andrew Kirkland	Chairman of the Council (until 01.01.2009)
Helle Meineche	Deputy of Chairman of the Council
Miriam Assumpta Connole	Member of the Council (since 16.06.2009)
Kestutis Serpytis	Member of the Council
Kaido Kepp	Member of the Council

Board

Name, Surname	*Position*
Tara Jane Kneafsey	Chairman of the Board
Uldis Dzintars	Member of the Board
Madara Melnmate	Member of the Board
Aivars Vilnitis	Member of the Board (since 09.10.2009)
Dace Briede-Zālīte	Member of the Board (until 24.09.2009)

Name and address of the auditor and responsible certified auditor:

Deloitte Audits Latvia SIA
Licence No. 43
Gredu 4a
Riga, LV-1019
Latvia

Responsible certified auditor:
Jelena Mihejenkova
Certified auditor
Certificate No.166

REPORT OF THE COUNCIL AND THE BOARD OF DIRECTORS

The year 2009 will enter Latvian non-life insurance market history, due to the greatest ever market decline. Overall, insurance market decline last year reached 28 percent, in sharp contrast to the strong market growth within the period from 2006 till 2008. Growth of Latvian insurance market in 2006 reached 35 percent, in 2007 – 59 percent, and in 2008 – 12 percent.

The dramatic fall of the non-life insurance market was largely due to the general economic situation in Latvia, with the national economy greatly suffering from a drastic drop of gross domestic product, decrease of retail turnover and rapid growth of unemployment. All of this had a negative effect on consumers' habits.

In 2009 total amount of underwritten premiums in non-life insurance market reached LVL 219 million, while paid out indemnities amounted to LVL 142.1 million, which is 14 percent less than in 2008.

In 2009 the fall of the amount of underwritten premiums was more dramatic than decrease of paid out indemnities, therefore the relation between paid out indemnities and underwritten premiums also increased. In 2009 this relation reached 65 percent, while in 2008 it was 55 percent.

Insurance Joint-Stock Company „BALTA" (hereinafter referred to as AAS „BALTA"), similar to all Latvian non-life insurance market, in 2009 experienced a decline of total amount of underwritten premiums by 31.5 percent, with gross underwritten premiums for the amount of LVL 41.6 million, which is LVL 19.1 million less than in 2008.

Despite the decrease of underwritten premiums, in 2009 AAS „BALTA" remained one of the leading non-life insurance companies in Latvian market.

In 2009 AAS "BALTA" Claims paid LVL 26.3 million, a decrease of 21.5% against 2008. This is in line with premium decrease, as ever AAS "BALTA" continued to enhance it's reputation of paying claims fairly and promptly.

Building on the successes of 2008, AAS „BALTA" claims has again improved it's customer service delivery. Examples include the achievement of world class call centre customer response times, and reducing the Motor KASKO average claims decision speed by over 30%. Such achievements have been delivered through revising processes, using the world renowned Lean Six Sigma approach.

AAS "BALTA"'s country wide repair network means, on KASKO claims, that customers do not have to have their car inspected at a AAS "BALTA" branch, but can go straight to the repair shop once they have used the convenient call centre to register a claim. In addition on Motor, AAS "BALTA" again led the market and launched a successful Roadside Assistance product, providing further help and support to customers when they need it most.

As with all insurance companies, AAS "BALTA" saw a significant increase in Health claims during 2009. Excellent service was maintained during the year to ensure customers and Medical Institution partners had their claims settled quickly and fairly.

In 2009 AAS "BALTA" continued work with sales effectiveness improvement. During the year the role of sales in distribution channels was reviewed, which ensured more targeted and efficient work with clients, including development of closer partnership with brokers and main distributors of policies - banks, leasing companies and car dealers. According to customer needs and cost-effectiveness criteria, the network of branches and sales points has been optimized.

In spite of the market slump in 2009, internet distribution channel has shown significant growth, and its share in total sales has increased.

REPORT OF THE COUNCIL AND THE BOARD OF DIRECTORS (continued)

During the year one of the key strategic goals was to cater services to the wants and needs of our customers while providing top quality customer service, especially important in the current economically challenging period of time. In order to achieve the set goals in customer service, customer satisfaction and service level surveys have been regularly carried out.

With respect to efforts invested to ensure top quality customer service in 2009, AAS „BALTA" won recognition and several awards in different important researches and surveys. Annual survey of the respectable financial magazine „Euromoney" announced AAS „BALTA" as Latvian Insurer of the Year in two nominations. AAS „BALTA" obtained the highest appreciation for excellent performance in claims settlement, and for the best insurance service quality/price ratio.

In 2009 customers also expressed their appreciation of high quality and service of AAS „BALTA", in different surveys naming AAS „BALTA" the most reliable and the fairest insurer in Latvia, and the most favoured brand in insurance industry.

In annual Reputation Top AAS „BALTA" also obtained the highest appreciation among Latvian insurance companies.

High level customer service and good reputation is impossible without professional staff and the management involving and motivating its staff. In 2009 AAS „BALTA" paid great attention to the staff involvement into decision-making and achieving results in matters important for the company. Management and professional competence was constantly being developed and improved.

As compared with previous years, in 2009 AAS „BALTA" paid greater attention to the internal training and to the use of the parent company's development programmes and professional competence for the staff development and training. The main covered spheres are leadership development abilities, customer service and quality improvement training, marketing, professional risk management and underwriting, as well as implementation of different projects connected with staff management and motivation.

As a part of RSA Group, in 2009 AAS "BALTA" expanded the local successful "Compassion Day" initiative in accordance with the corporate social responsibility philosophy of RSA Group additionally introducing the Volunteer Week in Latvia, which is a very important element of the corporate social responsibility culture of RSA Group. More than 250 AAS "BALTA" employees participated in a variety of socially useful activities during the "Volunteer Week", devoting more than 500 hours of work to it - providing assistance to society by educating the youth in safe driving, donating blood, helping senior citizens, cleaning the Botanical Garden of the University of Latvia and helping people in need.

The operations of AAS "BALTA", especially investment management activities, are exposed to a range of financial risks. The most important components of this financial risk are credit risks, liquidity risks and market risks, which include interest rate risks, currency risks and share price risks. AAS "BALTA" management has set policies that limit possible financial risks in order to reduce the potential effect on the Company's financial situation. In managing credit risks, AAS "BALTA" complies with stipulated limits regarding deals with one trading partner or similar trading partner groups, as well as deposit issuer credit ratings. Liquidity risks are 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. To manage market risks, term difference analyses, duration analyses and sensitivity analyses are performed and limits in currency positions are set. Financial risks are reviewed at least once a year. The asset management commission regularly supervises the compliance of deals under risk to limits.

AAS "BALTA" constantly receives requests for insurance claim payments. To maintain liquidity and reduce cash flow risk AAS "BALTA" performs certain activities, namely, controlling cash flows from direct insurance operations and balancing them with investment cash flows. Hence a minimal amount of cash necessary for claims payments is assured.

REPORT OF THE COUNCIL AND THE BOARD OF DIRECTORS (continued)

Notwithstanding considerable decrease in the amount of underwritten premiums, AAS „BALTA” closed last year with LVL 4.2 million profits. As compared to 2008, the decrease is 16.5 percent, or LVL 0.8 million, however, it is a strong result in current situation. One of the main reasons for good financial results in 2009 is a slow down of fall in earned premiums, which, comparing with the results of the year 2008, decreased by 11 percent, or LVL 6.4 million. It is expected that it will also affect the results of the year 2010.

On behalf of the management of the Insurance Joint-Stock Company „BALTA” we would like to thank all our clients, shareholders and business partners for their confidence in us. Special thanks to the reliable and professional team of AAS „BALTA” for work, put into achievement of common goals, for brilliant ideas and solutions in improvement of quality of their work and the services provided by the company

No events occurred after the balance sheet date which could have a material impact on the results of the year and the financial position of AAS “BALTA” at the end of the year.

Andrew John Burke	Tara Jane Kneafsey
Chairman of the Council	Chairman of the Board

24 March 2010

STATEMENT OF THE RESPONSIBILITY OF THE BOARD OF DIRECTORS

The Board of Directors of AAS BALTA confirms that the Financial Statements for the year ended 31 December 2009 are prepared in accordance with the International Financial Reporting Standards as adopted by EU and appropriate accounting policies, applied on a consistent basis. The Board of Directors of AAS BALTA is responsible for preparing these financial statements from the books of primary entry. The Board of Directors confirms that these Financial Statements for the year ended 31 December 2009 present fairly the financial position at the end of the reporting year, and the results of its operations and cash flows for the reporting year.

Prudent and reasonable judgements and estimates have been made by the Board of Directors in the preparation of the Financial Statements for the year ended 31 December 2009.

The Board of Directors of AAS BALTA is responsible for the maintenance of proper accounting records, the safeguarding of the Company's assets and the prevention and detection of fraud and other irregularities in the Company. It is also responsible for operating the Company in compliance with the legislation of the Republic of Latvia.

Andrew John Burke
Chairman of the Council

Tara Jane Kneafsey
Chairman of the Board

24 March 2010

STATEMENT OF COMPREHENSIVE INCOME

	Note	2009	2008
Income			
Gross written premiums	3	41 560 839	60 643 471
Less: reinsurance premiums	3	(1 305 658)	(1 337 370)
Net written premiums		40 255 181	59 306 101
Change in the gross provision for unearned premiums	4	*11 321 995*	*(1 198 351)*
Less: change in provision for unearned premiums, reinsurers' share	4	*54 893*	*(113 992)*
Change in provision for unearned premiums		11 376 888	(1 312 343)
Net earned premiums		51 632 069	57 993 758
Interest income	5	1 562 011	1 595 530
Net fair value (losses) on financial assets at fair value through profit or loss	6	(239 713)	(508 502)
Other income	7	288 066	332 169
Total income		**53 242 433**	**59 412 955**
Expenses			
Gross claims paid to policyholders		(26 002 126)	(34 171 953)
Claims settlement expense		(2 060 895)	(2 079 210)
Less: recovered loss amount		1 729 027	2 702 333
Gross claims paid	8	(26 333 994)	(33 548 830)
Less: reinsurers' share	8	392 363	606 436
Net claims paid		(25 941 631)	(32 942 394)
Change in gross provision for claims	9	(5 442 907)	1 276 067
Less: change in provision for claims, reinsurers' share	9	3 803 078	(707 341)
Net claims incurred		(27 581 460)	(32 373 668)
Client acquisition costs	10	(5 569 496)	(6 411 188)
Administrative expense	11	(14 114 276)	(13 806 758)
Other expense	12	(1 053 044)	(1 049 876)
Total expenses		**(48 318 276)**	**(53 641 490)**
Finance income	13	260 280	282 894
Finance expenses	14	(107 500)	-
Profit before tax		**5 076 937**	**6 054 359**
Income tax expense	15	(858 933)	(1 003 805)
Profit for the year		**4 218 004**	**5 050 554**
Other comprehensive income for the year			
Revaluation reserve		(48 509)	73 152
Total comprehensive income for the year		**4 169 495**	**5 123 706**

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

Andrew John Burke
Chairman of the Council

Tara Jane Kneafsey
Chairman of the Board

24 March 2010

STATEMENT OF FINANCIAL POSITION

	Note	31.12.2009	31.12.2008 (Reclassified)
ASSETS			
Intangible assets	16	**2 903 870**	**4 337 456**
Property, plant and equipment	17	**3 207 861**	**4 904 280**
Financial investments at fair value through profit / (loss)	18	33 465 468	27 362 842
Loans	19	33 529	102 901
Term deposits with banks	39	1 373 080	10 606 829
Total investments		**34 872 077**	**38 072 572**
Receivables due from policyholders		5 676 967	8 369 180
Receivables due from intermediaries		214 748	463 136
Direct insurance debtors	20	5 891 715	8 832 316
Reinsurance debtors	21	54 187	69 923
Total insurance and reinsurance debtors		**5 945 902**	**8 902 239**
Unearned premium reserve, reinsurers' share	4	122 816	67 923
Outstanding claims reserve, reinsurers' share	22	4 338 011	534 933
Reinsurers' share of insurance contract liabilities		**4 460 827**	**602 856**
Deferred tax assets	23	**320 618**	**18 927**
Current tax assets	15	**293 670**	**-**
Accrued income and deferred expense	24	4 290 138	3 148 363
Other debtors	25	670 821	1 143 521
Total other debtors and other assets		**4 960 959**	**4 291 884**
Cash and cash equivalents	26	**9 242 591**	**6 355 539**
TOTAL ASSETS		**66 208 375**	**67 485 753**

Notes on pages 13 to 45 are an integral part of these financial statements.

