



AAS Balta

Annual accounts for 2006

AAS BALTA
ANNUAL ACCOUNTS FOR 2006

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AAS BALTA
ANNUAL ACCOUNTS FOR 2006

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

Council

<u>Name, Surname</u>	<u>Position</u>
Jesper Rasmussen	Chairman of the Council
Søren Theilgaard	Deputy of Chairman of the Council
Sven Staffan Eberhard Crona	Member of the Council (until 11.09.2006)
Svend Jørgen Heineke	Member of the Council (until 11.09.2006)
Sune Stürup Mikkelsen	Member of the Council
Catarina Elisabet Boijort	Member of the Council
Kestutis Serpytis	Member of the Council

Board

<u>Name, Surname</u>	<u>Position</u>
Jānis Abāšins	Chairman of the Board
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 (since 02.06.2006)

Name and address of the auditor and responsible certified auditor:

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

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

AAS BALTA

ANNUAL ACCOUNTS FOR 2006

REPORT OF THE BOARD OF DIRECTORS

The growth of the Latvian economy in year 2006 was one of the highest in the European Union. Latvian insurance market has grown by 35% in year 2006. Non-life insurance sector went up by 32%, while gross premiums written increased to 182 million lats.

In 2006 non-life insurance market gross insurance claims rose faster than written premiums. In comparison to year 2005, the amount of claims paid in 2006 increased by 45% and reached 89.2 million lats. Insurance companies continue to suffer losses, mostly due to rapidly growing inflation within construction and car service industries.

The development of non-life insurance market was induced by easy of access mortgage and lease services alongside with continuous development of real estate market. Despite the efforts of the responsible state authorities to solve the urgent problems of health care system, the disorder in this field remains. This in turn has facilitated the rise in interest for acquiring the services of health insurance. The number of enterprises including health insurance in their employee wages and bonus systems are increasing.

Insurance joint stock company BALTA (further – AAS BALTA) in 2006 developed slightly faster than total non-life insurance market in Latvia and reached 34% growth which is 43.7 million lats in gross written insurance premiums. This is for 11.0 million lats more than in year 2005.

Non-life insurance claims in 2006 AAS BALTA paid 20.3 million lats, which is 30% or 4.7 million lats more than in year 2005.

The process of claims centralisation has been carried out in 2006 and will be completed in the first half of 2007. New Claims Centre was opened in Riga with 1.8 million lats of investment.

Sales restructurisation process has been executed successfully alongside with sales change and development programs.

Various strategic projects relating to organizational culture, insurance process improvement and client service, called Silverstones, have been carried out in 2006 by different members of AAS BALTA, involving top management, employees of diverse levels and consultants from the parent company Codan AS. One of the Silverstone projects - "Underinsurance for private property", has been completed.

AAS BALTA brand reconstruction project has been executed giving brand a new philosophy.

Quality client services would not be possible without professional staff. In 2006 we have significantly increased amounts invested in employee training, which reached 100 thousands lats per year. The highest proportion in employee training was user training for new information technology system TIA. Likewise, comparatively many training hours were donated to sales training and rising of sales qualification.

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

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

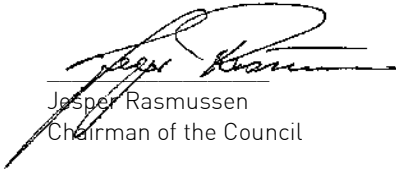
Unfortunately all the accomplishments have been outshined by growing inflation. Rigorous steps have been taken to improve company's key performance indicators already in the middle of 2006 however, at the end of 2006 AAS BALTA still has suffered a loss of 1.3 million lats.

AAS BALTA
ANNUAL ACCOUNTS FOR 2006

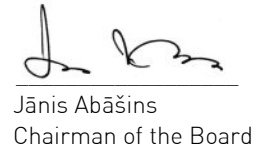
REPORT OF THE BOARD OF DIRECTORS (continued)

In 2007, while continuing with strategic project program Silverstones, AAS BALTA plans to increase amount of written premiums by 25%, as well as to reach profit target at the end of the year corresponding to shareholder projections.

