AAS Balta
Annual Accounts for 2007

CONTENT **PAGE**

Members of the Council and the Board of Directors, the Auditors	3
Report of the Board of Directors	4 - 5
Statement of the Responsibility of the Board of Directors	6
Financial statements:	
Income Statement	7
Balance Sheet	8 - 9
Statement of Changes in Equity	10
Statement of Cash Flows	11
Notes to the Financial Statements	12 - 42
Independent Auditor's Report	43

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

Council

Name, Surname	*Position*
Andrew Kirkland	Chairman of the Council (since 14.08.2007)
Jesper Rasmussen	Chairman of the Council (until 14.08.2007)
Søren Theilgaard	Deputy of Chairman of the Council
Sune Stürup Mikkelsen	Member of the Council
Catarina Elisabet Boijort	Member of the Council
Kestutis Serpytis	Member of the Council
Kaido Kepp	Member of the Council (since 14.08.2007)

Board

Name, Surname	*Position*
Roger Hilton Hodgkiss	Chairman of the Board (since 12.07.2007)
Jānis Abāšins	Chairman of the Board (until 12.07.2007)
Uldis Dzintars	Member of the Board
Nastasja Frīdmane	Member of the Board
Madara Melnmate	Member of the Board
Dace Briede-Zālīte	Member of the Board

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:
Inguna Staša
Certified auditor
Certificate No.145

REPORT OF THE BOARD OF DIRECTORS

In 2007 the Latvian economy achieved significantly higher growth than most countries in the EU. Total premiums written by the Latvian insurance market increased by 59% in 2007 whereas only a 35% increase was experienced in 2006.

The non-life insurance sector in 2007 increased by 48%, while gross premiums written increased to LVL 270.2 million. The amount of claims paid in 2007, if compared to 2006, increased by 37%, amounting to LVL 122.6 million. Despite rapid inflation, nearly all insurance companies in Latvia have gained profit this year.

Annual inflation in the country reached a threshold of 14.1%, which consequentially has influenced customers' purchasing behaviour. In addition, the growth of the risk insurance market in the framework of property and transport insurance has been influenced by the government's decision in July concerning property and leasing services access limits. This decision has impacted the insurance market this year and will continue in 2008 as well.

In 2007 turnover of the insurance joint stock company BALTA (hereinafter "AAS BALTA") increased by 23% amounting to LVL 53.8 million in gross written insurance premiums, which is a LVL 10 million increase compared to 2006.

In 2007 the amount of non-life insurance claims paid by AAS BALTA was LVL 26.1 million, which is an increase of 27% or LVL 5.5 million more than in 2006.

During 2007 a project to improve claims settlement process was initiated, which is expected to be completed in the first half of 2008. The new process will become the innovation in the insurance area in Latvia by allowing claims and issues ranging up to compensation for losses to be submitted and settled quickly over the phone.

In 2007, when thinking of how to successfully develop new sales channels and satisfy customers' needs, AAS BALTA was one of the first companies in Latvia to develop and introduce an internet sales channel - BaltaOnline (www.baltaonline.lv). In addition, another Contact Centre was opened in Valmiera.

In 2007 a new management information system project was initiated which is an essential tool in business development. This project, which is planned to be completed in 2008, will ensure that effective decisions are made at the management level.

The process of centralising claims was completed in the first half of 2007. With an investment of LVL 1.8 million a new Claims Centre was opened in Riga.

High quality client services would not be possible without professional staff. In 2007 we significantly increased the amount invested in employee trainings and personnel management consultations to LVL 336,000, which is three times more than in 2006. The training programme includes training for the information technology system TIA, selling skills training and quality improvement, as well as the implementation of projects related to personnel management.

The operations of AAS BALTA, especially investment management activities, are facing several financial risks. The most important of these are credit risks, liquidity risks and market risks, which include interest rate risks, currency risks, as well as 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.

In mid-2006 decisions were made to improve the basic indicators of the Company's operations, which have been influenced by rapidly growing inflation as well as other internal and external factors. The result of the decision allowed the Company to gain a profit of LVL 3.2 million before tax in 2007, which is an increase of LVL 4.7 million in comparison to the losses of LVL 1.5 million in 2006.

On behalf of the management of AAS BALTA, we would like to express our gratitude to our clients, shareholders and business partners for placing their trust in our Company. We greatly appreciate AAS BALTA employees' invested effort in the Company's development and projects, as well as their ideas and solutions on how to raise efficiency.

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 Kirkland
Chairman of the Council

Uldis Dzintars
Acting Chairman of the
Management Board

1 April 2008

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 2007 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 2007 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 2007.

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 Kirkland	Uldis Dzintars
Chairman of the Council	Acting Chairman of the Management Board

1 April 2008

INCOME STATEMENT

	Note	2007	2006
Written premiums	1	53,831,947	43,653,033
Reinsurance premiums	1	(1,484,134)	(1,449,613)
Change in provision for unearned premiums	2	(5,053,446)	(5,575,977)
Reinsurers' share in change in provision for unearned premiums	2	(34,096)	27,348
Earned premiums, net		47,260,271	36,654,791
Interest income	3	1,243,734	922,697
Net fair value (losses) on financial assets at fair value through profit or loss	4	(84,038)	(308,602)
Other income	5	357,632	422,472
Net income		**48,777,599**	**37,691,358**
Claims paid to policyholders		(26,050,725)	(20,533,641)
Claims settlement expense		(1,122,129)	(814,301)
Recovered loss amount		2,181,729	1,068,225
Claims paid	6	(24,991,125)	(20,279,717)
Reinsurers' share in claims	6	364,674	219,614
Change in provision for claims	7	(4,318,881)	(3,359,047)
Reinsurers' share in change in provision for claims	7	689,325	(265,641)
Claims incurred, net		(28,256,007)	(23,684,791)
Client acquisition costs	8	(6,185,318)	(5,825,454)
Administrative expense	9	(11,184,185)	(9,725,504)
Other expense	10	(152,994)	(55,166)
Expenses		**(45,778,504)**	**(39,290,915)**
Finance income	11	221,580	66,895
Profit/ (loss) before tax		**3,220,675**	**(1,532,662)**
Corporate income tax	12	(555,940)	219,476
Net profit/ (loss) for year		**2,664,735**	**(1,313,186)**

Notes on pages 12 to 42 are an integral part of these financial statements.

Andrew Kirkland
Chairman of the Council

Uldis Dzintars
Acting Chairman of the
Management Board

1 April 2008

BALANCE SHEET

	Note	31.12.2007	31.12.2006
Assets			
Intangible assets	13	4,538,793	5,128,089
Property, plant and equipment	14	5,192,563	5,163,846
Financial investments at fair value through profit/ (loss)	15	13,612,330	16,686,581
Loans	16	92,180	90,044
Term deposits with banks	36	19,243,966	10,573,986
Total investments		32,948,476	27,350,611
Receivables from direct insurance operations			
Due from policyholders	35	8,023,819	6,691,867
Due from intermediaries	35	246,553	35,384
Reinsurance receivables	17	147,252	129,231
Other receivables	18	374,526	251,424
Total debtors		8,792,150	7,107,906
Accrued income and deferred expense	19	591,635	173,092
Corporate income tax receivables	12	111,729	413,950
Reinsurers' share of provision for unearned premiums		181,915	216,011
Reinsurers' share of provision for claims	20	1,242,274	552,949
Total reinsurers' share of technical provisions		1,424,189	768,960
Cash and cash equivalents	21	7,464,075	2,434,379
Total assets		**61,063,610**	**48,540,833**

Notes on pages 12 to 42 are an integral part of these financial statements.