Andrew John Burke
Chairman of the Council

Tara Jane Kneafsey
Chairman of the Board

24 March 2010

STATEMENT OF FINANCIAL POSITION (continued)

	Note	31.12.2009	31.12.2008
EQUITY, RESERVES AND LIABILITIES			
EQUITY AND RESERVES			
Share capital	27	4 652 067	4 652 067
Share premium		1 121 332	1 121 332
Reserve capital and other reserves	27	3 062 205	3 062 205
Revaluation reserve	28	24 643	73 152
Retained earnings		16 107 238	11 889 234
TOTAL EQUITY AND RESERVES		**24 967 485**	**20 797 990**
LIABILITIES			
Unearned premium reserve	4	16 507 090	27 829 085
Outstanding claims reserve	9	17 825 824	12 382 918
Insurance contract liabilities		**34 332 914**	**40 212 003**
Insurance liabilities		1 150 995	1 066 274
Reinsurance liabilities		265 213	245 777
Current tax liabilities	15	-	718 138
Taxes and the state compulsory social insurance contributions	29	330 370	370 492
Accrued expense and deferred income	30	3 257 796	2 315 383
Other creditors	31	1 903 602	1 759 696
Total creditors		**6 907 976**	**6 475 760**
TOTAL LIABILITIES		**41 240 890**	**46 687 763**
TOTAL EQUITY, RESERVES AND LIABILITIES		**66 208 375**	**67 485 753**

Notes on pages 13 to 45 are an integral part of these financial statements.

Andrew John Burke
Chairman of the Council

Tara Jane Kneafsey
Chairman of the Board

24 March 2010

STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Reserve capital and other reserves	Retained Earnings	Revaluation reserve	Total
Balance as at 31 December 2007	**4 652 067**	**1 121 332**	**3 062 205**	**6 838 680**	**-**	**15 674 284**
Profit for the year	-	-	-	5 050 554	-	5 050 554
Changes in revaluation surplus on land and buildings, net of deferred tax	-	-	-	-	73 152	73 152
Balance as at 31 December 2008	**4 652 067**	**1 121 332**	**3 062 205**	**11 889 234**	**73 152**	**20 797 990**
Profit for the year	-	-	-	4 218 004	-	4 218 004
Changes in revaluation surplus on land and buildings, net of deferred tax	-	-	-	-	(48 509)	(48 509)
Balance as at 31 December 2009	**4 652 067**	**1 121 332**	**3 062 205**	**16 107 238**	**24 643**	**24 967 485**

Notes on pages 13 to 45 are an integral part of these financial statements.

Andrew John Burke
Chairman of the Council

Tara Jane Kneafsey
Chairman of the Board

24 March 2010

STATEMENT OF CASH FLOWS

	Note	2009	2008
Cash flows from operating activities			
Premiums received from direct insurance		45 357 224	61 055 374
Claims paid for direct insurance		(26 002 126)	(34 171 953)
Payments received from ceded reinsurance		398 519	722 445
Payments made for ceded reinsurance		(1 230 046)	(1 496 704)
Income tax paid		(2 173 268)	(444 452)
Other expense		(18 099 375)	(21 956 871)
Net cash (used in) / generated from operating activities:		**(1 749 072)**	**3 707 839**
Cash flows from investing activities			
Sale of investments		28 821 646	16 203 359
Purchase of investments		(26 724 410)	(22 741 585)
Income from investing activities		2 487 437	1 718 418
Dividends received		1 712	3 223
Net cash generated from / (used in) investing activities:		**4 586 385**	**(4 816 585)**
Result of foreign exchange rate fluctuations		**49 739**	**210**
Net increase / (decrease) in cash and cash equivalents		**2 887 052**	**(1 108 536)**
Cash and cash equivalents at the beginning of year		6 355 539	7 464 075
Cash and cash equivalent at the end of the year	26	**9 242 591**	**6 355 539**

Notes on pages 13 to 45 are an integral part of these financial statements.

Andrew John Burke
Chairman of the Council

Tara Jane Kneafsey
Chairman of the Board

24 March 2010

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

Name of the Company:	Insurance joint stock company BALTA
Legal address:	Raunas Street 10/12, Riga, LV-1039
Phone, fax numbers:	(+371) 6708 2333, (+371) 6708 2345
VAT reg. number:	LV 40003049409
State Revenue Service department:	Department of large taxpayers
The major shareholder:	Codan AS (99.99%)

The shares of the Company are not listed.

These financial statements have been authorised for issue by the Board of Directors on 24 March 2010.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of presentation of the financial statements

These financial statements are prepared in accordance with International Financial Reporting Standards (hereinafter "IFRS") as adopted by the European Union (hereinafter "EU") and in accordance with regulations relevant to insurance companies issued by Financial Capital and Market Commission (hereinafter "FCMC").

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except from the following standards, amendments to the existing standards and interpretations, which were not endorsed for use as at 31 December 2009:

- *IFRS 9 "Financial Instruments"* (effective for annual periods beginning on or after 1 January 2013).
- *Amendments to various standards and interpretations resulting from the Annual quality improvement project of IFRS published on 16 April 2009 (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9, IFRIC 16)* primarily with a view to removing inconsistencies and clarifying wording, (most amendments are to be applied for annual periods beginning on or after 1 January 2010).
- *Amendments to IAS 24 "Related Party Disclosures"* - Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party (effective for annual periods beginning on or after 1 January 2011).
- *Amendments to IFRS 1 "First-time Adoption of IFRS"*- Additional Exemptions for First-time Adopters (effective for annual periods beginning on or after 1 January 2010).
- Amendments to IFRS 2 "Share-based Payment" - Group cash-settled share-based payment transactions (effective for annual periods beginning on or after 1 January 2010).
- *Amendments to IFRIC 14 "IAS 19 — The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction"* - Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after 1 January 2011).
- *IFRIC 19 "Extinguishing Liabilities with Equity Instruments"* (effective for annual periods beginning on or after 1 July 2010).

The Company anticipates that the adoption of these standards, amendments to the existing standards and interpretations will have no material impact on the financial statements of the Company in the period of initial application.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

The preparation of financial statements in conformity with IFRS as adopted by the EU requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where estimates and judgements are significant to the financial statements are disclosed in Note 37.

All amounts in the financial statements are shown in Latvian Lats (LVL), unless otherwise stated.

a) Amendments to the existing standards and interpretations effective in the current period

The following amendments and revisions to the existing standards issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) adopted by the EU are effective and mandatory for the periods beginning on or after 1 January 2009:

Amendments to various standards and interpretations resulting from the Annual quality improvement project of IFRS published on 22 May 2008 (IAS 1, IFRS 5, IAS 8, IAS 10, IAS 16, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 34, IAS 36, IAS 38, IAS 39, IAS 40, IAS 41) primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on 23 January 2009 (most amendments are to be applied for annual periods beginning on or after 1 January 2009). The revisions clarify the required accounting recognition in cases where free interpretation used to be permitted. The most important changes include new or revised requirements regarding: (i) classification of asset and liabilities of a subsidiary as held for sale when the parent is obliged to plan the sale of controlling interest but is going to hold the non-controlling interest; (ii) reclassification of property, plant and equipment previously held for lease to inventory when the assets are not subject to lease and are held for sale, and recognizing inflows from their disposal in revenue; (iii) recognition of state grants resulting from loans with interest below the market level; (iv) classification of fixed assets under construction held for investment as investment property in line with IAS 40 resulting in their measurement at fair value if compliant with the entity's accounting principles and their fair value can be reliably measured. The adoption of these amendments has not led to any changes in the Company's accounting policies.

IAS 1 (revised) "Presentation of Financial Statements" – a revised presentation, adopted by the EU on 17 December 2008 (effective for annual periods beginning on or after 1 January 2009). The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they are required to present a restated balance sheet as at the beginning of the comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. Revised standard has not led to any changes in the Company's accounting policies.
Amendments to IAS 32 "Financial Instruments: Presentation" and IAS 1 "Presentation of Financial Statements" – Puttable financial instruments and obligations arising on liquidation, adopted by the EU on 21 January 2009 (effective for annual periods beginning on or after 1 January 2009). The amendments require separate financial instruments complying with the definition of financial liabilities to be classified in Equity. The adoption of these amendments has not led to any changes in the Company's accounting policies.

Amendments to IAS 39 „Financial Instruments: Recognition and Measurement" and IFRS 7 „Financial Instruments: Disclosures" - Reclassification of financial assets, effective date and transition, adopted by the EU on 9 September 2009 (effective for annual periods beginning on or after 1 July 2008). The adoption of these amendments has not led to any changes in the Company's accounting policies.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Amendments to IFRS 2 "Share-based Payment" – Vesting conditions and cancellations, adopted by the EU on 16 December 2008 (effective for annual periods beginning on or after 1 January 2009). The amendment limits vesting conditions to service conditions and performance conditions. Other features of share-based payment are not vesting conditions. The adoption of these amendments has not led to any changes in the Company's accounting policies.

Amendments to IFRS 4 "Insurance contracts" and *Amendments to IFRS 7 "Financial Instruments: Disclosures"* - Improving disclosures about financial instruments, adopted by the EU on 27 November 2009 (effective for annual periods beginning on or after 1 January 2009). The amendments to IFRS 7 introduce a three-level hierarchy for fair value measurement disclosures and require entities to provide additional disclosures about the relative reliability of fair value measurements. In addition, the amendments clarify and enhance the existing requirements for the disclosure of liquidity risk. The adoption of these amendments has not led to any changes in the Company's accounting policies.

IFRS 8 "Operating Segments" adopted by the EU on 21 November 2007 (effective for annual periods beginning on or after 1 January 2009). The Standard replaces IAS 14 "Segment Reporting" and among others requires that operating segments are defined in line with internal reports on components of a business entity subject to periodic review by a member of management in charge of operating decisions for the purpose of resource allocation and performance evaluation. The adoption of this standard has not led to any changes in the Company's accounting policies.

Amendments to IFRIC 9 "Reassessment of Embedded Derivatives" and IAS 39 "Financial Instruments: Recognition and Measurement" – Embedded Derivatives, adopted by the EU on 30 November 2009 (effective for annual periods ending on or after 1 January 2009), that clarifies that on reclassification of a financial asset out of the "at fair value through profit or loss" category all embedded derivatives have to be assessed and, if necessary, separately accounted for in financial statements. The adoption of these amendments has not led to any changes in the Company's accounting policies.

IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions" adopted by the EU on 1 June 2007 (effective for annual periods beginning on or after 1 March 2008). The Interpretation provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity- settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent. It also addresses the accounting for share-based payment transactions involving two or more entities within one group. The adoption of this Interpretation has not led to any changes in the Company's accounting policies.

The following amendments and revisions to the existing standards issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) adopted by the EU are effective for the periods beginning on or after 1 January 2009, but not relevant to the Company's operations:

Amendments to IFRS 1 "First-time Adoption of IFRS" and *IAS 27 "Consolidated and Separate Financial Statements"* – Cost of investment in a subsidiary, jointly-controlled entity or associate, adopted by the EU on 23 January 2009 (effective for annual periods beginning on or after 1 January 2009).

IAS 23 (revised) "Borrowing Costs" adopted by the EU on 10 December 2008 (effective for annual periods beginning on or after 1 January 2009).

IFRIC 13 "Customer Loyalty Programmes" adopted by the EU on 16 December 2008 (effective for annual periods beginning on or after 1 January 2009).

IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" adopted by the EU on 16 December 2008 (effective for annual periods beginning on or after 1 January 2009).

b) Standards and Interpretations in issue not yet adopted by the Company

As at 31 December 2009the following standards, revisions and interpretations adopted by the EU were in issue but not yet adopted by the Company:

NOTES TO THE FINANCIAL STATEMENTS (continued)

IFRS 1 (revised) "First-time Adoption of IFRS", adopted by the EU on 25 November 2009 (effective for annual periods beginning on or after 1 January 2010).

IFRS 3 (revised) "Business Combinations" adopted by the EU on 3 June 2009 (effective for annual periods beginning on or after 1 July 2009).

Amendments to IAS 27 "Consolidated and Separate Financial Statements" adopted by the EU on 3 June 2009 (effective for annual periods beginning on or after 1 July 2009).

Amendments to IAS 32 "Financial Instruments: Presentation" – Accounting for rights issues, adopted by the EU on 23 December 2009 (effective for annual periods beginning on or after 1 January 2011).

Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" - Eligible hedged items, adopted by the EU on 15 September 2009 (effective for annual periods beginning on or after 1 July 2009).

IFRIC 12 "Service Concession Arrangements" adopted by the EU on 25 March 2009 (effective for annual periods beginning on or after 30 March 2009).

IFRIC 15 "Agreements for the Construction of Real Estate", adopted by the EU on 22 July 2009 (effective for annual periods beginning on or after 1 January 2010).

IFRIC 16 "Hedges of a Net Investment in a Foreign Operation", adopted by the EU on 4 June 2009 (effective for annual periods beginning on or after 1 July 2009).

IFRIC 17 "Distributions of Non-Cash Assets to Owners", adopted by the EU on 26 November 2009 (effective for annual periods beginning on or after 1 November 2009).

IFRIC 18 "Transfers of Assets from Customers", adopted by the EU on 27 November 2009 (effective for transfer of assets from customers received on or after 1 November 2009).

The Company has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Company anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Company in the period of initial application.

2.2 Insurance contracts

a) Premiums

Written insurance premiums consist of the premiums in contracts, which become effective during the 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.

b) Claims incurred

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

c) Administrative expenses

Administrative expenses - are related to the collection of premiums, management of portfolios, processing of bonuses and discounts and incoming and outgoing reinsurance. They include personnel expenses and depreciation to the extent they are not included in acquisition, claims handling or investing expenses.
Administrative expenses consist of two parts:

a) direct costs such as those directly related to administrative personnel, training, etc.
b) indirect costs such as communications expenses, expenses for offices, office supplies, etc.

d) Acquisition costs

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

e) Deferred client acquisition costs

Commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts are capitalised as an intangible asset (DAC). All other client acquisition costs are recognised as expenses when incurred. The DAC is subsequently amortised over the terms of the policies as premium is earned on pro-rata basis.

f) Insurance contract liabilities

Unearned premium reserve comprises written gross premium related to period from the balance sheet date to the expiry of insurance agreement to cover all claims and expenses in accordance with insurance agreements in force.

Outstanding claims reserve is an amount provided at the end of the reporting year in respect of estimated losses incurred but not yet settled. Outstanding claims reserve includes provisions for reported but not settled claims and provision for incurred but not reported claims. Outstanding claims reserve includes direct claims settlement 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 claims reserve.

2.3 Interest income and expense

Interest income and expense are recognised in the income statement for all interest bearing instruments on an accruals basis using the effective yield method based on the actual purchase price. Interest income includes coupons earned on fixed income debt securities, interest on bank deposits and other loans and accrued discounts and premiums on discounted instruments. When 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.

2.4 Investments

The Company classifies its financial assets in the following categories: at loans and receivables and at fair value through profit or loss. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are classified as Loans, Term deposits with banks, Insurance and Reinsurance debtors and Other debtors in the statement of financial position. See for accounting policy on Receivables from direct insurance operations.

b) Financial assets at fair value through profit or loss

All the Company's investments in securities are classified as financial assets at fair value through profit or loss. The Company's overall investment objective is to maximize its total return (i.e. interest or dividends and changes in fair value) given a low to medium level of risk and within the given restrictions for the whole portfolio. Accordingly the Company manages and evaluates the investment portfolio performance on a total return bases and financial instruments are designated as at fair value through profit or loss.

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Company commits to purchase or sell the asset. Loans and receivables are initially recognised at fair value plus transaction costs. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are recognised in the income in the period in which they arise.

NOTES TO THE FINANCIAL STATEMENTS (continued)

The fair values of quoted investments are based on current bid prices. The Company does not have investments in unquoted financial assets at fair value through profit or loss.

Interest using the effective interest method and dividends are recognised in the income statement as part of Interest and dividend income. Dividends are recognised in the income statement when the Company's right to receive payments is established.

The Company assesses at each balance sheet date whether there is objective evidence that a loan or receivable or a group of those financial assets is impaired. A provision for impairment on loans and receivables is established if there is objective evidence that the Company 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 are included in the income statement.

2.5 Direct insurance debtors

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

2.6 Intangible assets and Property, plant and equipment

Land and buildings are shown at fair value, based on periodic, but at least triennial, valuations by external independent appraisers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

All other property, plant and equipment and intangible assets are stated at historical cost less accumulated depreciation and amortisation. Increases in the carrying amount arising on revaluation of land and buildings are credited to the revaluation surplus in shareholders' equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to the income statement.

Land is not depreciated. Depreciation and amortisation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful life using following rates set by the management:

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

The assets' residual values and useful lives are reviewed at each balance sheet date and adjusted if appropriate. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when they exceed LVL 2 000 and when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Leasehold improvements above LVL 2 000 are written down on a straight line basis during leasehold period, but not longer than 5 years. Leasehold improvements below LVL 2 000 are charged to the income statement during the financial period in which they are incurred.

Gains or losses on disposals are determined by comparing carrying amount with proceeds and are credited or charged to the income statement account during the period in which they are incurred. When revalued assets are sold, the amounts included in the revaluation surplus are transferred to income statement.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.7 Foreign currency translation

a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates (functional currency). The financial statements are presented in Latvian Lats (LVL), which is the Company's functional and presentation currency.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement of the respective period.

	31.12.2009	**31.12.2008**
1 USD	LVL 0.489	LVL 0.495
1 GBP	LVL 0.783	LVL 0.728
1 LTL	LVL 0.204	LVL 0.203
1 EUR	LVL 0.702804	LVL 0.702804

2.8 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, as well as from accrued expenses and provisions for bad and doubtful debts. The deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2.9 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.10 Accruals for unused annual leave

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

2.11 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 Company, 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 Company administration and are not directly attributable to a particular unit of the Company, are divided as follows:
– total indirect costs are attributed against total earned premiums in period and thus average indirect costs coefficient is obtained;
– multiplying earned premium by type of customer (legal entity or individual) in each type of insurance with average indirect costs coefficient, hence obtaining the total for indirect costs, which are attributable to corresponding type of insurance.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Other technical income and expense are allocated by types of insurance at a maximum extent available and other not allocated expenses are distributed between types of insurance proportionally to the gross premiums written during the year.

2.12 Employee benefits

Short-term employee benefits, including salaries and social security contributions, bonuses and vacation benefits, are included in Administrative expenses on accrual basis. The Company calculates annual bonuses for personnel based on previous year financial results and achievement of personal goals. The accruals for personnel bonuses represent the amount accrued as at the year end.

The Company pays social security contributions to the State Social Security Fund (the Fund) on behalf of its employees in accordance with local legal requirements. The Fund is used by the State to finance pension, unemployment and other benefits. The Company is required to pay fixed contributions into the Fund and will have no legal or constructive obligations to pay further contributions relating to employee service in the current and prior period. The social security contributions are recognised as an expense on an accrual basis and are included within staff costs.

2.13 Share capital and dividend distribution

Ordinary shares are classified as equity.

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

3. NET WRITTEN PREMIUMS

	2009			2008		
	Gross amount	Reinsurers' share	Net amount	Gross amount	Reinsurers' share	Net amount
Personal accident	1 146 611	(36 975)	1 109 636	1 405 169	(42 200)	1 362 969
Health	7 633 995	-	7 633 995	7 597 962	-	7 597 962
Motor own damage	11 572 031	(21 951)	11 550 080	22 379 275	(36 902)	22 342 373
Marine	38 372	(4 034)	34 338	53 494	(4 219)	49 275
Cargo	305 570	(46 873)	258 697	535 619	(51 383)	484 236
Property	11 801 869	(690 086)	11 111 783	15 026 748	(794 819)	14 231 929
General TPL	1 246 989	(130 005)	1 116 984	1 407 257	(160 994)	1 246 263
Guarantees	61 488	-	61 488	79 772	-	79 772
Financial risks	135 623	(3 198)	132 425	100 969	(6 195)	94 774
Travel accident	377 115	(15 102)	362 013	486 766	(15 473)	471 293
Obligatory motor TPL	7 241 176	(357 434)	6 883 742	11 570 440	(225 185)	11 345 255
	41 560 839	**(1 305 658)**	**40 255 181**	**60 643 471**	**(1 337 370)**	**59 306 101**

Almost all policies are issued to clients operating in Latvia.

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

OMTPL Guarantees Foundation	fixed sum for certain type of vehicle;
State Traffic Security Foundation	2% from signed insurance premium during the accounting period;
Motor Insurers` Bureau of Latvia	variable sum LVL 0.28 per contract and fixed sum LVL 30 000 in year or LVL 2 500 in a month.

In year 2009 OMTPL mandatory deductions amounted to LVL 219 708 (2008: LVL 377 008). The gross premiums in OMTPL are shown above net of these mandatory deductions.