On behalf of the insurance company AAS BALTA, we would like to express gratitude to all our clients, shareholders and business partners for placing the trust in our Company. Special appreciation to AAS BALTA employees for invested effort in Company's development and projects.



Jesper Rasmussen
Chairman of the Council



Jānis Abāšins
Chairman of the Board

28 March 2007

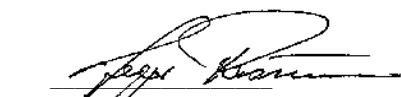
AAS BALTA
ANNUAL ACCOUNTS FOR 2006

STATEMENT OF THE RESPONSIBILITY OF THE BOARD OF DIRECTORS

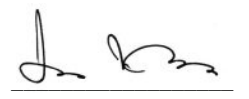
The Board of Directors of AAS BALTA confirms that the Financial Statements for the year ended 31 December 2006 are prepared in accordance with the International Financial Reporting Standards as adopted by EU and appropriate accounting policies, applied on a consistent basis. The Board of Directors of 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 2006 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 2006.

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.



Jesper Rasmussen
Chairman of the Council



Jānis Abāšins
Chairman of the Board

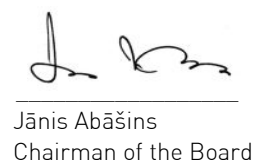
28 March 2007

INCOME STATEMENT

	Note	2006	2005 Parent	2005 Group
CONTINUING OPERATIONS				
Written premiums	1	43,653,033	32,639,508	32,639,508
Reinsurance premiums	1	(1,449,613)	(1,277,698)	(1,277,698)
Change in provision for unearned premiums	2	(5,575,977)	(3,591,468)	(3,591,468)
Reinsurers' share in change in provision for unearned premiums	2	27,348	(139,214)	(139,214)
<u>Earned premiums, net</u>		<u>36,654,791</u>	<u>27,631,128</u>	<u>27,631,128</u>
Interest income	3	922,697	958,348	958,348
Net fair value (losses) / gains on financial assets at fair value through profit or loss	4	(308,602)	117,632	117,632
Other income	5	422,472	463,412	463,412
Net income		<u>37,691,358</u>	<u>29,170,520</u>	<u>29,170,520</u>
Claims paid to policyholders		(20,533,641)	(15,964,499)	(15,964,499)
Claims settlement expense		(814,301)	(864,301)	(864,301)
Recovered loss amount		1,068,225	1,269,869	1,269,869
Claims paid	6	(20,279,717)	(15,558,931)	(15,558,931)
Reinsurers' share in claims	6	219,614	947,412	947,412
Change in provision for claims	7	(3,359,047)	(646,476)	(646,476)
Reinsurers' share in change in provision for claims	7	(265,641)	25,674	25,674
<u>Claims incurred, net</u>		<u>(23,684,791)</u>	<u>(15,232,321)</u>	<u>(15,232,321)</u>
Client acquisition costs	8	(5,825,454)	(4,552,183)	(4,552,183)
Administrative expense	9	(9,725,504)	(8,035,952)	(8,035,952)
Other expense	10	(55,166)	(228,026)	(228,026)
Expenses		<u>(39,290,915)</u>	<u>(28,048,482)</u>	<u>(28,048,482)</u>
Finance income	11	66,895	51,959	51,959
(Loss)/ profit before tax		<u>(1,532,662)</u>	<u>1,173,997</u>	<u>1,173,997</u>
Corporate income tax	12	219,476	(81,914)	(81,914)
Net (loss)/ profit from continuing operations		<u>(1,313,186)</u>	<u>1,092,083</u>	<u>1,092,083</u>
DISCONTINUING OPERATIONS				
Profit for year from discontinuing operations	13	-	2,133,974	1,613,589
Net (loss)/profit for year		<u>(1,313,186)</u>	<u>3,226,057</u>	<u>2,705,672</u>

Notes on pages 12 to 41 are an integral part of these financial statements.