Andrew Kirkland
Chairman of the Council

Uldis Dzintars
Acting Chairman of the
Management Board

1 April 2008

BALANCE SHEET (continued)

	Note	31.12.2007	31.12.2006
Equity			
Share capital	22	4,652,067	4,652,067
Share premium		1,121,332	1,121,332
Reserve capital and other reserves		3,062,205	3,062,205
Retained earnings		6,838,680	4,173,945
Total equity		15,674,284	13,009,549
Liabilities			
Provision for unearned premiums	2	26,630,734	21,577,288
Provision for claims	7	13,658,985	9,340,104
Total technical provisions		40,289,719	30,917,392
Deferred income tax liability	25	230,528	112,645
Liabilities from direct insurance operations		679,187	642,578
Reinsurance creditors	23	374,344	910,754
Taxes and social insurance	24	360,497	323,148
Accrued expense and deferred income	26	1,751,340	1,046,829
Other creditors	27	1,703,711	1,577,938
Total creditors		5,099,607	4,613,892
Total liabilities		45,389,326	35,531,284
Total liabilities and equity		**61,063,610**	**48,540,833**

Notes on pages 12 to 42 are an integral part of these financial statements.

Andrew Kirkland
Chairman of the Council

Uldis Dzintars
Acting Chairman of the
Management Board

1 April 2008

STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Reserve capital and other reserves	Retained earnings	Total
Balance as at 31 December 2005	**4,652,067**	**1,121,332**	**3,062,205**	**5,487,131**	**14,322,735**
Loss for the year	-	-	-	(1,313,186)	(1,313,186)
Balance as at 31 December 2006	**4,652,067**	**1,121,332**	**3,062,205**	**4,173,945**	**13,009,549**
Profit for the year	-	-	-	2,664,735	2,664,735
Balance as at 31 December 2007	**4,652,067**	**1,121,332**	**3,062,205**	**6,838,680**	**15,674,284**

Notes on pages 12 to 42 are an integral part of these financial statements.

Andrew Kirkland
Chairman of the Council

Uldis Dzintars
Acting Chairman of the Management Board

1 April 2008

STATEMENT OF CASH FLOWS

	2007	2006
Cash from operating activities		
Premiums received	53,073,254	41,166,724
Claims paid	(26,107,869)	(21,076,387)
Income tax paid	(140,753)	(419,043)
Sale of investments	12,423,646	4,462,287
Purchase of investments	(17,279,293)	(10,948,061)
Other expense	(16,257,708)	(12,125,165)
Net cash used in operating activities:	**5,711,277**	**1,060,355**
Cash from investing activities		
Purchase of property and equipment	(664,123)	(1,545,278)
Net cash (from) used investing activities:	**(664,123)**	**(1,545,278)**
Cash from financing activities		
Dividends paid	(44)	(24)
Net cash from financing activities:	**(44)**	**(24)**
Net increase/ (decrease) in cash and cash equivalents	**5,047,110**	**(484,947)**
Result of foreign exchange rate fluctuations	**(17,414)**	**25,573**
Cash and cash equivalents at the beginning of year	**2,434,379**	**2,893,753**
Cash and cash equivalent at the end of the year	**7,464,075**	**2,434,379**

Notes on pages 12 to 42 are an integral part of these financial statements.

Andrew Kirkland
Chairman of the Council

Uldis Dzintars
Acting Chairman of the
Management Board

1 April 2008

NOTES TO THE FINANCIAL STATEMENTS

GENERAL INFORMATION

AAS BALTA (further "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 and reinsurance 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 7082333, 371 7082345**
VAT reg. number:	**LV 40003049409**
State Revenue Service department:	**Department of large taxpayers**

The shares of the Company are not listed.

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.

(1) Basis of preparation of financial statements

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

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Standards ("IFRSs") as adopted by the European Union (the "EU"). IFRS as adopted by the EU do not currently differ from IFRS as issued by the International Accounting Standards Board (IASB) and currently effective for the purpose of these financial statements, except for certain hedge accounting requirements under IAS 39, which have not been adopted by the EU. The Company has determined that the unendorsed, hedge accounting requirements under IAS 39 would not impact the Company's financial statements had they been endorsed by the EU at the balance sheet date.

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

The preparation of financial statements in conformity with IFRS 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 34.

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

The accounting policies used by the Company are consistent with those used in the previous financial year.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Adoption of new and revised Standards

Standards and Interpretations effective in the current period

In the current year, the Group has adopted IFRS 7 Financial Instruments: Disclosures which is effective for annual reporting periods beginning on or after 1 January 2007. The impact of the adoption of IFRS 7 has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments.

The consequential amendments to IAS 1 Presentation of Financial Statements and four Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are: IFRIC 7 Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies; IFRIC 8 Scope of IFRS 2; IFRIC 9 Reassessment of Embedded Derivatives; and IFRIC 10 Interim Financial Reporting and Impairment. The Group adopted amendments to IAS 1 and four mentioned above interpretations already in previous years.

Standards and Interpretations in issue not yet adopted

At the date of authorisation of these financial statements the following Standards and Interpretations were in issue but not yet effective:
IAS 23 (Revised) Borrowing Costs (effective for accounting periods beginning on or after 1 January 2009) (not yet endorsed by EU);
IFRS 8 Operating Segments (effective for accounting periods beginning on or after 1 January 2009), (not yet endorsed by EU);
IFRIC 11 IFRS 2: Group and Treasury Share Transactions (effective for accounting periods beginning on or after 1 March 2007);
IFRIC 12 Service Concession Arrangements (effective for accounting periods beginning on or after 1 January 2008) (not yet endorsed by EU);
IFRIC 13 Customer Loyalty Programmes (effective for accounting periods beginning on or after 1 July 2008) (not yet endorsed by EU); and
IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for accounting periods beginning on or after 1 January 2008) (not yet endorsed by EU).

The Group anticipates that all of the adoption of the above Standards and Interpretations will have no material impact on the financial statements of the Group in the period of initial application.

(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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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.

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) technical provisions

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

The claims technical provision is an amount provided at the end of the reporting year in respect of estimated losses incurred but not yet settled. The claims provision includes provisions for reported but not settled claims and provision for incurred but not reported claims (Note 7). The claims provision 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 the claims provision.

(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.

(4) Investments

The Company classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivables. 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 and Debtors in the balance sheet. See for accounting policy on Receivables from direct insurance operations.

NOTES TO THE FINANCIAL STATEMENTS (continued)

b) financial assets at fair value through profit or loss
All 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.

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.

(5) Receivables from direct insurance operations

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.

(6) Intangible assets and Property, plant and equipment

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

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.

(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
All 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.

	31.12.2007	**31.12.2006**
1 USD	LVL 0.484	LVL 0.536
1 EUR	LVL 0.702804	LVL 0.702804

(8) Taxation

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable income statement, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. 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.

(9) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and deposits held in credit institutions with initial maturity term not exceeding three months.

(10) Accruals for unused annual leave

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

(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:

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

Other technical income and expense are allocated 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.

(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. In addition bonuses are influenced by personal behaviour which is incorporated to be part of calculation. 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 Group 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.

(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.

1. PREMIUMS

	2007			2006		
	Gross amount	**Reinsurers' share**	**Net amount**	**Gross amount**	**Reinsurers' share**	**Net amount**
Personal accident	1,246,891	(48,474)	1,198,417	1,089,679	(33,286)	1,056,393
Health	6,525,071	-	6,525,071	5,713,191	-	5,713,191
Motor own damage	21,511,187	(6,850)	21,504,337	18,200,303	(212,830)	17,987,473
Marine	54,559	(5,468)	49,091	44,340	(4,340)	40,000
Cargo	564,559	(88,485)	476,074	486,334	(52,385)	433,949
Property	13,605,967	(730,619)	12,875,348	11,087,532	(819,826)	10,267,706
General TPL	1,291,293	(199,909)	1,091,384	1,052,985	(153,443)	899,542
Guarantees	50,761	-	50,761	20,024	-	20,024
Financial risks	163,063	(4,726)	158,337	187,061	-	187,061
Travel accident	407,241	(13,479)	393,762	320,424	(7,104)	313,320
Obligatory motor TPL	8,411,355	(386,124)	8,025,231	5,451,160	(166,399)	5,284,761
	53,831,947	**(1,484,134)**	**52,347,813**	**43,653,033**	**(1,449,613)**	**42,203,420**

Almost all policies are issued to clients operating in Latvia.