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. UNEARNED PREMIUM RESERVE

a) Movement in unearned premium reserve

	Gross amount	Reinsurers' share	Net amount
Balance as at 31 December 2007	**26 630 734**	**(181 915)**	**26 448 819**
Change in the year	1 198 351	113 992	1 312 343
Balance as at 31 December 2008	**27 829 085**	**(67 923)**	**27 761 162**
Change in the year	(11 321 995)	(54 893)	(11 376 888)
Balance as at 31 December 2009	**16 507 090**	**(122 816)**	**16 384 274**

b) Changes in unearned premium reserve and distribution by type of insurance for the year 2009:

	Gross amount	Reinsurers' share	Net amount
Personal accident	(157 051)	-	(157 051)
Health	(782 687)	-	(782 687)
Motor own damage	(5 563 787)	-	(5 563 787)
Marine	(10 960)	-	(10 960)
Cargo	(6 794)	1 090	(5 704)
Property	(1 827 944)	(55 885)	(1 883 829)
General TPL	(118 022)	(98)	(118 120)
Guarantees	(6 929)	-	(6 929)
Financial risks	3 942	-	3 942
Travel accident	(5 203)	-	(5 203)
Obligatory motor TPL	(2 846 560)	-	(2 846 560)
	(11 321 995)	**(54 893)**	**(11 376 888)**

c) Changes in unearned premium reserve and distribution by type of insurance for the year 2008:

	Gross amount	Reinsurers' share	Net amount
Personal accident	71 749	-	71 749
Health	453 318	-	453 318
Motor own damage	(999 188)	4 471	(994 717)
Marine	(413)	-	(413)
Cargo	(9 550)	751	(8 799)
Property	448 245	(495)	447 750
General TPL	104 621	41 669	146 290
Guarantees	6 431	-	6 431
Financial risks	(26 035)	-	(26 035)
Travel accident	946	-	946
Obligatory motor TPL	1 148 227	67 596	1 215 823
	1 198 351	**113 992**	**1 312 343**

NOTES TO THE FINANCIAL STATEMENTS (continued)

d) Gross unearned premium reserve as at the year end:

	31.12.2009	31.12.2008
Personal accident	533 260	690 311
Health	1 788 742	2 571 429
Motor own damage	5 653 649	11 217 435
Marine	16 091	27 052
Cargo	47 831	54 625
Property	5 611 953	7 439 898
General TPL	565 624	683 646
Guarantees	22 770	29 700
Financial risks	49 932	45 990
Travel accident	11 176	16 378
Obligatory motor TPL	2 206 062	5 052 621
	16 507 090	**27 829 085**

5. INTEREST INCOME

	2009	2008
From financial investments at fair value through profit or loss:		
Government bonds	945 196	1 027 113
Corporate bonds	222 650	25 206
Mortgage backed debt securities	42 000	21 000
Listed shares	1 712	3 223
Loans and receivables:		
Deposits with banks	347 257	512 927
Loans	3 196	6 061
	1 562 011	**1 595 530**

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

	2009	2008
Government bonds	(262 841)	(379 798)
Mortgage backed debt securities	(43 147)	(99 170)
Listed shares	9 151	(70 416)
Corporate bonds	57 124	40 882
	(239 713)	**(508 502)**

	2009	2008
Realised gains / (losses):		
Government bonds	36 172	(13 477)
Listed shares	(9 254)	-
Unrealised gains / (losses):		
Government bonds	(299 013)	(366 321)
Mortgage backed debt securities	(43 147)	(99 170)
Listed shares	18 405	(70 416)
Corporate bonds	57 124	40 882
	(239 713)	**(508 502)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. OTHER INCOME

	2009	2008
Income from recalculation of social insurance tax	133 712	61 179
Income from cancellation of policies	53 985	81 124
Commissions from insurance policies fronting	19 532	12 030
Reinsurance commission income (see Note 34)	16 763	9 937
Expertise income	12 564	10 145
Income from rent	10 218	11 744
Income of agreement penalties	8 760	61
Income from Russian survey for RSA	4 759	-
Income on sale of damage cars	3 600	3 600
Insurance claims received	2 205	6 244
Income from Pool “BALTA-PAREX-ERGO” administration	1 355	2 389
Income from distribution of policies of Baltijas Apdrošināšanas Nams	457	6 362
Gain on sale of tangible assets	364	61 882
Commissions for distribution of other insurance companies’ products	258	6 185
Income from distribution of policies of SEB Life Insurance	-	272
Recalculation of Financial and Capital Market Commission participation fee	-	52 290
Other income	19 534	6 725
	288 066	**332 169**

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

	2009	2008
Personal accident	4 868	6 602
Health	885	42 860
Motor own damage	93 333	118 546
Marine	887	176
Cargo	1 087	1 505
Property	124 051	52 308
General TPL	16 336	17 075
Guarantees	3 811	7 818
Financial risks	9 976	236
Travel accident	822	2 087
Obligatory motor TPL	32 010	82 956
	288 066	**332 169**

8. CLAIMS PAID

	2009			2008		
	Gross amount	**Reinsurers’ share**	**Net amount**	**Gross amount**	**Reinsurers’ share**	**Net amount**
Personal accident	(323 270)	-	(323 270)	(390 211)	-	(390 211)
Health	(8 095 716)	-	(8 095 716)	(4 826 132)	-	(4 826 132)
Motor own damage	(8 505 811)	(6 612)	(8 512 423)	(12 901 692)	12 886	(12 888 806)
Marine	(6 287)	-	(6 287)	(22 053)	-	(22 053)
Cargo	(96 776)	-	(96 776)	(74 193)	-	(74 193)
Property	(4 264 510)	392 110	(3 872 400)	(7 739 146)	456 568	(7 282 578)
Loan insurance	-	-	-	72	-	72
General TPL	(265 742)	-	(265 742)	(429 772)	-	(429 772)
Guarantees	(14 458)	-	(14 458)	(13 935)	-	(13 935)
Financial risks	(26 740)	-	(26 740)	(353 980)	120 137	(233 843)
Travel accident	(159 428)	-	(159 428)	(159 495)	-	(159 495)
Obligatory motor TPL	(4 575 256)	6 865	(4 568 391)	(6 638 293)	16 845	(6 621 448)
	(26 333 994)	**392 363**	**(25 941 631)**	**(33 548 830)**	**606 436**	**(32 942 394)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. OUTSTANDING CLAIMS RESERVE

a) Movement in outstanding claims reserve

	2009			2008		
	Gross amount	**Reinsurance**	**Net amount**	**Gross amount**	**Reinsurance**	**Net amount**
Year ended 31 December						
Notified claims	8 722 689	(534 933)	8 187 756	10 935 612	(1 242 274)	9 693 338
Incurred but not reported	3 660 228	-	3 660 228	2 723 373	-	2 723 373
Total at beginning of year	**12 382 917**	**(534 933)**	**11 847 984**	**13 658 985**	**(1 242 274)**	**12 416 711**
Cash paid for claims settled in year	(5 375 977)	124 755	(5 251 222)	(8 423 723)	408 625	(8 015 098)
Increase in liabilities:						
- Arising from current year claims	7 342 978	(152 923)	7 190 055	8 801 297	(110 654)	8 690 643
- Arising from prior year claims	3 475 906	(3 774 910)	(299 004)	(1 653 641)	409 370	(1 244 271)
Total change in year	5 442 907	(3 803 078)	1 639 829	(1 276 067)	707 341	(568 726)
Total at end of year	**17 825 824**	**(4 338 011)**	**13 487 813**	**12 382 918**	**(534 933)**	**11 847 985**
Notified claims	12 034 011	(4 338 011)	7 696 000	8 722 690	(534 933)	8 187 757
Incurred but not reported	5 791 813	-	5 791 813	3 660 228	-	3 660 228
Total at end of year	**17 825 824**	**(4 338 011)**	**13 487 813**	**12 382 918**	**(534 933)**	**11 847 985**

b) Change in outstanding claims reserve and distribution by type of insurance for the year 2009:

	Gross amount	**Reinsurance**	**Net amount**
Personal accident	102 382	(129 720)	(27 338)
Health	219 935	-	219 935
Motor own damage	(1 332 852)	-	(1 332 852)
Marine	(1 946)	-	(1 946)
Cargo	(41 652)	-	(41 652)
Property	1 307 817	93 217	1 401 034
General TPL	(265 232)	758	(264 474)
Guarantees	15 002	-	15 002
Financial risks	(26 783)	-	(26 783)
Travel accident	(62 759)	-	(62 759)
Obligatory motor TPL	5 528 995	(3 767 333)	1 761 662
	5 442 907	**(3 803 078)**	**1 639 829**

c) Change in outstanding claims reserve and distribution by type of insurance for the year 2008:

	Gross amount	**Reinsurance**	**Net amount**
Personal accident	80 719	-	80 719
Health	(645 576)	-	(645 576)
Motor own damage	(602 701)	-	(602 701)
Marine	9 245	-	9 245
Cargo	88 350	-	88 350
Property	(1 247 735)	431 015	(816 720)
General TPL	366 894	(12 801)	354 093
Guarantees	(8 430)	-	(8 430)
Financial risks	(793 247)	393 448	(399 799)
Travel accident	24 146	-	24 146
Obligatory motor TPL	1 452 268	(104 321)	1 347 947
	(1 276 067)	**707 341**	**(568 726)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

d) Gross outstanding claims reserve as at the year end:

	31.12.2009	31.12.2008
Personal accident	258 605	156 223
Health	921 929	701 994
Motor own damage	1 443 462	2 776 315
Marine	13 160	15 106
Cargo	116 092	157 744
Property	2 852 377	1 544 559
General TPL	605 220	870 451
Guarantees	15 759	757
Financial risks	166 269	193 052
Travel accident	29 017	91 777
Obligatory motor TPL	11 403 934	5 874 940
	17 825 824	**12 382 918**

10. CLIENT ACQUISITION COSTS

	2009	2008
Commissions and other agent related expense	(2 008 181)	(3 066 840)
Commissions to brokers and other intermediaries	(1 881 354)	(2 794 277)
Changes in deferred client acquisition costs (Note 16)	(1 198 747)	162 728
State compulsory social insurance contributions	(480 079)	(708 462)
Other client acquisition costs	(1 135)	(4 337)
	(5 569 496)	**(6 411 188)**

Distribution of client acquisition costs (DAC) and changes in deferred acquisition costs by type of insurance:

2009	Client acquisition costs	Changes in DAC	Client acquisition costs, net
Personal accident	(112 988)	(19 847)	(132 835)
Health	(327 719)	(41 441)	(369 160)
Motor own damage	(1 404 916)	(642 088)	(2 047 004)
Marine	(5 234)	(2 115)	(7 349)
Cargo	(22 252)	(5 728)	(27 980)
Property fire	(2 032 242)	(342 176)	(2 374 418)
General TPL	(133 760)	(10 878)	(144 638)
Guarantees	(4 891)	(712)	(5 603)
Financial risks	(15 534)	323	(15 211)
Travel accident	(29 954)	(370)	(30 324)
Obligatory motor TPL	(281 259)	(133 715)	(414 974)
	(4 370 749)	**(1 198 747)**	**(5 569 496)**

2008	Client acquisition costs	Changes in DAC	Client acquisition costs, net
Personal accident	(150 806)	12 258	(138 548)
Health	(383 171)	14 702	(368 469)
Motor own damage	(2 599 545)	(32 811)	(2 632 356)
Marine	(7 249)	1 180	(6 069)
Cargo	(47 108)	1 834	(45 274)
Property fire	(2 677 332)	104 380	(2 572 952)
General TPL	(149 084)	18 057	(131 027)
Guarantees	(7 494)	(227)	(7 721)
Financial risks	(12 510)	(4 878)	(17 388)
Travel accident	(39 640)	408	(39 232)
Obligatory motor TPL	(499 977)	47 825	(452 152)
	(6 573 916)	**162 728**	**(6 411 188)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. ADMINISTRATIVE EXPENSE

	2009	**2008**
Salaries		
- salaries to staff	(4 857 469)	(5 770 331)
- state compulsory social insurance contributions	(1 129 606)	(1 127 753)
Information and communication expense	(2 705 653)	(1 384 740)
Professional services	(1 486 736)	(801 633)
Depreciation and amortisation	(1 345 517)	(1 686 380)
Premise maintenance and repair expense	(560 757)	(459 821)
Advertising and public relations	(478 318)	(794 912)
Rent of premises	(452 791)	(489 923)
Transport	(298 927)	(363 604)
Payments to Financial and Capital Market Commission	(199 038)	(164 385)
Office expense	(160 917)	(257 090)
Payments to Foundation of Insured Interests Protection	(151 315)	(196 281)
Other administrative expense	(287 232)	(309 905)
	(14 114 276)	**(13 806 758)**

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 0.190% from gross premiums collected in Obligatory Motor Third Party Liability insurance and in amount of 0.488% from gross premiums collected in other types of insurance. Payments to Foundation of Insured Interests Protection amount to 1.000% of premiums collected from individuals in voluntary types of insurance.