 Jesper Rasmussen
 Chairman of the Council

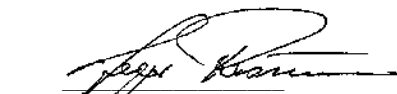

 Jānis Abāšins
 Chairman of the Board

28 March 2007

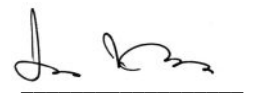
BALANCE SHEET

	Note	31.12.2006	31.12.2005
Assets			
<u>Intangible assets</u>	14	5,128,089	4,424,671
<u>Property, plant and equipment</u>	15	5,252,056	3,741,939
Financial investments at fair value through profit/loss	16	16,686,581	13,390,544
Loans	17	90,044	169,018
Term deposits with banks	36	10,573,986	8,732,949
<u>Total investments</u>		27,350,611	22,292,511
Receivables from direct insurance operations			
Due from policyholders	36	6,691,867	5,291,507
Due from intermediaries	36	35,384	353,940
Reinsurance receivables	18	129,231	96,952
Other receivables	19	251,424	243,099
<u>Total debtors</u>		7,107,906	5,985,498
<u>Accrued income and deferred expense</u>	20	84,882	29,862
<u>Corporate income tax receivables</u>	12	413,950	-
Reinsurers' share of provision for unearned premiums		216,011	188,663
Reinsurers' share of provision for claims	21	552,949	818,590
<u>Total reinsurers' share of technical provisions</u>		768,960	1,007,253
<u>Cash and cash equivalents</u>	22	2,434,379	2,893,753
Total assets		48,540,833	40,375,487

Notes on pages 12 to 41 are an integral part of these financial statements.



Jesper Rasmussen
Chairman of the Council



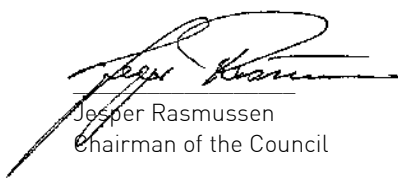
Jānis Abāšins
Chairman of the Board


28 March 2007

BALANCE SHEET (continued)

	Note	31.12.2006	31.12.2005
Equity			
Share capital	23	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		4,173,945	5,487,131
<u>Total equity</u>		<u>13,009,549</u>	<u>14,322,735</u>
Liabilities			
Provision for unearned premiums	2	21,577,288	16,001,311
Provision for claims	7	9,340,104	5,981,057
<u>Total technical provisions</u>		<u>30,917,392</u>	<u>21,982,368</u>
Deferred income tax liability	26	112,645	332,121
Liabilities from direct insurance operations		642,578	1,130,149
Reinsurance creditors	24	910,754	551,260
Taxes and social insurance	25	323,148	313,546
Current income tax liability	11	-	5,093
Accrued expense and deferred income	27	1,046,829	725,696
Other creditors	28	1,577,938	1,012,519
<u>Total creditors</u>		<u>4,613,892</u>	<u>4,070,384</u>
<u>Total liabilities</u>		<u>35,531,284</u>	<u>26,052,752</u>
Total liabilities and equity		<u>48,540,833</u>	<u>40,375,487</u>

Notes on pages 12 to 41 are an integral part of these financial statements.


 Jesper Rasmussen
 Chairman of the Council


 Jānis Abāšins
 Chairman of the Board

28 March 2007

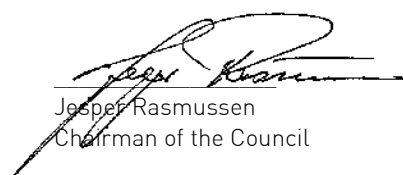
STATEMENT OF CHANGES IN EQUITY FOR PARENT COMPANY

	Share capital	Share premium	Reserve capital and other reserves	Retained earnings	Total
Balance as at 31 December 2004	4,652,067	1,121,332	3,062,205	3,005,405	11,841,009
Dividends paid	-	-	-	(744,330)	(744,330)
Profit for the year	-	-	-	3,226,056	3,226,056
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	<u>4,652,067</u>	<u>1,121,332</u>	<u>3,062,205</u>	<u>4,173,945</u>	<u>13,009,549</u>

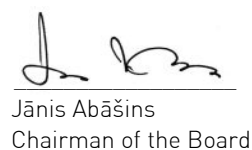
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Reserve capital and other reserves	Retained earnings	Total
Balance as at 31 December 2004	4,652,067	1,121,332	3,062,205	3,525,789	12,361,393
Dividends paid	-	-	-	(744,330)	(744,330)
Profit for the year	-	-	-	2,705,672	2,705,672
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	<u>4,652,067</u>	<u>1,121,332</u>	<u>3,062,205</u>	<u>4,173,945</u>	<u>13,009,549</u>

Notes on pages 12 to 41 are an integral part of these financial statements.