The Company has signed an agreement with the Latvian insurance companies AS Parex Insurance Company and AAS ERGO Latvia to set up an insurance pool for participation in obligatory motor third party liability (OMTPL) insurance. The policies issued within the pool are distributed through the State Traffic Security Department offices throughout Latvia. The Company has a 52% share of all premium income collected within the pool and it bears the same share of risk assumed on the policies issued within the pool. The Company is responsible for pool operations management and receives commissions from these operations, which are included in Other Income (Note 5). Respective written premium part is included in total written premiums. The participants of this pool have decided not to proceed with the pool operations. Last policy under the pool agreement was issued on February 2007.

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% of received premium
Motor Insurers` Bureau of Latvia	variable sum LVL 0,25 per contract and fixed sum LVL 30,000 in year or LVL 2,500 in a month

In year 2007 OMTPL mandatory deductions summed up to LVL 370,786 (2006: LVL 321,408). The gross premiums in OMTPL are shown above net of these mandatory deductions.

2. PROVISION FOR UNEARNED PREMIUMS

a) movement in provision for unearned premiums

	Gross amount	**Reinsurers' share**	**Net amount**
Balance as at 31 December 2005	**16,001,311**	**(188,663)**	**15,812,648**
Change in the year	5,575,977	(27,348)	5,548,629
Balance as at 31 December 2006	**21,577,288**	**(216,011)**	**21,361,277**
Change in the year	5,053,446	34,096	5,087,542
Balance as at 31 December 2007	**26,630,734**	**(181,915)**	**26,448,819**

b) changes in provision for unearned premiums and distribution by type of insurance for the year 2007:

	Gross amount	Reinsurers' share	Net amount
Personal accident	81,092	568	81,660
Health	(83,620)	-	(83,620)
Motor own damage	2,300,264	96,152	2,396,416
Marine	4,140	353	4,493
Cargo	(31,671)	(1,138)	(32,809)
Property	1,185,218	(51,726)	1,133,492
Voluntary motor TPL	-	-	-
General TPL	75,955	981	76,936
Guarantees	13,336	-	13,336
Financial risks	4,038	-	4,038
Travel accident	2,124	-	2,124
Obligatory motor TPL	1,502,570	(11,094)	1,491,476
	5,053,446	**34,096**	**5,087,542**

c) changes in provision for unearned premiums and distribution by type of insurance for the year 2006:

	Gross amount	Reinsurers' share	Net amount
Personal accident	87,831	889	88,720
Health	435,880	-	435,880
Motor own damage	2,877,065	(35,719)	2,841,346
Marine	9,824	(353)	9,471
Cargo	50,725	2,259	52,984
Property	1,300,190	10,975	1,311,165
Voluntary motor TPL	(35)	-	(35)
General TPL	171,279	(17,904)	153,375
Guarantees	9,830	26	9,856
Financial risks	(2,064)	-	(2,064)
Travel accident	(7,787)	-	(7,787)
Obligatory motor TPL	643,239	12,479	655,718
	5,575,977	**(27,348)**	**5,548,629**

d) provision for unearned premiums as at the year end:

	31.12.2007	31.12.2006
Personal accident	618,561	537,470
Health	2,118,110	2,201,731
Motor own damage	12,216,624	9,916,360
Marine	27,465	23,325
Cargo	64,175	95,846
Property	6,991,653	5,806,434
General TPL	579,025	503,070
Guarantees	23,269	9,933
Financial risks	72,025	67,987
Travel accident	15,432	13,308
Obligatory motor TPL	3,904,395	2,401,824
	26,630,734	**21,577,288**

3. INTEREST INCOME

	2007	2006
From financial investments at fair value through profit or loss:		
Government bonds	391,546	420,400
Mortgage backed debt securities	42,000	47,891
Corporate bonds	20,232	35,530
Listed shares	1,240	1,381
Loans and receivables:		
Deposits with banks	784,541	409,411
Loans	4,175	8,084
	1,243,734	**922,697**

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

	2007	2006
Government bonds	(37,115)	(269,026)
Mortgage backed debt securities	(35,251)	(22,204)
Listed shares	(12,842)	(6,138)
Corporate bonds	1,170	(11,234)
	(84,038)	**(308,602)**

	2007	2006
Realised gains/ (losses):		
Government bonds	134,753	(133,644)
Mortgage backed debt securities	-	(5,945)
Listed shares	6,857	-
Corporate bonds	(14,691)	-
Unrealised gains/ (losses):		
Government bonds	(171,869)	(135,382)
Mortgage backed debt securities	(35,251)	(16,259)
Listed shares	(19,699)	(6,138)
Corporate bonds	15,862	(11,234)
	(84,038)	**(308,602)**

5. OTHER INCOME

	2007	2006
Income from cancellation of policies	132,171	75,500
Recalculation of Financial and Capital Market Commission participation fee	54,175	-
Gain on sale of tangible assets	29,942	21,726
Income from pool administration (see Note 1)	21,053	34,789
Expertise income	20,680	8,850
Income form RSA	14,776	-
Reinsurance commission income (see Note 30)	10,528	3,560
Income from rent	10,001	4,309
Income from IT consulting for SEB Dzīvības Apdrošināšana	8,632	-
Commissions for distribution of other insurance companies' products	6,979	8,953
Income from LTAB recalculation of reinsurance premiums	6,844	-
Income from distribution of policies of Baltijas Apdrošināšanas Nams	6,020	6,004
Income from IT consulting for Codan	5,306	-
Insurance claims received	5,190	5,406
Income from distribution of policies of SEB Dzīvības Apdrošināšana	3,490	66,171
Income from reversal of provisions for doubtful debts	-	181,040
Other income	21,845	6,164
	357,632	**422,472**

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

Personal accident	5,939	148,044
Health	73,623	42,558
Motor own damage	122,296	109,247
Marine	185	74
Cargo	3,273	(224)
Property	49,863	11,715
General TPL	20,349	531
Guarantees	8,471	13,167
Financial risks	210	11
Travel accident	1,043	45
Obligatory motor TPL	72,380	97,304
	357,632	**422,472**

6. CLAIMS PAID

	2007			2006		
	Gross amount	**Reinsurers' share**	**Net amount**	**Gross amount**	**Reinsurers' share**	**Net amount**
Personal accident	(286,912)	-	(286,912)	(279,256)	-	(279,256)
Health	(4,408,245)	-	(4,408,245)	(3,187,722)	-	(3,187,722)
Motor own damage	(10,481,366)	(5,932)	(10,487,298)	(8,911,995)	-	(8,911,995)
Marine	(3,600)	-	(3,600)	(9,392)	-	(9,392)
Cargo	(137,546)	-	(137,546)	(108,237)	30,139	(78,098)
Property	(4,581,594)	342,795	(4,238,799)	(4,145,675)	187,929	(3,957,746)
Loan insurance	118	-	118	154	-	154
General TPL	(320,003)	-	(320,003)	(204,842)	1,546	(203,296)
Financial risks	(56,202)	-	(56,202)	(63,602)	-	(63,602)
Travel accident	(123,692)	-	(123,692)	(68,833)	-	(68,833)
Obligatory motor TPL	(4,592,083)	27,811	(4,564,272)	(3,300,317)	-	(3,300,317)
	(24,991,125)	**364,674**	**(24,626,451)**	**(20,279,717)**	**219,614**	**(20,060,103)**