At the end of year 2009, 430 employees (2008: 516) and 300 agents (2008: 405) were employed in the Company. As at 31 December 2009, 329 employees (2008: 384) and 52 agents (2008: 64) were working in the central office, and 101 (2008: 132) employees and 248 (2008: 341) agents in branches.

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

	2009	**2008**
Personal accident	(399 219)	(520 954)
Health	(1 935 264)	(1 428 990)
Motor own damage	(4 247 182)	(4 939 367)
Marine	(11 675)	(10 761)
Cargo	(85 418)	(108 904)
Property	(3 842 204)	(3 432 199)
General TPL	(376 556)	(321 419)
Guarantees	(18 786)	(16 835)
Financial risks	(29 546)	(23 716)
Travel accident	(171 705)	(177 909)
Obligatory motor TPL	(2 996 721)	(2 825 704)
	(14 114 276)	**(13 806 758)**

12. OTHER EXPENSE

	2009	**2008**
Impairment losses on land and buildings (see Note 16)	(939 098)	(929 050)
Changes in provisions for doubtful debts	(72 224)	(42 611)
Disposal of property, plant and equipment	(4 996)	-
LTAB uncompensated administrative expenses	(483)	-
LTAB uncompensated claims of Obligatory motor TPL	(245)	(9 579)
LTAB uncompensated discount	-	(15 544)
Other expense	(35 998)	(53 092)
	(1 053 044)	**(1 049 876)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

	2009	2008
Personal accident	(33 124)	(42 131)
Health	(147 966)	(103 126)
Motor own damage	(319 560)	(364 537)
Marine	(425)	(786)
Cargo	(6 312)	(7 925)
Property	(274 957)	(257 219)
General TPL	(32 080)	(22 023)
Guarantees	-	(1 222)
Financial risks	-	(1 697)
Travel accident	(12 663)	(12 164)
Obligatory motor TPL	(225 957)	(237 046)
	(1 053 044)	**(1 049 876)**

13. FINANCE INCOME

	2009	2008
Interest on cash and cash equivalents	260 280	217 750
Gain from foreign currency fluctuations	-	65 144
	260 280	**282 894**

14. FINANCE EXPENSES

	2009	2008
Losses from foreign currency fluctuations	(107 500)	-
	(107 500)	**-**

15. INCOME TAX EXPENSE

	2009	2008
Current tax for the reporting year	(1 152 011)	(1 266 169)
Change in deferred tax balances (Note 23)	293 078	262 364
Total income tax expense	**(858 933)**	**(1 003 805)**

As at 31 December 2009 the Company has corporate income tax assets at the amount of LVL 293 670 (2008: income tax liabilities at the amount of LVL 718 138).

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

	2009	2008
Profit before tax	**5 076 937**	**6 054 359**
Theoretically calculated tax at a tax rate of 15%	(761 541)	(908 154)
Expenses not deductible for tax purposes	(134 981)	(150 123)
Non-taxable income	22 159	12 807
Tax discount for donations	11 134	41 665
Deferred Taxation of Revaluation of property surplus trough Equity	4 296	-
Current tax charge	**(858 933)**	**(1 003 805)**

Effective income tax in 2009 is 16.92% (2008: 16.58%).

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. INTANGIBLE ASSETS

	Deferred client acquisition costs	Software	Total
At 1 January 2008			
Cost	3 000 850	3 877 470	6 878 320
Accumulated amortisation	-	(2 339 527)	(2 339 527)
Net book amount	**3 000 850**	**1 537 943**	**4 538 793**
Year ended 31 December 2008			
Opening net book amount	3 000 850	1 537 943	4 538 793
Additions	6 573 916	469 727	7 043 643
Disposals	(6 411 188)	(212 833)	(6 624 021)
Amortisation charge	-	(833 791)	(833 791)
Amortisation on disposed assets	-	212 832	212 832
Closing net book amount	3 163 578	1 173 878	4 337 456
At 1 January 2009			
Cost	3 163 578	4 134 364	7 297 942
Accumulated amortisation	-	(2 960 486)	(2 960 486)
Net book amount	**3 163 578**	**1 173 878**	**4 337 456**
Year ended 31 December 2009			
Opening net book amount	3 163 578	1 173 878	4 337 456
Additions	4 350 995	332 911	4 683 906
Disposals	(5 549 742)	(53 982)	(5 603 724)
Amortisation charge	-	(567 750)	(567 750)
Amortisation on disposed assets	-	53 982	53 982
Closing net book amount	1 964 831	939 039	2 903 870
At 31 December 2009			
Cost	1 964 831	4 413 293	6 378 124
Accumulated amortisation	-	(3 474 254)	(3 474 254)
Net book amount	**1 964 831**	**939 039**	**2 903 870**

17. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Leasehold improve-ments	Transport vehicles	Computer equipment	Furniture and fittings	Total
At 1 January 2008						
Cost	3 867 445	524 540	658 949	1 814 119	894 550	7 759 603
Accumulated depreciation	(430 045)	(136 788)	(445 323)	(1 224 717)	(330 167)	(2 567 040)
Net book amount	**3 437 400**	**387 752**	**213 626**	**589 402**	**564 383**	**5 192 563**
Year ended 31 December 2008						
Opening net book amount	3 437 400	387 752	213 626	589 402	564 383	5 192 563
Additions	174 283	145 601	724 409	236 243	190 160	1 470 696
Disposals	-	(6 923)	(406 967)	(294 429)	(17 719)	(726 038)
Depreciation charge	(73 385)	(106 661)	(181 770)	(308 020)	(182 753)	(852 589)
Depreciation on disposed assets	-	6 923	348 019	294 036	13 659	662 637
Impairment losses: charged to income statement	(929 050)	-	-	-	-	(929 050)
Increase in revaluation surplus	86 061	-	-	-	-	86 061
Closing net book amount	2 695 309	426 692	697 317	517 232	567 730	4 904 280

NOTES TO THE FINANCIAL STATEMENTS (continued)

	Land and buildings	Leasehold improve-ments	Transport vehicles	Computer equipment	Furniture and fittings	Total
At 1 January 2009						
Cost or valuation	3 198 739	663 218	976 391	1 755 933	1 066 991	7 661 272
Accumulated depreciation	(503 430)	(236 526)	(279 074)	(1 238 701)	(499 261)	(2 756 992)
Net book amount	**2 695 309**	**426 692**	**697 317**	**517 232**	**567 730**	**4 904 280**
Year ended 31 December 2009						
Opening net book amount	2 695 309	426 692	697 317	517 232	567 730	4 904 280
Additions	-	-	35 229	16 922	39 273	91 424
Disposals	-	(13 932)	(3 186)	(188 522)	(216 479)	(422 119)
Depreciation charge	(57 855)	(116 937)	(192 211)	(225 182)	(185 583)	(777 768)
Depreciation on disposed assets	-	5 075	3 138	187 209	212 843	408 265
Impairment losses: charged to equity	(57 123)	-	-	-	-	(57 123)
Impairment losses: charged to income statement	(939 098)	-	-	-	-	(939 098)
Closing net book amount	1 641 233	300 898	540 287	307 659	417 784	3 207 861
At 31 December 2009						
Cost or valuation	2 202 518	649 286	1 008 434	1 584 333	889 785	6 334 356
Accumulated depreciation	(561 285)	(348 388)	(468 147)	(1 276 674)	(472 001)	(3 126 495)
Net book amount	**1 641 233**	**300 898**	**540 287**	**307 659**	**417 784**	**3 207 861**

All property was for Company's own use.

The Company's land and buildings were tested for impairment at 31 December 2009. The valuation was made as on 31.12.2009 by external independent appraiser on the basis of open market value. The impairment losses in total LVL 939 098 (2008: LVL 929 050) were debited to the income statement and LVL 57 123 (2008: LVL 0) were debited to the revaluation surplus in the equity.

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

	31.12.2009	31.12.2008
Cost	4 041 728	4 041 728
Accumulated depreciation	(579 902)	(503 430)
Net book amount	**3 461 826**	**3 538 298**

NOTES TO THE FINANCIAL STATEMENTS (continued)

18. FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31.12.2009 Carrying amount of investment	31.12.2009 Cost	31.12.2008 Carrying amount of investment	31.12.2008 Cost
Latvian government bonds	3 762 244	4 362 350	3 690 971	4 796 736
German government bonds	8 242 440	8 232 137	8 202 554	13 031 912
British government bonds	-	-	1 445 228	1 390 427
French government bonds	1 088 742	1 032 226	1 095 141	2 436 850
Spanish government bonds	-	-	3 560 554	3 435 222
Irish government bonds	-	-	6 410 523	6 236 949
Netherland government bonds	6 260 941	6 148 446	1 130 584	1 035 019
Danish government bonds	2 517 508	2 524 152	-	-
Finish government bonds	4 549 990	4 506 095	-	-
Corporate bonds	6 402 145	6 185 718	1 089 730	1 034 893
Mortgage backed debt securities	641 458	786 980	684 605	786 980
Latvian companies shares	-	-	39 807	39 204
Lithuanian companies shares	-	-	6 841	30 210
Estonian companies shares	-	-	6 304	12 229
	33 465 468		**27 362 842**	

The split between current and non-current financial investments at fair value through profit or loss is included in Note 39.

19. LOANS

	31.12.2009 Current	31.12.2009 Non-current	31.12.2009 Total	31.12.2008 Current	31.12.2008 Non-current	31.12.2008 Total
Loans to employees	13 936	-	13 936	52 152	15 585	67 737
Loans secured by a car pledge	4 393	322	4 715	8 531	11 755	20 286
Mortgage loans	13 981	897	14 878	11 499	3 379	14 878
	32 310	**1 219**	**33 529**	**72 182**	**30 719**	**102 901**

According to the Company's policy, the mortgage and pledge for the loan is insured for the loan issuers' benefit.

20. DIRECT INSURANCE DEBTORS

	31.12.2009	31.12.2008 (Reclassified)	31.12.2008
Gross receivables from direct insurance operations *	6 029 116	9 070 202	10 002 024
Provisions for receivables from direct insurance operations	(137 401)	(237 886)	(237 886)
	5 891 715	**8 832 316**	**9 764 138**

* - In the financial statements for 2009 receivables from salvage transactions are classified under Other Debtors (Note 25). In the financial statements for 2008 those were classified under Direct insurance debtors.

21. REINSURANCE DEBTORS

	31.12.2009	31.12.2008
Gross receivables from reinsurance operations	56 413	72 149
Provisions for receivables from reinsurance operations	(2 226)	(2 226)
	54 187	**69 923**

NOTES TO THE FINANCIAL STATEMENTS (continued)

22. OUTSTANDING CLAIMS RESERVE, REINSURERS' SHARE

The reinsurers' share of outstanding claims reserve include LVL 3 847 851 (2008: LVL 122 991) reserved for MTPL insurance case in Ireland. Most of the remaining part represents MTPL insurance case in Germany in the amount of LVL 323 290 (2008: LVL 280 818) and PA insurance case in the amount of LVL 129 720 (2008: LVL 0). Remaining reserve represent LVL 37 150 (2008: LVL 131 124).