7. PROVISION FOR CLAIMS

a) movement in provision for claims

	2007			2006		
	Gross	**Reinsurance**	**Net**	**Gross**	**Reinsurance**	**Net**
Year ended 31 December						
Notified claims	7,241,204	(552,949)	6,688,255	4,453,232	(818,590)	3,634,642
Incurred but not reported	2,098,900	-	2,098,900	1,527,825	-	1,527,825
Total at beginning of year	**9,340,104**	**(552,949)**	**8,787,153**	**5,981,057**	**(818,590)**	**5,162,467**
Cash paid for claims settled in year	(4,929,067)	232,610	(4,696,457)	(3,869,461)	188,850	(3,680,611)
Increase in liabilities						
- Arising from current year claims	11,063,870	-	11,063,870	7,344,093	-	7,344,093
- Arising from prior year claims	(1,815,922)	(921,935)	(2,737,857)	(115,585)	76,791	(38,794)
Total change in year	4,318,881	(689,325)	3,629,556	3,359,047	265,641	3,624,688
Total at end of year	**13,658,985**	**(1,242,274)**	**12,416,711**	**9,340,104**	**(552,949)**	**8,787,155**
Notified claims	10,935,611	(1,242,274)	9,693,337	7,241,204	(552,949)	6,688,255
Incurred but not reported	2,723,374	-	2,723,374	2,098,900	-	2,098,900
Total at end of year	**13,658,985**	**(1,242,274)**	**12,416,711**	**9,340,104**	**(552,949)**	**8,787,155**

b) change in provisions for claims and distribution by type of insurance for the year 2007:

	Gross	Reinsurance	Net
Personal accident	(26,126)	-	(26,126)
Health	292,492	-	292,492
Motor own damage	460,030	-	460,030
Marine	(340)	-	(340)
Cargo	(630)	-	(630)
Property	1,600,904	(438,308)	1,162,596
General TPL	23,326	-	23,326
Guarantees	(3,148)	-	(3,148)
Financial risks	871,435	(393,448)	477,987
Travel accident	(1,796)	-	(1,796)
Obligatory motor TPL	1,102,734	142,431	1,245,165
	4,318,881	**(689,325)**	**3,629,556**

c) change in provisions for claims and distribution by type of insurance for the year 2006:

	Gross	Reinsurance	Net
Personal accident	43,986	-	43,986
Health	568,898	-	568,898
Motor own damage	1,280,930	293	1,281,223
Marine	(37,873)	-	(37,873)
Cargo	43,101	4,536	47,637
Property	491,127	252,610	743,737
Voluntary motor TPL	(507)	-	(507)
General TPL	98,173	1,993	100,166
Guarantees	2,041	-	2,041
Financial risks	25,508	-	25,508
Travel accident	37,838	6,209	44,047
Obligatory motor TPL	805,825	-	805,825
	3,359,047	**265,641**	**3,624,688**

d) provision for claims as at the year end:

	31.12.2007	31.12.2006
Personal accident	75,504	101,630
Health	1,347,570	1,055,078
Motor own damage	3,382,234	2,918,985
Marine	5,861	6,201
Cargo	69,394	70,024
Property	2,792,294	1,191,388
General TPL	503,557	480,232
Guarantees	9,187	12,335
Financial risks	986,299	114,864
Travel accident	67,631	69,427
Obligatory motor TPL	4,419,453	3,319,940
	13,658,985	**9,340,104**

8. CLIENT ACQUISITION COSTS

	2007	2006
Commissions to brokers and other intermediaries	(2,330,848)	(2,261,137)
Commissions and other agent related expense	(2,998,264)	(3,686,681)
Social insurance expense	(671,240)	(805,909)
Other client acquisition costs	(6,327)	(2,007)
Changes in deferred client acquisition costs (Note 13)	(178,639)	930,280
	(6,185,318)	**(5,825,454)**

Distribution of client acquisition costs (DAC) and changes in deferred acquisition costs by type of insurance in 2007 has been as follows:

	Client acquisition costs	Changes in DAC	Client acquisition costs, net
Personal accident	(135,893)	(22,410)	(158,303)
Health	(357,034)	(34,373)	(391,407)
Motor own damage	(2,432,040)	21,973	(2,410,067)
Marine	(5,947)	1,292	(4,655)
Cargo	(40,343)	(2,820)	(43,163)
Property fire	(2,419,017)	(102,130)	(2,521,147)
General TPL	(125,999)	(4,621)	(130,620)
Guarantees	(3,444)	513	(2,931)
Financial risks	(28,175)	436	(27,739)
Travel accident	(31,726)	(50)	(31,776)
Obligatory motor TPL	(427,063)	(36,447)	(463,510)
	(6,006,681)	**(178,637)**	**(6,185,318)**

9. ADMINISTRATIVE EXPENSE

	2007	2006
Salaries		
- salaries to staff	(4,600,085)	(3,963,035)
- social insurance expense	(913,158)	(803,945)
Depreciation and amortisation	(1,378,595)	(1,280,767)
Advertising and public relations	(834,470)	(684,281)
Information and communication expense	(727,202)	(695,152)
Premise maintenance and repair expense	(520,603)	(333,260)
Rent of premises	(474,561)	(455,083)
Professional services	(369,790)	(193,558)
Transport	(249,471)	(243,377)
Payments to Financial and Capital Market Commission	(228,012)	(230,508)
Office expense	(209,632)	(250,118)
Payments to Foundation of Insured Interests Protection	(168,891)	(136,492)
Other administrative expense	(509,715)	(455,928)
	(11,184,185)	**(9,725,504)**

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 0.14% from gross premiums collected in Obligatory Motor Third Party Liability insurance and in amount of 0.486% from gross premiums collected in other types of insurance. Payments to Foundation of Insured Interests Protection amount to 1% of premiums collected from individuals in voluntary types of insurance.

At the end of year 2007, 520 employees (2006: 529) and 393 agents (2006: 524) were employed in the Company. As at 31 December 2007, 388 employees (2006: 323) and 68 agents (2006: 0) were working in the central office, and 132 (2006: 206) employees and 325 (2006: 524) agents in branches.

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

	2007	2006
Personal accident	(352,902)	(434,920)
Health	(1,286,392)	(1,162,274)
Motor own damage	(3,938,606)	(3,588,508)
Marine	(12,928)	(8,674)
Cargo	(149,435)	(107,779)
Property	(2,887,221)	(2,553,569)
Voluntary motor TPL	-	(6)
General TPL	(319,090)	(250,068)
Guarantees	(18,004)	(3,709)
Financial risks	(29,788)	(38,856)
Travel accident	(161,228)	(110,695)
Obligatory motor TPL	(2,028,591)	(1,466,446)
	(11,184,185)	**(9,725,504)**

10. OTHER EXPENSE

	2007	2006
Provisions for doubtful debts	(96,180)	-
Loss on sale of property, plant and equipment	(35,186)	(15,971)
Commission of intermediaries KEBS and FCS	(9,638)	-
Costs related to distribution of SEB Dzīvības Apdrošināšana policies	(5,481)	(38,650)
Penalty of agreement cancelation	(4,846)	-
Other expense	(1,663)	(545)
	(152,994)	**(55,166)**

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

	2007	2006
Personal accident	(1,244)	(54,504)
Health	(118,524)	(39)
Motor own damage	(11,790)	-
Marine	(28)	-
Property	(5,739)	-
Voluntary motor TPL	(870)	-
General TPL	(24)	-
Financial risks	(644)	-
Travel accident	(576)	-
Obligatory motor TPL	(13,553)	(623)
	(152,992)	**(55,166)**

11. FINANCE INCOME

	2007	2006
Interest on cash and cash equivalents	218,880	51,295
Gain from foreign currency fluctuations	2,700	15,600
	221,580	**66,895**

12. CORPORATE INCOME TAX

	2007	2006
Current tax for the reporting year	(438,057)	-
Change in deferred tax balances (Note 25)	(117,883)	219,476
Total corporate income tax	**(555,940)**	**219,476**

As at 31 December 2007 the Company has overpaid corporate income tax for the amount of LVL 111,729 (2006: LVL 413,950).

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

	2007	2006
Profit/ (loss) before tax	3,220,675	(1,532,662)
Total profit/ (loss) before tax	**3,220,675**	**(1,532,662)**
Theoretically calculated tax at a tax rate of 15%	(483,101)	229,899
Expenses not deductible for tax purposes	(104,899)	(31,399)
Non-taxable income	41,206	1,658
Tax discount for donations	50,443	-
Release of previously unrecognised deferred tax assets	(12,661)	-
Tax rebate for foreign tax payment	-	35
Adjustment to prior years Corporate income tax	(46,928)	19,283
Current tax charge	**(555,940)**	**219,476**

Effective income tax in 2007 is 17,26%.

13. INTANGIBLE ASSETS

	Deferred client acquisition costs	Software	Total
Cost			
As at 1 January 2006	**2,249,209**	**3,107,894**	**5,357,103**
Additions for 2006	6,755,734	476,710	7,232,444
Disposals for 2006	(5,825,454)	-	(5,825,454)
As at 31 December 2006	**3,179,489**	**3,584,604**	**6,764,093**
Additions for 2007	5,737,938	292,866	6,030,804
Disposals for 2007	(5,916,577)	-	(5,916,577)
As at 31 December 2007	**3,000,850**	**3,877,470**	**6,878,320**
Accumulated amortisation			
As at 1 January 2006	**-**	**(932,432)**	**(932,432)**
Charge for the year 2006	-	(703,570)	(703,570)
As at 31 December 2006	**-**	**(1,636,002)**	**(1,636,002)**
Charge for the year 2007	-	(703,525)	(703,525)
As at 31 December 2007	**-**	**(2,339,527)**	**(2,339,527)**
Net Book Value at 31 December 2006	**3,179,489**	**1,948,602**	**5,128,089**
Net Book Value at 31 December 2007	**3,000,850**	**1,537,943**	**4,538,793**

14. PROPERTY, PLANT AND EQUIPMENT

	Construction work in progress	Land and buildings	Leasehold improve-ments	Transport vehicles	Computer equipment	Furniture and fittings	Total
Cost							
As at 1 January 2006	**354,440**	**2,172,095**	**245,436**	**732,418**	**1,270,657**	**491,261**	**5,266,307**
Additions in 2006	1,237,531	-	175,482	42,721	289,185	307,746	2,052,665
Disposals in 2006	-	-	(10,660)	(53,221)	(6,124)	(15,314)	(85,319)
Reclassification in 2006	(1,591,971)	1,591,971	-	-	-	-	-
As at 31 December 2006	**-**	**3,764,066**	**410,258**	**721,918**	**1,553,718**	**783,693**	**7,233,653**
Additions in 2007		110,624	142,687	11,950	286,731	274,671	826,663
Disposals in 2007		(7,245)	(28,405)	(74,919)	(26,330)	(163,814)	(300,713)
As at 31 December 2007	**-**	**3,867,445**	**524,540**	**658,949**	**1,814,119**	**894,550**	**7,759,603**
Accumulated depreciation							
As at 1 January 2006	**-**	**(316,626)**	**(56,756)**	**(250,020)**	**(640,462)**	**(260,504)**	**(1,524,368)**
Charge for 2006	-	(45,242)	(37,591)	(148,244)	(293,115)	(90,595)	(614,787)
Depreciation on disposed assets in 2006	-	-	10,660	37,250	6,124	15,314	69,348
As at 31 December 2006	**-**	**(361,868)**	**(83,687)**	**(361,014)**	**(927,453)**	**(335,785)**	**(2,069,807)**
Charge for 2007	-	(69,238)	(81,506)	(137,800)	(323,033)	(144,999)	(756,576)
Depreciation on disposed assets in 2007	-	1,061	28,405	53,491	25,769	150,617	259,343
As at 31 December 2007	**-**	**(430,045)**	**(136,788)**	**(445,323)**	**(1,224,717)**	**(330,167)**	**(2,567,040)**
Net Book Value at 31 December 2006	**-**	**3,402,198**	**326,571**	**360,904**	**626,265**	**447,908**	**5,163,846**
Net Book Value at 31 December 2007	**-**	**3,437,400**	**387,752**	**213,626**	**589,402**	**564,383**	**5,192,563**

All property was for Company’s own use.

15. FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31.12.2007 Carrying amount of investment	Cost	31.12.2006 Carrying amount of investment	Cost
Latvian government bonds	4,744,911	4,796,736	12,880,754	12,770,228
German government bonds	3,718,074	3,677,306	1,990,963	1,952,201
British government bonds	1,426,532	1,390,427	-	-
French government bonds	1,442,867	1,404,624	-	-
Spanish government bonds	1,372,761	1,328,517	-	-
Corporate bonds	-	-	850,128	850,691
Mortgage backed debt securities	783,776	786,980	819,027	786,980
Latvian companies shares	74,930	39,204	86,573	39,204
Estonian companies shares	16,617	12,229	21,017	11,626
Lithuanian companies shares	31,862	30,210	38,119	31,038
	13,612,330	**13,466,233**	**16,686,581**	**16,441,968**

The split between current and non-current financial investments at fair value through profit/ loss is included in table *Contractual repricing or maturity dates* in Note 36.

16. LOANS

	31.12.2007			31.12.2006		
	Current	**Non-current**	**Total**	**Current**	**Non-current**	**Total**
Loans to employees	44,038	4,155	48,193	19,310	16,197	35,507
Loans secured by a car pledge	17,804	1,533	19,337	1,368	7,827	9,195
Mortgage loans	-	24,650	24,650	16,066	29,276	45,342
	61,842	**30,338**	**92,180**	**36,744**	**53,300**	**90,044**

According to the Company's policy, the mortgage and pledge for the loan is insured for the loan issuers' benefit. Loans are secured with properties in the amount of LVL 20,000 and cars in the amount of LVL 50,000.

17. REINSURANCE RECEIVABLES

The Company operates with ceded reinsurance. As at 31 December 2007 the Company claims against reinsurance debtors are LVL 147,252 (2006: LVL 129,231). These receivables are due within 12 months from the balance sheet date and carry no interest.

18. OTHER RECEIVABLES

	31.12.2007	31.12.2006
Receivables from other insurance companies	125,136	-
Receivables from the Motor Insurers' Bureau of Latvia	68,511	26,023
Receivables from agents	52,427	50,960
Receivables for claims regulation	44,165	28,617
Real estate tax overpayment	17	1,931
Other debtors	84,270	143,893
	374,526	**251,424**

Other receivables are due within 12 months from the balance sheet date and carry no interest.

19. ACCRUED INCOME AND DEFERRED EXPENSE

	31.12.2007	31.12.2006
Repair works	443,799	88,210
Prepayments for software maintenance	71,205	42,121
Deferred commission expense	36,004	19,713
Prepayments for rent	30,822	14,135
Other accrued income and deferred expense	9,805	8,913
	591,635	**173,092**

20. REINSURERS' SHARE OF PROVISION FOR CLAIMS

The reinsurers' share of provision for claims include LVL 902,196 (2006: LVL 0) reserved for large fire case in November 2007. Most of remaining part in the amount of LVL 300,288 (2006: LVL 417,981) represents OMTPL insurance case in Germany.

21. CASH AND CASH EQUIVALENTS

	31.12.2007	31.12.2006
Cash in hand	500	500
Cash at bank	2,343,677	2,063,115
Short-term bank deposits	5,119,898	370,764
	7,464,075	**2,434,379**

The effective interest rate for 2007 on short-term bank deposits was 4.6% (2006: 4.3%) and has an average maturity of 85 (2006: 71) days.