23. DEFERRED TAX ASSETS

	2009	**2008**
Deferred tax (assets) / liabilities as at the beginning of the year	(18 927)	230 528
Deferred tax credited to the income statement (see Note 15)	(293 078)	(262 364)
Deferred tax debited to equity (see Note 28)	4 296	12 909
Deferred tax adjustment to prior years	(12 909)	-
Deferred tax asset as at the end of the year	**(320 618)**	**(18 927)**

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:

	31.12.2009	**31.12.2008**
Temporary difference on depreciation of property, plant and equipment	125 859	313 991
Temporary difference on revaluation of buildings charged to Equity (see Note 28)	4 296	12 909
Temporary difference for accrued expense	(412 456)	(316 069)
Temporary difference for provisions on doubtful debtors	(38 317)	(29 758)
Deferred tax asset as at the end of the year	**(320 618)**	**(18 927)**

24. ACCRUED INCOME AND DEFERRED EXPENSE

	31.12.2009	**31.12.2008**
Prepayments for software maintenance	3 815 549	2 585 161
Repair works	378 059	447 640
Deferred commission expense	55 290	42 735
Prepayments for rent	24 146	44 897
Other deferred expense	13 087	15 262
Prepayments for insurance	4 007	12 668
	4 290 138	**3 148 363**

25. OTHER DEBTORS

	31.12.2009	**31.12.2008** (Reclassified)	**31.12.2008**
Receivables from salvage debtors *	587 133	931 822	-
Provisions for doubtful salvage debtors	(149 593)	-	-
Receivables from suitable scrap buyers	72 219	47 878	47 878
Receivables from related companies	62 128	24 625	24 625
Receivables from Pool "BALTA-PAREX-ERGO"	23 559	-	-
Receivables from others insurance companies	12 909	42 383	42 383
Receivables from agents	10 871	19 732	19 732
Receivables from Motor Insurers' Bureau of Latvia	2 901	5 922	5 922
Receivables for claims regulation	1 912	2 856	2 856
Other debtors	121 513	120 436	120 436
Accruals for other debtors	(74 731)	(52 133)	(52 133)
	670 821	**1 143 521**	**211 699**

* - Please see the comment under the Note 20.
Other receivables are due within 12 months from the balance sheet date and carry no interest.

NOTES TO THE FINANCIAL STATEMENTS (continued)

26. CASH AND CASH EQUIVALENTS

	31.12.2009	31.12.2008
Cash at bank	4 723 857	1 603 997
Bank deposits with original maturity of three months or less	4 518 734	4 751 542
	9 242 591	**6 355 539**

The effective interest rate for 2009 on bank deposits with original maturity of three months or less was 1.06% (2008: 5.6%) and has an average maturity of 29 (2008: 55) days.

27. SHARE CAPITAL AND RESERVES

a) Issued and fully paid share capital

The total authorised number of ordinary shares is 4 652 067 (2008: 4 652 067), with nominal value of LVL 1 per share (2008: LVL 1 per share). All issued shares are fully paid.

The Company's shares are not listed.

b) Major shareholder

The major shareholder of the Company with 4 651 714 (2008: 4 651 714) or 99.99% (2008: 99.99%) shares is Codan AS (Denmark).

The reserves have been created by transferring profits from retained earnings to these reserves during the previous years in accordance with applicable Latvian law and shareholders' decisions. These reserves can not be distributed to shareholders.

28. REVALUATION RESERVE

	31.12.2009	31.12.2008
Revaluation surplus for land and buildings	28 939	86 061
Deferred tax arising on revaluation of land and buildings	(4 296)	(12 909)
Total	**24 643**	**73 152**

29. TAXES AND THE STATE COMPULSORY SOCIAL INSURANCE CONTRIBUTIONS

	31.12.2009	31.12.2008
State compulsory social insurance contributions	194 321	205 455
Personal income tax	112 985	159 524
Value added tax	22 880	5 287
Unemployment risk duty	184	226
Total	**330 370**	**370 492**

During the year the following tax payments have been made:

	2009	2008
State compulsory social insurance payments	2 544 532	2 847 422
Corporate income tax	2 173 268	444 452
Personal income tax	1 533 751	1 882 228
Value added tax	182 596	264 399
Property tax	14 673	14 659
Unemployment risk duty	2 485	2 882
	6 451 305	**5 456 042**

NOTES TO THE FINANCIAL STATEMENTS (continued)

30. ACCRUED EXPENSES AND DEFERRED INCOME

	31.12.2009	31.12.2008
Accruals for Group entities expenses	949 605	111 796
Accruals for unused annual leave	670 622	884 643
Accruals for personnel bonuses	498 873	712 791
Next period written premium for long term policies	498 703	202 290
Accruals for other expenses	614 295	309 401
Accruals for intermediary commissions	16 310	88 492
Unearned reinsurance commissions	8 361	5 370
Other deferred income	1 027	600
	3 257 796	**2 315 383**

31. OTHER CREDITORS

	31.12.2009	31.12.2008
Deferred commissions payable to agents	790 667	889 649
Liability to related companies	527 160	250 409
Personnel	330 989	415 587
Payable to IBM Latvia	108 577	-
Liability to Finance and Capital Market Commission	73 375	35 407
Liability for payments to Motor Insurers' Bureau of Latvia	30 226	78 047
Payable to SEB Life Insurance	290	10 336
Liability to Pool "BALTA-PAREX-ERGO"	-	18 256
Other creditors	42 318	62 005
	1 903 602	**1 759 696**

Deferred commissions payable represent amounts calculated for commission expense that is not due yet. Settlement payments for these amounts should be made after full payment of policies.

32. DIVIDENDS PER SHARE

No dividends were paid in 2009 and 2008. The amount of dividends that will be proposed at the Annual Shareholders' Meeting is LVL 4 186 860 or LVL 0.90 per share.

33. MANDATORY PAYMENTS

Types of mandatory payments made during the year:

	2009	2008
Motor Insurers' Bureau of Latvia	267 529	365 019
Finance and Capital Market Commission	312 389	383 543
	579 918	**748 562**

NOTES TO THE FINANCIAL STATEMENTS (continued)

34. RESULTS OF THE CEDED REINSURANCE

	2009	2008
Reinsurers' share in premiums (see Note 3)	(1 305 658)	(1 337 370)
Reinsurers' share in changes in unearned premiums (see Note 4)	54 893	(113 992)
Reinsurers' share in claims (see Note 8)	392 363	606 436
Reinsurers' share in changes in provision for claims (see Note 9)	(3 803 078)	707 341
Reinsurers' commission income (see Note 7)	16 763	9 937
Net result of ceded reinsurance activities:	**(4 644 717)**	**(127 648)**

35. RELATED PARTY TRANSACTION

A party is related to the Company if:
(a) directly, or indirectly through one or more intermediaries, the party:
- controls, is controlled by, or is under common control with, the Company (this includes parents, subsidiaries and fellow subsidiaries);
- has an interest in the Company that gives it significant influence over the Company; or
- has joint control over the Company;

(b) the party is an associate (as defined in IAS 28 Investments in Associates) of the Company;
(c) the party is a joint venture in which the Company is a venturer;
(d) the party is a member of the key management personnel of the Company or its parent;
(e) the party is a close member of the family of any individual referred to in (a) or (d);
(f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

The Parent company of the Company is Codan AS (Denmark). The ultimate parent company of the Company is RSA (UK). Lietuvos Draudimas (Lithuania) is a subsidiary of Codan AS. Codan Forsikring AS Eesti filiaal is a branch of Codan AS in Estonia.

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

a) Transactions with related parties

Reinsurance and fronting insurance

	2009	2008
Lietuvos Draudimas:		
Recovered loss amounts	-	72
	-	**72**
RSA:		
Fronting insurance premiums	(161 698)	(95 356)
Reinsurance premiums ceded	(58 188)	(101 923)
Fronting insurance commissions received	21 198	13 059
Reinsurance claims	-	(54 914)
Fronting insurance claims	267 545	456
Fronting insurance salvage	(45 454)	
Change of fronting insurance unearned premium reserve	(19 507)	2 222
Change of fronting insurance deferred client acquisition costs	48	(1 334)
Change of fronting insurance claim reserve	(14 823)	(8 380)
	(10 879)	**(246 170)**
Codan AS:		
Reinsurance premiums ceded	(197 186)	(149 586)
Reinsurance commissions paid	(12 794)	(9 473)
Reinsurance commissions received	18 088	12 943
Change of reinsurance unearned premium reserve	(36 252)	(12 320)
Change of reinsurance deferred client acquisition costs	3 007	5 305
Change of reinsurance received deferred client acquisition costs	2 106	3 713
	(223 031)	**(149 418)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

Other transactions

	2009	2008
Codan AS:		
Management consulting services	-	(188 894)
Training for employees	-	(113 064)
Recruitment services	-	(79 877)
IT consultation	-	(26 192)
Other services	-	(20 699)
Income from consultation	-	19 505
Cost compensation	895	-
	895	**(409 221)**
Lietuvos Draudimas:		
Management consulting services	(150 414)	(153 382)
	(150 414)	**(153 382)**
Codan Forsikring AS Eesti filiaal:		
Income from consultation	32 914	5 120
	32 914	**5 120**
RSA:		
Management consulting services	(1 302 254)	(9 472)
Training for employees	(35 738)	-
Recruitment services	(10 422)	-
IT consultation	(25 056)	-
Other services	(72 270)	(25 130)
Income from Russian insurance market survey	4 759	-
Income of consultation	17 779	-
Cost compensation	26 499	**-**
	(1 396 703)	**(34 602)**

b) Balances with related parties

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

	31.12.2009	31.12.2008
Fronting insurance claims reserves with RSA	23 203	8 380
Fronting insurance claims with RSA	1 708	7 679
Recovered loss amounts with RSA	(45 454)	-
Fronting insurance premiums RSA	(52 884)	(8 642)
Fronting insurance unearned premium reserve	33 510	14 003
Fronting insurance deferred client acquisition costs	(48)	-
Recovered loss amounts with Lietuvos Draudimas	146	146
Reinsurance with Codan AS *	(86 813)	(53 464)
Receivables from Codan Forsikring AS Eesti filial	13 078	5 120
Receivables from Codan	-	19 505
Receivables from Lietuvos Draudimas	13	13
Receivables from RSA	49 037	-
Liabilities to Codan AS	-	(184 284)
Liabilities to Lietuvos Draudimas	(31 023)	(66 125)
Liabilities to RSA	(1 445 742)	(26 133)
	(1 541 269)	**(283 802)**

c) Key management remuneration

The Company has paid remuneration to the Council and Board of Directors in the amount of LVL 465 thousands (2008: LVL 287 thousands).

NOTES TO THE FINANCIAL STATEMENTS (continued)

36. CONTINGENT LIABILITIES AND COMMITMENTS

a) General claims

In the normal course of business, the Company constantly receives requests for claim payments. Such claims have been reviewed by the Company's management who is of the opinion that no material unprovided losses will be incurred.

b) Litigation

The Company, like all other insurers, is subject to litigation in the normal course of its business. As at 31 December 2009 there were 28 (2008: 19) open legal claims against the Company amounting to LVL 968 thousands (2008: LVL 835 thousands). The management is of the opinion that no material unprovided losses will be incurred.

In addition to above, in 2009 were initiated litigations against the Company by three former employees. Accrual for received claim at the end of the year is not made since the Company's management is of the opinion that there is insignificant probability of negative outcome for the Company.

c) Capital commitments

The Company does not have any capital commitments as at 31 December 2009.