22. SHARE CAPITAL AND RESERVES

a) issued and fully paid share capital

There are 4,652,067 ordinary shares with nominal value LVL 1. All issued shares are fully paid.

b) major shareholder

The major shareholder of the Company with 4,651,714 (2006: 4,649,047) shares or 99.99% (2006: 99.94%) is Codan AS (Denmark).

The Company's shares are not listed.

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.

23. CREDITORS FROM REINSURANCE ACTIVITIES

As at 31 December 2007 there are liabilities in amount of LVL 374,344 (2006: LVL 910,754) outstanding to reinsurers.

24. TAX AND SOCIAL INSURANCE

	31.12.2007	31.12.2006
Social insurance	194,564	174,534
Personal income tax	128,051	136,288
Value added tax	37,650	12,046
Unemployment risk duty	232	280
	360,497	**323,148**

During the year the following tax payments have been made:

	2007	2006
Social insurance payments	2,339,652	2,315,793
Personal income tax	1,617,573	1,640,422
Corporate income tax	140,753	447,262
Value added tax	126,524	112,072
Property tax	9,641	26,178
Unemployment risk duty	3,017	3,975
	4,237,160	**4,545,702**

25. DEFERRED CORPORATE INCOME TAX LIABILITY

	2007	2006
Deferred tax liability as at the beginning of the year	112,645	332,121
Deferred tax debited/ (charged) to income statement (see Note 12)	117,883	(219,476)
Deferred tax liability as at the end of the year	**230,528**	**112,645**

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:

	31.12.2007	31.12.2006
Temporary difference on depreciation of tangible assets and buildings	480,398	498,933
Loss for the period	-	(253,280)
Temporary difference for insurance provisions	-	23,530
Temporary difference for accrued expense	(225,477)	(116,118)
Temporary difference for provisions on doubtful debtors	(24,393)	(9,190)
Temporary difference for value adjustments on securities	(39,924)	(31,230)
Deferred tax liability as at the end of the year	**190,604**	**112,645**

26. ACCRUED EXPENSES AND DEFERRED INCOME

	31.12.2007	31.12.2006
Accruals for personnel bonuses	753,007	387,709
Accruals for unused annual leave	257,705	230,793
Next period written premium for long term policies	290,498	272,245
Accruals for other expenses	448,796	142,531
Accruals for intermediary commissions	-	13,080
Unearned reinsurance commissions	1,334	471
	1,751,340	**1,046,829**

27. OTHER CREDITORS

	31.12.2007	31.12.2006
Deferred commissions payable to agents	542,397	533,490
Personnel	424,397	387,944
Liability to Finance and Capital Market Commission	110,575	102,366
Payable to SEB Dzīvības Apdrošināšana	21,720	64,175
Liability for payments to Motor Insurers' Bureau of Latvia	66,060	55,508
Liability to related company	43,671	13,418
Other creditors	494,891	421,037
	1,703,711	**1,577,938**

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.

28. DIVIDENDS PER SHARE

No dividends paid in 2007 and in 2006. No dividends is planned to be proposed at the Annual Shareholders' Meeting.

29. MANDATORY PAYMENTS

Types of mandatory payments made during the year:

	2007	2006
Motor Insurers' Bureau of Latvia	364,549	344,234
Finance and Capital Market Commission	334,519	333,880
	699,068	**678,114**

30. RESULTS OF THE CEDED REINSURANCE

	2007	2006
Reinsurers' share in premiums (see Note 1)	(1,484,134)	(1,449,613)
Reinsurers' share in changes in unearned premiums (see Note 2)	(34,096)	27,348
Reinsurers' share in claims (see Note 6)	364,674	219,614
Reinsurers' share in changes in provision for claims (see Note 7)	(689,325)	(265,641)
Reinsurers' commission income (see Note 5)	10,528	3,560
Net result of ceded reinsurance activities:	**(1,832,353)**	**(1,464,732)**

31. RELATED PARTY TRANSACTION

A party is related to the Company if:
(a) directly, or indirectly through one or more intermediaries, the party:
  (i) controls, is controlled by, or is under common control with, the Company (this includes parents, subsidiaries and fellow subsidiaries);
  (ii) has an interest in the Company that gives it significant influence over the Company; or
  (iii) 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 Royal Sun Alliance (UK). Lietuvas Draudimas (Lithuania) is a subsidiary of Codan AS.

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

a) transactions with related parties

Reinsurance

	2007	**2006**
Lietuvos Draudimas:		
Reinsurance premiums ceded	-	(181)
Reinsurance commissions received	-	10
Recovered loss amounts	118	154
	118	**(17)**
Royal Sun Alliance:		
Reinsurance premiums ceded	(296,722)	(136,367)
Reinsurance commissions paid	(6,915)	(8,730)
Claims received	-	187,930
Reinsurance commissions received	25,222	-
	(278,415)	**42,833**

Other transactions

	2007	**2006**
Codan AS:		
Management consulting services	(48,981)	(120,404)
Training for directors	(11,351)	-
Income from consultation	5,306	-
	(55,026)	**(120,404)**
Lietuvos Draudimas:		
Management consulting services	(85,515)	(516)
	(85,515)	**(516)**
Royal Sun Alliance:		
Management consulting services	(55,025)	-
Training for management	(24,053)	-
	(79,078)	**-**

During the reporting year the Company used management consulting services provided by Codan AS for LVL 49 thousand (2006: LVL 120 thousand) and by Lietuvos Draudimas for LVL 85 thousand (2006: LVL 1 thousand). These fees are included in the administrative expense. The Company provided IT consultation to Codan AS for LVL 5 thousand (2006: LVL 0). The income from consultation is included in other income.

b) balances with related parties

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

	31.12.2007	31.12.2006
Reinsurance claims reserves with Royal Sun Alliance	17,911	106,941
Reinsurance claims with Royal Sun Alliance	82,194	-
Reinsurance premiums	(855)	-
Recovered loss amounts with Lietuvos Draudimas	75	-
Liabilities to Codan AS	(38,365)	(13,714)
Liabilities to Lietuvos Draudimas	(45,227)	-
	15,733	**93,227**

c) key management remuneration

The Company has paid remuneration to the Council and Board of Directors in the amount of 371 thousands lats (2006: 275 thousands lats).

32. CONTINGENT LIABILITIES AND COMMITMENTS

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

Litigation
The Company, like all other insurers, is subject to litigation in the normal course of its business. As at 31 December 2007 there were 16 open legal claims against the Company amounting to LVL 78 thousands (2006: LVL 119 thousand). The management is of the opinion that no material unprovided losses will be incurred.

Capital commitments
The Company has signed an agreement with TIA Technology, the supplier of business application TIA. According to this agreement AAS BALTA should make a payment of LVL 267 thousands in 2008 and 2009 related to usage of this business application and due to increase in premium volume.

The Company does not have any other capital commitments as at 31 December 2007.

The Company does not have any non-cancellable operating leases as at 31 December 2007, these can usually be terminated at one to six months notice. Total commitment for lease payments as at 31 December 2007 amounts to LVL 121,367.

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 consolidated results and operations or financial position. Last tax examination done in the Company by State Revenue Service was for the period up to 31 December 2002.

33. SUBSEQUENT EVENTS

There are no other 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 2007.

34. 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 to use chain – ladder method, the reserve is set as 1/12 from the 12 month claim amount and increased by an average large claim from the last 3 years. In General TPL, Guarantee and Financial risk insurance the IBNR reserve is set at the amount of the net underwriting result from the business line.

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.

The Company annually performs premium deficiency test to ensure that no losses are transferred to next periods. As at the 31 December 2007 there is no premium deficiency detected. For premium deficiency tests are considered claims and direct costs.

35. 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.

Types of insurance contracts

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. For determining the rates of motor third party liability insurance, a bonus-malus system is used 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). 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.

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. The indemnity limit for the death or medical treatment of passenger is limited to 35 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 35 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. Casco insurance rates are determined on the basis of bonus–malus system, which decreases the insurance premium upon absence of losses and increases the insurance premium upon frequent occurrence of losses. The sums insured very rarely exceed the limit of 50 thousands lats. Largest losses arise from the theft 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.

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 in 2006 and 2007 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.

Concentration by industry
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.

Reinsurance contracts

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

Year 2007	**Latvia**	**OECD countries**	**Other countries**	**Total**
Assets				
Investments	19,972	12,928	48	32,948
Debtors	8,655	137	-	8,792
Cash in hand and with banks	6,134	1,330	-	7,464
Property, equipment, and intangibles	9,732	-	-	9,732
Reinsurance share of provision	-	1,402	22	1,424
Other assets	704	-	-	704
Total assets	**45,197**	**15,797**	**70**	**61,064**
Liabilities				
Technical provisions	40,263	23	4	40,290
Creditors	2,759	316	42	3,117
Other liabilities	1,891	91	-	1,982
Total liabilities	**44,913**	**430**	**46**	**45,389**
Net assets as at 31 December 2007	**284**	**15,367**	**24**	**15,675**

Year 2006	**Latvia**	**OECD countries**	**Other countries**	**Total**
Assets				
Investments	24,451	2,841	59	27,351
Debtors	6,977	129	-	7,106
Cash in hand and with banks	2,434	-	-	2,434
Property, equipment, and intangibles	10,380	-	-	10,380
Reinsurance share of provision	1	715	53	769
Other assets	501	-	-	501
Total assets	**44,744**	**3,685**	**112**	**48,541**
Liabilities				
Technical provisions	30,875	35	7	30,917
Creditors	2,531	924	-	3,455
Other liabilities	1,159	-	-	1,159
Total liabilities	**34,565**	**959**	**7**	**35,531**
Net assets as at 31 December 2006	**10,179**	**2,726**	**105**	**13,010**

Reinsurance coverage

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

	Maximum own retention
Personal accident & Travel medical expense	50,000
Motor own damage	150,000
Cargo	70,280
Hull, CMR	70,280
Property	702,804
General TPL	125,000

In addition to the overall RSA Group reinsurance programme, individual business units are permitted to purchase additional reinsurance protection.

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).

36. 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, effects of foreign currency exchange rate and interest rate fluctuations. 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.

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. There are no investments, which would exceed 10% of the total capital and reserves, except for investments in Latvian government debt securities and deposits with banks.

a) Maximum credit risk

	31.12.2007	**31.12.2006**
Latvian government bonds	4,744,911	12,880,754
German government bonds	3,718,074	1,990,963
British government bonds	1,426,532	-
Spainish government bonds	1,372,761	-
French government bonds	1,442,867	-
Mortgage backed debt securities	783,776	819,027
Corporate bonds	-	850,128
Deposits with banks	19,243,966	10,573,986
Loans, shares, cash and cash equivalents	7,679,664	2,670,131
Credit risk	**40,412,551**	**29,784,989**
Reinsurers` share of provision for unearned premiums	181,915	216,011
Reinsurers` share of provision for claims	1,242,274	552,949
Receivables arising from reinsurance operations	147,252	129,231
Receivables from policyholders	8,023,819	6,691,867
Receivables from intermediaries	246,553	35,384
Maximum credit risk	**50,254,364**	**37,410,431**

b) Reinsurance risk broken down by key counterparties

Reinsurer	2007 Receivables arising from reinsurance operations	2007 S&P Rating	2006 Receivables arising from reinsurance operations	2006 S&P Rating
Axis Re	330,218	A	2,161	A
Sirius International Insurance Co Ltd	326,248	A-	1,212	A-
GeneralCologne Re	324,614	AAA	507,178	AAA
XL Re Europe	154,056	A+	-	-
Hannover Re	109,185	AA-	29,446	AA-
Swiss Re Group	86,640	AA-	152,396	AA-
Munich Re Group	23,152	AA-	14,929	AA-
Royal & Sun Alliance	16,225	A	106,941	A
Partner Re	9,504	AA-	29,447	AA-
Other	191,599		54,481	
Reinsurance risk	**1,571,441**		**898,191**	

c) investment break down by ratings as at the year end (all amounts in thousands of LVL):

Year 2007	**AAA**	**AA**	**A**	**BBB**	**less than BBB**	**non rated**	**Total**
Government bonds	7,960	-	-	4,745	-	-	12,705
Other Europe credit institutions' bonds	-	-	784	-	-	-	784
Deposits with credit institutions	-	4,968	13,572	503	200	-	19,243
Shares	-	-	-	-	-	123	123
Loans	-	-	-	-	-	92	92
Total investment assets	**7,960**	**4,968**	**14,356**	**5,248**	**200**	**215**	**32,947**

Year 2006	**AAA**	**A**	**less than BBB**	**non rated**	**Total**
Government bonds	1,991	12,881	-	-	14,872
Other Europe credit institutions' bonds	850	819	-	-	1,669
Deposits with credit institutions	-	9,320	1,254	-	10,574
Shares	-	-	-	146	146
Loans	-	-	-	90	90
Total investment assets	**2,841**	**23,020**	**1,254**	**236**	**27,351**

Market risk
The Company takes on exposure to market risks. Market risks arise from open positions in interest rate 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.

Liquidity
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 assets and liabilities by their remaining maturities as at the year-end (all amounts in thousands of LVL):

Year 2007	Up to 12 months	1 to 5 years	Over 5 years	Total
Assets				
Investments	19,614	10,693	2,641	32,948
Debtors	8,775	17	-	8,792
Cash in hand and with banks	7,464	-	-	7,464
Property, plant and equipment, and intangibles	3,140	2,992	3,600	9,732
Reinsurance share of provisions	1,424	-	-	1,424
Other assets	704	-	-	704
Total assets	**41,121**	**13,702**	**6,241**	**61,064**
Liabilities				
Technical provisions	39,252	859	179	40,290
Creditors	3,117	-	-	3,117
Other liabilities	1,982	-	-	1,982
Total liabilities	**44,351**	**859**	**179**	**45,389**
Net assets as at 31 December 2007	**(3,230)**	**12,843**	**6,062**	**15,675**

Year 2006	Up to 12 months	1 to 5 years	Over 5 years	Total
Assets				
Investments	16,482	8,122	2,747	27,351
Debtors	7,106	-	-	7,106
Cash in hand and with banks	2,434	-	-	2,434
Property, plant and equipment, and intangibles	3,262	3,453	3,665	10,380
Reinsurance share of provisions	769	-	-	769
Other assets	501	-	-	501
Total assets	**30,554**	**11,575**	**6,412**	**48,541**
Liabilities				
Technical provisions	29,827	1,080	10	30,917
Creditors	3,455	-	-	3,455
Other liabilities	1,159	-	-	1,159
Total liabilities	**34,441**	**1,080**	**10**	**35,531**
Net assets as at 31 December 2006	**(3,887)**	**10,495**	**6,402**	**13,010**

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

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 technical provisions. In 2007 the company increased its assets in EUR, EUR exchange rate has been fixed in Latvia since 2005.