The Company does not have any non-cancellable operating leases as at 31 December 2009, these can usually be terminated at one to six months notice. Total minimal commitment for lease payments as at 31 December 2009 amounts to LVL 87 thousands (2008: LVL 153 thousands).

In year 2008 the Company concluded an agreement with SIA IBM Latvia on outsourcing of IT services, total contingent liabilities to SIA IBM Latvia as at 31.12.2009 amounts to LVL 998 thousands.

d) Tax contingency

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

37. ACCOUNTING ESTIMATES AND JUDGEMENTS

The Company makes estimates and assumptions that affect the reported amount of assets and liabilities within the next financial year. The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate.

The provisions for reported but not settled claims (RBNS) are based on claims handler estimate for each individual claim. In cases when a claim is reported but the estimate is not prepared yet, the average claim amount in the corresponding business line is used as an initial reserve.

The provision for incurred but not reported claims (IBNR) is calculated using chain – ladder method on claims paid or claims incurred development triangles. In business lines where there is not enough statistics or statistical data fluctuate to a considerable extent to use chain – ladder method, the reserve is calculated using Bornhuetter - Ferguson or expected ultimate method.

Claims settlement reserve is calculated from RBNS and IBNR reserves as a proportion which is taken from the claims handler expenses share in paid claims amount in last 12 month in each business line.

Reserves for recoverable amounts are calculated from RBNS reserves as a proportion which is taken from the salvage and subrogation share in paid claims during the last 12 month in each business line.

NOTES TO THE FINANCIAL STATEMENTS (continued)

The Company annually performs premium deficiency test to ensure that no losses are transferred to next periods. As at the 31 December 2009 there is no premium deficiency detected. For premium deficiency tests are considered claims and direct costs.

38. INSURANCE RISK MANAGEMENT

The Company issues contracts that transfer insurance risk. This section summarises these risks and the way the Company manages them.

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims is greater than estimated. Insurance events are random and the actual number and amount of claims will vary from year to year from the level established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio. The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

The frequency and severity of claims can be affected by several factors. The most significant are the increasing level of awards for the damage suffered, and the increase in the number of claim cases. Estimated inflation is also a significant factor due to increased increment rate of inflation.

The Company manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling.

The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and geography.

<u>Types of insurance contracts</u>

Motor third party liability insurance.
It is a compulsory insurance type, whose policy conditions and indemnification rules are prescribed by the Motor Third Party Liability Insurance Act and other legislation. Prices for motor third party liability insurance are determined by the market participants individually based on selected risk criteria. As a unified criterion for insurance premium calculation all insurance companies apply bonus-malus system which reduces the insurance premium upon absence of losses and increases the insurance premium upon existence of losses.

Most of motor third party liability insurance indemnities are made up of indemnities for property damage and lump sum personal injuries mostly medical treatment costs and temporary incapacity for work benefits. However, long – term indemnities may also be possible, such as pensions and permanent incapacity for work benefits which may be paid out over decades.

Accident insurance
The accident insurance covers the death or permanent incapacity for work arising from an accident, also unearned income during a reasonable medical treatment period (daily allowances) as well as medical expenses, caused by injury. The insurance amounts are set out on the insurance policy and generally they are not more than 25 thousands lats for death or permanent incapacity for work and 6 lats per day for daily allowances. Typical losses are generally small and they are indemnified as lump sums.

Death events rarely occur on the basis of accident insurance contracts.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Travel insurance
The travel insurance indemnifies for the medical treatment costs incurred during a trip if such costs are caused by an illness or an accident started during the trip. It is also possible to insure a baggage, to purchase insurance against trip cancellations, travel interruptions and delays as well as GTPL or personal accident coverage. The indemnity limit for the medical treatment and repatriation costs of passenger is limited to 70 thousands lats. A larger risk is related to potential natural disasters in holiday areas or transport crashes, where the number of injured is large. The reinsurance program covers indemnifies for losses exceeding 70 thousands lats per occurrence.

Typical losses are generally small and they are indemnified as lump sums. The amount of an indemnity depends on the location of the loss occurrence and the number of claims depends on the season.

Casco insurance
The insurance indemnifies for losses which arise from damage to, destruction or loss of vehicle. Several additional insurance covers may also be purchased which are related to insured vehicle. Insurance premiums are determined by each insurance company individually based on selected risk criteria. Insured amounts commonly do not exceed the limit of 50 thousands lats. Largest losses accumulate from the damage of vehicles and full destructions.

Property insurance, business interruption insurance and building risks insurance
The risks covered by property insurance include fire risk, piping leakage, explosion, burglary and robbery, as well as storm risk. Upon insuring home assets, liability insurance can additionally be purchased by individual persons.

Business interruption insurance covers lost business profits and fixed costs incurred, which arise from the realisation of any risk covered by property insurance of a company. Upon the sale of that insurance type, it is considered to be particularly important take into account the reliability of customers and transparency of financial statements.

Larger losses arise from fire risks, which in turn give rise to indemnification for business interruptions. The loss is particularly large if the property (buildings and structures with movables in them) insured to a full extent is destroyed and this leads to a business interruption indemnity until the production object is again put in operation. The most frequently realised risks for home property include piping leakages and fire. Larger losses result most often from the realisations of fire risk.

General liability insurance
The insurance indemnifies for proprietary damages and personal injuries which are caused by the policy holder to third parties. Upon the assessment/ selection of liability insurance risks, it is particularly important to take into account the customer's area of activity and appropriateness of activities.

Health insurance
The health insurance product is offered to companies who purchase health insurance for their employees. The risk covers health insurance indemnifies like expenses for doctor visits, hospital expenses, medicaments.

Due to the type of a mass product and large number of small indemnifies along with proper management the risk from this product is small.

<u>Concentration by industry</u>
The concentration of insurance risks by industry do not exceed 20% for an industry, therefore we do consider the risk concentration is at the acceptable level.

<u>Reinsurance contracts</u>
The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance assets.

These assets consist of short-term balances due from reinsurers as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

The Company assesses its reinsurance assets for impairment on a regular basis. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the income statement.

Sensitivity to insurance risk
Based on the fact that the Company provides non-life insurance, terms and conditions of insurance contracts, have no material effect on the amount, timing and uncertainty of the insurer's future cash flows.

Concentration by territory
All insurance contracts have been issued only in Latvia. The insured risk territorial coverage is mainly Latvia except travel policies and OMTPL policies in cases of abroad insurance accidents.

Geographical concentration of financial assets and liabilities as at year end (all amounts in thousands of LVL):

Year 2009	**Latvia**	**OECD countries**	**Other countries**	**Total**
Financial assets				
Financial investments at fair value through profit or loss	4 403	28 198	864	33 465
Loans	34	-	-	34
Term deposits with banks	1 373	-	-	1 373
Insurance and reinsurance debtors	5 892	54		5 946
Reinsurers' share of outstanding claims reserve	-	4 338	-	4 338
Cash and cash equivalents	9 243	-	-	9 243
Other debtors and accrued income	646	49	31	726
Total financial assets	**21 591**	**32 639**	**895**	**55 125**
Financial liabilities				
Outstanding claims reserve	(17 826)	-	-	(17 826)
Creditors and accrued expense	(4 660)	(1 709)	(31)	(6 400)
Total financial liabilities	**(22 486)**	**(1 709)**	**(31)**	**(24 226)**
Net financial assets / (liabilities) as at 31 December 2009	**(895)**	**30 930**	**864**	**30 899**

Year 2008	**Latvia**	**OECD countries**	**Other countries**	**Total**
Financial assets				
Financial investments at fair value through profit or loss	4 416	22 934	13	27 363
Loans	103	-	-	103
Term deposits with banks	9 304	1 303	-	10 607
Insurance and reinsurance debtors	8 832	70	-	8 902
Cash and cash equivalents	2 692	3 664	-	6 356
Reinsurers' share of outstanding claims reserve	-	535	-	535
Other debtors and accrued income	1 162	20	5	1 187
Total financial assets	**26 509**	**28 526**	**18**	**55 053**
Financial liabilities				
Outstanding claims reserve	(12 375)	(1)	(7)	(12 383)
Creditors and accrued expense	(5 694)	(513)	(61)	(6 268)
Total financial liabilities	**(18 069)**	**(514)**	**(68)**	**(18 651)**
Net financial assets / (liabilities) as at 31 December 2008	**8 440**	**28 012**	**(50)**	**36 402**

NOTES TO THE FINANCIAL STATEMENTS (continued)

Reinsurance coverage
The reinsurance arrangements include excess and catastrophe coverage. The effect of such reinsurance arrangements is that the Company for each insurance risk has following own retention:

Maximum own retention:

	2009	**2008**
Personal accident & Travel medical expense	70 280	70 280
Motor own damage	70 280	70 280
Cargo	105 421	105 421
Hull, CMR	105 421	105 421
Property	702 804	702 804
General TPL	140 561	140 561

Liability adequacy test
At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related deferred acquisition costs (DAC) assets. In performing these tests, current best estimates of future contractual cash flows are used. Any deficiency is immediately charged to income statement initially by writing off DAC and by subsequently establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision).

39. FINANCIAL RISK MANAGEMENT

The operations of the Company and investment management activities in particular expose it to a variety of financial risks, including credit risk, liquidity risks and market risks, which include interest rate risks, currency risks, as well as fair value risks. The Company's management seeks to minimise potential adverse effects of financial risks on the financial performance of the Company by placing limits on the level of exposure that can be taken.

39.1. Credit risk

The Company takes on exposure to credit risk which is the risk that counterparty will be unable to pay amounts in full when due. The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one issuer of securities, debtor, borrower, or group of the above. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Actual exposures against limits are monitored regularly.

Exposure to credit risk is managed through regular analysis of the ability of issuers and borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

a) Maximum credit risk:

	31.12.2009	**31.12.2008**
Latvian government bonds	3 762 244	3 690 971
German government bonds	8 242 440	8 202 554
British government bonds	-	1 445 228
Spanish government bonds	-	3 560 554
French government bonds	1 088 742	1 095 141
Irish government bonds	-	6 410 523
Netherland government bonds	6 260 941	1 130 584
Danish government bonds	2 517 508	-
Finish government bonds	4 549 990	-
Mortgage backed debt securities	641 458	684 605
Corporate bonds	6 402 145	1 089 730
Deposits with banks	1 373 081	10 606 829
Loans, shares, cash and cash equivalents	9 276 120	6 511 392
Credit risk	**44 114 669**	**44 428 111**

NOTES TO THE FINANCIAL STATEMENTS (continued)

	31.12.2009	31.12.2008
Unearned premium reserve, reinsurers' share	122 816	67 923
Outstanding claims reserve, reinsurers' share	4 338 010	534 933
Reinsurance debtors	54 187	69 923
Receivables due from policyholders	5 676 967	8 369 180
Receivables due from intermediaries	214 748	463 136
Other debtors	670 821	1 143 521
Maximum credit risk	**55 192 218**	**55 076 727**

b) Reinsurance risk breakdown by key counterparties

Reinsurer	2009 Receivables arising from reinsurance operations	S&P Rating	2008 Receivables arising from reinsurance operations	S&P Rating
Swiss Re Group	1 235 466	A+	103 472	A+
Munich Re Group	1 155 901	AA-	41 276	AA-
Hannover Re	614 659	AA-	47 716	AA-
GeneralCologne Re	313 307	AAA	392 832	AAA
Caisse Centrale de Reassurances	269 703	AAA	8 609	AAA
SCOR Global P&C	195 447	A	8 470	A
ACE Tempest Re Europe	192 393	A+	6 150	A+
Liberty Syndicate, Cologne	192 393	A+	6 203	A+
Lloyd`s Syndicate	134 476	A+	5 343	A+
Odyssey America Reinsurance Corporation	118 760	A-	5 524	A-
RSA	58 421	A	19 258	A
Other	34 088		27 927	
Reinsurance risk	**4 515 014**		**672 780**	

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

Year 2009	AAA	AA	A	BBB	Less than BBB	Non rated	Total
Government bonds	22 660	-	-	-	4 403	-	27 063
Corporate bonds	490	3 737	2 175	-	-	-	6 402
Term deposits with banks	-	385	-	-	988	-	1 373
Loans	-	-	-	-	-	34	34
Total investment assets	**23 150**	**4 122**	**2 175**	**-**	**5 391**	**34**	**34 872**

Year 2008	AAA	AA	A	BBB	Less than BBB	Non rated	Total
Government bonds	21 845	-	-	3 691	-	-	25 536
Corporate bonds	1 090	-	-	684	-	-	1 774
Shares	-	-	-	-	-	53	53
Term deposits with banks	-	1 303	7 978	1 326	-	-	10 607
Loans	-	-	-	-	-	103	103
Total investment assets	**22 935**	**1 303**	**7 978**	**5 701**	**-**	**156**	**38 073**

NOTES TO THE FINANCIAL STATEMENTS (continued)

39.2. Liquidity risk

The Company is exposed to regular calls on its available cash resources from claims settlements. The Board sets the minimum level of cash resources, which must be available to meet such claims.