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

Year 2007

	USD	EUR	EEK	LTL	LVL	Other	Total
Financial assets:							
Cash and cash equivalents	39	5,147	-	-	2,271	7	**7,464**
Insurance receivables	48	949	-	-	7,795	-	**8,792**
Reinsurers' share of provision	-	428	-	-	996	-	**1,424**
Latvian government bonds	-		-	-	4,745	-	**4,745**
German government bonds	-	3,718	-	-	-	-	**3,718**
England government bonds	-	1,427	-	-	-	-	**1,427**
Spain government bonds	-	1,373	-	-	-	-	**1,373**
France government bonds	-	1,443	-	-	-	-	**1,443**
Mortgage backed debt securities	-	-	-	-	784	-	**784**
Corporate bonds	-	-	-	-		-	**-**
Deposits with banks	-	4,188	-	-	15,056	-	**19,244**
Loans	-	-	-	-	92	-	**92**
Shares	-	-	16	32	75	-	**123**
Property, equipment, intangibles	-	-	-	-	9,731	-	**9,731**
Other assets	-	-	-		704	-	**704**
Total assets:	**87**	**18,673**	**16**	**32**	**42,249**	**7**	**61,064**
Financial liabilities:							
Other payables	(4)	(485)	-	(42)	(4,435)	(134)	**(5,100)**
Insurance liabilities	(30)	(3,668)	(29)	(13)	(36,493)	(56)	**(40,289)**
Total liabilities:	**(34)**	**(4,153)**	**(29)**	**(55)**	**(40,928)**	**(190)**	**(45,389)**
Foreign exchange risk	**53**	**14,520**	**(13)**	**(23)**	**1,321**	**(183)**	**15,675**

Year 2006

	USD	EUR	EEK	LTL	LVL	Other	Total
Financial assets:							
Cash and cash equivalents	50	315	-	1	2,064	4	**2,434**
Insurance receivables	18	613	-	-	6,477	-	**7,108**
Reinsurers' share of provision	2	501	-	-	266	-	**769**
German government bonds	-	1,991	-	-	-	-	**1,991**
Latvian government bonds	-	-	-	-	12,880	-	**12,880**
Mortgage backed debt securities	-	-	-	-	819	-	**819**
Corporate bonds	-	-	-	-	850	-	**850**
Deposits with banks	-	1,460	-	-	9,114	-	**10,574**
Loans	5	-	-	-	85	-	**90**
Shares	-	-	21	38	88	-	**147**
Property, equipment, intangibles	-	-	-	-	10,380	-	**10,380**
Other assets	-	-	-	-	499	-	**499**
Total assets:	**75**	**4,880**	**21**	**39**	**43,522**	**4**	**48,541**
Financial liabilities:							
Other payables	-	(405)	-	-	(4,195)	(13)	**(4,613)**
Insurance liabilities	(68)	(3,212)	(25)	(20)	(27,519)	(74)	**(30,918)**
Total liabilities:	**(68)**	**(3,617)**	**(25)**	**(20)**	**(31,714)**	**(87)**	**(35,531)**
Foreign exchange risk	**7**	**1,263**	**(4)**	**19**	**11,808**	**(83)**	**13,010**

Contractual reprising or maturity dates:

Year 2007	< 1 year	1 – 2 year	2 – 3 year	3 – 4 years	4 – 5 years	> 5 years	Total
Latvian government bonds	452	-	-	2,435	-	1,858	4,745
German government bonds	3,718	-	-	-	-	-	3,718
England government bonds	-	1,427	-	-	-	-	1,427
Spain government bonds	-	1,373	-	-	-	-	1,373
France government bonds	-	1,443	-	-	-	-	1,443
Mortgage backed debt securities	784	-	-	-	-	-	784
Deposits with banks	15,286	3,047	911	-	-	-	19,244
Loans	35	39	18	-	-	-	92
Cash and cash equivalents	7,464	-		-	-	-	7,464
Financial assets	**27,739**	**7,329**	**929**	**2,435**	**-**	**1,858**	**40,290**

Year 2006	< 1 year	1 – 2 year	2 – 3 year	3 – 4 years	4 – 5 years	> 5 years	Total
Latvian government bonds	10,953	-	-	-	-	1,927	**12,880**
German government bonds	546	1,445	-	-	-	-	**1,991**
Mortgage backed debt securities	-	-	-	-	-	819	**819**
Corporate bonds	850	-	-	-	-	-	**850**
Deposits with banks	3,897	2,904	2,900	873	-	-	**10,574**
Loans	37	32	10	-	-	11	**90**
Cash and cash equivalents	2,434	-	-	-	-	-	**2,434**
Financial assets	**18,717**	**4,381**	**2,910**	**873**	**-**	**2,757**	**29,638**

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 repricing 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:

	2007	**2006**
German government debt securities	3.3%	3.8%
British government debt securities	4.3%	-
Spain government debt securities	4.1%	-
France government debt securities	4.1%	-
Latvian government debt securities	5.9%	4.3%
Other corporate debt securities	-	4.5%
Mortgage backed debt securities	6.1%	5.2%
Deposits with banks	5.5%	4.6%
Loans	7.0%	7.0%

Sensitivity analyses

Risk measurement is regularly analysed by 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:

		2007	**2006**
Market interest rate	+1% - p.p.	-251,475	-194,713
	-1% - p.p.	263,469	207,175

Changes in exchange rate do not materially affect the financial assets. Most part of the financial assets are held in LVL and EUR currencies what have a fixed exchange rate. Non LVL and EUR financial assets represent only 0.2% of Company's total financial assets.

Capital management

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

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

	31.12.2007	**31.12.2006**
Required regulatory capital	9,192	7,620
Regulatory capital held	11,315	10,928
Cover ratio (minimum required is 100%)	**123%**	**143%**

37. LOSS DEVELOPMENT TABLE

	2001 and earlier	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
Outstand Claims Net	3,142,771	3,656,351	3,787,889	4,541,665	5,162,468	8,787,155	12,416,711
Outstand Claims Reinsur share	55,175	710,209	760,768	792,916	818,589	552,949	1,242,274
Outstand Claims Gross	3,197,946	4,366,560	4,548,657	5,334,581	5,981,057	9,340,104	13,658,985
Payments One Year Later Gross	2,449,548	3,138,429	2,652,842	2,849,506	3,869,461	4,929,067	
Payments Two Years Later Gross	2,546,111	3,329,870	2,892,114	3,222,745	4,263,935		
Payments Three Years Later Gross	2,601,659	3,451,620	2,965,317	3,405,409			
Payments Four Years Later Gross	2,681,919	3,491,436	3,049,661				
Payments Five Years Later Gross	2,699,996	3,566,556					
Payments Six Years Later Gross	2,725,585						
Cumulative payments to 31 December 2007	**2,725,585**	**3,566,556**	**3,049,661**	**3,405,409**	**4,263,935**	**4,929,067**	
Outstanding Claims Reserves Period End One Year Later Gross	691,596	1,080,949	1,551,836	1,838,709	1,905,867	2,595,114	
Outstanding Claims Reserves Period End Two Years Later Gross	288,515	888,142	758,616	888,779	1,365,076		
Outstanding Claims Reserves Per End Three Years Later Gross	192,781	654,248	642,399	870,168			
Outstanding Claims Reserves Per End Four Years Later Gross	102,487	598,497	652,865				
Outstanding Claims Reserves Per End Five Years Later Gross	69,668	590,993					
Outstanding Claims Reserves Per End Six Years Later Gross	141,068						
Outstanding Claims Reserves as at 31 December 2007	**141,068**	**590,993**	**652,865**	**870,168**	**1,365,076**	**2,595,114**	
Run off Gross	**331,292**	**209,011**	**846,131**	**1,059,004**	**352,046**	**1,815,922**	

INDEPENDENT AUDITOR'S REPORT

To the shareholders of AAS Balta:

Report on the financial statements

We have audited the accompanying financial statements (page 7 to 42) of AAS Balta, which comprise the balance sheet as at 31 December 2007, 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. The financial statements for the year ended 31 December 2006 were audited by another auditor, whose report dated 28 March 2007 expressed an unqualified opinion.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of 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 2007, and its financial performance and its cash flows for the year then ended in accordance with the requirements of 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 5 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 2007.

Deloitte Audits Latvia SIA
License No. 43

Torben Pedersen
Authorised representative

Inguna Staša
Sworn auditor
Certificate No. 145

Riga, Latvia
1 April 2008