There has been the following distinction of financial assets and financial liabilities by their remaining maturities as at the year-end (all amounts in thousands of LVL):

Year 2009	**Without maturity**	**Up to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Financial assets					
Financial investments at fair value through profit or loss	-	22 104	11 361	-	33 465
Loans	-	31	3	-	34
Term deposits with banks	-	1 373	-	-	1 373
Insurance and reinsurance debtors	-	5 946	-	-	5 946
Cash and cash equivalents	4 724	4 519	-	-	9 243
Reinsurers' share of outstanding claims reserve	-	1 527	2 257	554	4 338
Other debtors and accrued income	-	726	-	-	726
Total financial assets	**4 724**	**36 226**	**13 621**	**554**	**55 125**
Financial liabilities					
Outstanding claims reserve	-	(10 363)	(5 985)	(1 478)	(17 826)
Creditors and accrued expense	-	(6 400)	-	-	(6 400)
Total financial liabilities	**-**	**(16 763)**	**(5 985)**	**(1 478)**	**(24 226)**
Net financial assets / (liabilities) as at 31 December 2009	**4 724**	**19 463**	**7 636**	**(924)**	**30 899**

Year 2008	**Without maturity**	**Up to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Financial assets					
Financial investments at fair value through profit or loss	53	19 618	7 692	-	27 363
Loans	-	36	67	-	103
Term deposits with banks	-	9 658	949	-	10 607
Insurance and reinsurance debtors	-	8 902	-	-	8 902
Cash and cash equivalents	1 604	4 752	-	-	6 356
Reinsurers' share of outstanding claims reserve	-	394	99	42	535
Other debtors and accrued income	-	1 187	-	-	1 187
Total financial assets	**1 657**	**44 547**	**8 807**	**42**	**55 053**
Financial liabilities					
Outstanding claims reserve	-	(9 772)	(2 048)	(563)	(12 383)
Creditors and accrued expense	-	(6 268)	-	-	(6 268)
Total financial liabilities	**-**	**(16 040)**	**(2 048)**	**(563)**	**(18 651)**
Net financial assets / (liabilities) as at 31 December 2008	**1 657**	**28 507**	**6 759**	**(521)**	**36 402**

39.3. Market risk

The Company takes on exposure to market risks, which include interest rate risks, currency risks, as well as fair value risks. Market risks arise from open positions in interest rate, share price and currency instruments, all of which are exposed to general and specific market movements. The management sets limits on the value of risk that may be accepted, which is monitored regularly.

NOTES TO THE FINANCIAL STATEMENTS (continued)

a) Interest rate risk

The Company's exposure to interest rate risk is limited as significant part of liabilities are not bearing interest and dominant part of interest bearing financial instruments have fixed interest rates. Maturity dates are materially equal to reassessment dates on all interest bearing assets and liabilities. Weighted average effective interest rates, as applicable, for the interest bearing financial instruments excluding insurance contracts were as follows:

	2009	**2008**
German government debt securities	0.6%	1.4%
British government debt securities	-	2.3%
Spain government debt securities	-	2.4%
France government debt securities	0.6%	2.1%
Latvian government debt securities	13.3%	11.8%
Ireland government debt securities	-	2.5%
Netherland government debt securities	0.9%	2.3%
Danish government debt securities	1.0%	-
Finish government debt securities	0.8%	-
Other corporate debt securities	2.0%	3.5%
Mortgage backed debt securities	13.0%	9.7%
Deposits with banks	2.0%	7.3%
Loans	7.0%	7.0%

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

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

		2009	**2008**
Market interest rate and impact on fair value	+1% - p.p.	(355 202)	(221 994)
	-1% - p.p.	336 120	230 723

b) Fair value

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

c) Foreign exchange risk

The Company is exposed to foreign exchange risk arising from various currency exposures primarily with respect to USD and EUR due to insurance coverage provided in these currencies. The management of the Company seeks to limit the foreign exchange risk through investment portfolio created in respective currencies in the amount equal to respective claims reserve. EUR exchange rate has been fixed in Latvia since 2005.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Split of financial assets and financial liabilities by currencies as at year end (all amounts in thousands of LVL):

Year 2009	**USD**	**EUR**	**GBP**	**LTL**	**LVL**	**Other**	**Total**
Financial assets							
Financial investments at fair value through profit or loss	-	29 062	-	-	4 403	-	33 465
Loans	-	-	-	-	34	-	34
Term deposits with banks	-	-	-	-	1 373	-	1 373
Insurance and reinsurance debtors	54	861	-	-	5 031	-	5 946
Cash and cash equivalents	5	7 381	1 197	-	660	-	9 243
Reinsurers' share of outstanding claims reserve	-	4 172	-	-	166	-	4 338
Other debtors and accrued income	-	-	-	-	726	-	726
Total financial assets	**59**	**41 476**	**1 197**	**-**	**12 393**	**-**	**55 125**
Financial liabilities							
Outstanding claims reserve	(8)	(5 399)	(1)	(11)	(12 330)	(77)	(17 826)
Creditors and accrued expense	-	(363)	(1 446)	(31)	(4 473)	(87)	(6 400)
Total financial liabilities	**(8)**	**(5 762)**	**(1 447)**	**(42)**	**(16 803)**	**(164)**	**(24 226)**
Net financial assets / (liabilities) as at 31 December 2009	**51**	**35 714**	**(250)**	**(42)**	**(4 410)**	**(164)**	**30 899**

Year 2008	**USD**	**EUR**	**GBP**	**LTL**	**LVL**	**Other**	**Total**
Financial assets							
Financial investments at fair value through profit or loss	-	22 933	-	7	4 417	6	27 363
Loans	-	-	-	-	103	-	103
Term deposits with banks	-	3 410	-	-	7 197	-	10 607
Insurance and reinsurance debtors	46	950	-	-	7 906	-	8 902
Cash and cash equivalents	51	1101	2	1	5 201	-	6 356
Reinsurers' share of outstanding claims reserve	-	503	-	-	25	7	535
Other debtors and accrued income	-	-	-	-	1 187	-	1 187
Total financial assets	**97**	**28 897**	**2**	**8**	**26 036**	**13**	**55 053**
Financial liabilities							
Outstanding claims reserve	(8)	(1 817)	(4)	(54)	(10 415)	(85)	(12 383)
Creditors and accrued expense	-	(478)	(281)	(61)	(5 436)	(12)	(6 268)
Total financial liabilities	**(8)**	**(2 295)**	**(285)**	**(115)**	**(15 851)**	**(97)**	**(18 651)**
Net financial assets / (liabilities) as at 31 December 2008	**89**	**26 602**	**(283)**	**(107)**	**10 185**	**(84)**	**36 402**

Changes in exchange rate do not materially affect the financial assets. Most part of the financial assets is held in LVL and EUR currencies what have a fixed exchange rate. Non LVL and EUR financial assets represent only 2.3% (2008: 0.3%) of Company's total financial assets.

40. CAPITAL RISK MANAGEMENT

Financial Capital Market Commission specifies the minimum amount and type of capital that must be held in addition to insurance liabilities. The minimum required capital (based on premium or claim volume) must be maintained at all times throughout the year. The Company has met this requirement as illustrated below.

NOTES TO THE FINANCIAL STATEMENTS (continued)

The table below summarises the required capital and the regulatory capital held. Solvency ratio shows excess of capital held over minimum required capital (all amounts in thousands of LVL):

	31.12.2009	**31.12.2008**
Minimum required capital	10 449	10 449
Regulatory capital held according to FCMC regulations	19 824	14 422
Solvency ratio (minimum required is 100%)	**190%**	**138%**

41. LOSS DEVELOPMENT TABLE

Loss development table illustrates the Company's estimate of ultimate claims outstanding for each accident year (all amounts in thousands of LVL):

	2002 and earlier	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Outstanding Claims, net	3 656	3 788	4 542	5 162	8 787	12 417	11 848	13 488
Outstanding Claims Reinsurer's share	(710)	(761)	(793)	(819)	(553)	(1 242)	(535)	(4 338)
Outstanding Claims, gross	**4 367**	**4 549**	**5 335**	**5 981**	**9 340**	**13 659**	**12 383**	**17 826**
Cumulative payments at the period end, gross:								
One year later	3 138	2 653	2 850	3 869	4 929	8 424	5 376	
Two years later	3 330	2 892	3 223	4 264	5 455	9 100		
Three years later	3 452	2 965	3 405	4 461	5 780			
Four years later	3 491	3 050	3 513	4 587				
Five years later	3 567	3 111	3 634					
Six years later	3 619	3 152						
Seven years later	3 656							
Cumulative payments to 31 December 2009	**3 656**	**3 152**	**3 634**	**4 587**	**5 780**	**9 100**	**5 376**	
Outstanding Claims Reserves at the period end, gross:								
One year later	1 081	1 552	1 839	1 906	2 595	3 582	10 483	
Two years later	888	759	889	1 365	1 921	8 133		
Three years later	654	642	870	1 248	2 139			
Four years later	598	653	939	1 131				
Five years later	591	667	785					
Six years later	638	619						
Seven years later	585							
Outstanding Claims Reserves as at 31 December 2009	**585**	**619**	**785**	**1 131**	**2 139**	**8 133**	**10 483**	
Run off Gross	**126**	**778**	**916**	**263**	**1 421**	**(3 574)**	**(3 476)**	

42. 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 Company as at 31 December 2009.

INDEPENDENT AUDITOR'S REPORT

To the shareholders of AAS Balta:

Report on the financial statements

We have audited the accompanying financial statements (page 8 to 45) of AAS Balta, which comprise the balance sheet as at 31 December 2009, and the profit and loss statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of AAS Balta as of 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on the management report

We have read the management report as shown on pages 4 to 6 of the annual report and we have not identified any material discrepancies between the historical financial information presented in the management report and the financial statements for the year ended 31 December 2009.

Deloitte Audits Latvia SIA
License No. 43

Hendrik Kramer
Authorised representative
Riga, Latvia
24 March 2010

Jelena Mihejenkova
Sworn auditor
Certificate No. 166