Jesper Rasmussen
Chairman of the Council



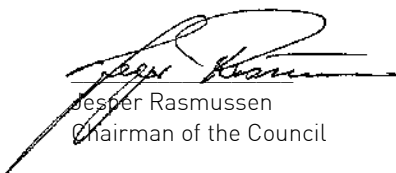
Jānis Abāšins
Chairman of the Board

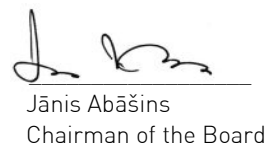
28 March 2007

STATEMENT OF CASH FLOWS

	2006	2005 Parent	2005 Group
<u>Cash from operating activities</u>			
Premiums received	41,166,724	33,052,283	34,814,070
Claims paid	(21,076,387)	(16,754,729)	(17,273,029)
Income tax paid	(419,043)	(155,276)	(346,889)
Sale of investments	4,462,287	2,707,790	3,102,549
Purchase of investments	(10,948,061)	(7,554,822)	(8,723,458)
Other expense	(12,125,165)	(13,829,099)	(14,436,944)
<u>Net cash from operating activities:</u>	<u>1,060,355</u>	<u>(2,533,853)</u>	<u>(2,863,701)</u>
<u>Cash from investing activities</u>			
Purchase of property and equipment	(1,545,278)	(504,180)	(509,496)
Associated and affiliated companies	-	4,744,961	4,598,251
<u>Net cash (from)/ used investing activities:</u>	<u>(1,545,278)</u>	<u>4,240,781</u>	<u>4,088,755</u>
<u>Cash from financing activities</u>			
Dividends paid	(24)	(743,854)	(743,854)
<u>Net cash from financing activities:</u>	<u>(24)</u>	<u>(743,854)</u>	<u>(743,854)</u>
Net (decrease)/ increase in cash and cash equivalents	<u>(484,947)</u>	<u>963,074</u>	<u>481,200</u>
Result of foreign exchange rate fluctuations	<u>25,573</u>	<u>11,814</u>	<u>11,814</u>
Cash and cash equivalents at the beginning of year	<u>2,893,753</u>	<u>1,918,865</u>	<u>2,400,739</u>
Cash and cash equivalent at the end of the year	<u>2,434,379</u>	<u>2,893,753</u>	<u>2,893,753</u>

Notes on pages 12 to 41 are an integral part of these financial statements.


 Jesper Rasmussen
 Chairman of the Council


 Jānis Abāšins
 Chairman of the Board

28 March 2007

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.

The Company sold investment in its sole subsidiary in 2005, therefore the income statements, statements of changes in equity and cash flow statements for 2005 are presented for both the Company and the Group while the balance sheets as at 31 December 2006 and 31 December 2005 are those of the Company.

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). 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 35.

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.

a) Standards, amendments and interpretations effective as of 1 January 2006 but not relevant to the Company's operations

The following International Accounting Standards (IAS) and IFRIC interpretations that are mandatory for accounting periods beginning on 1 January 2006, but that are not relevant to the Company's operations, have been published or amended:

IAS 19	(amended)	Employee Benefits
IAS 21	(amended)	Net Investment in a Foreign Operation
IAS 39	(amended)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
IAS 39	(amended)	The Fair Value Option
IAS 39 and IFRS 4	(amended)	Financial Guarantee Contracts
IFRS 1	(amended)	First-time Adoption of International Financial Reporting Standards
IFRS 6		Exploration for and Evaluation of Mineral Resources
IFRIC 4		Determining whether an Arrangement contains a Lease
IFRIC 5		Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IFRIC 6		Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

NOTES TO THE FINANCIAL STATEMENTS (continued)

b) Standards, amendments and interpretations that are not yet effective and that have not been early adopted by the Company

IFRS 7 Financial Instruments: Disclosures; Amendments to IAS 1 Presentation of Financial Statements – Capital Disclosures (effective as of 1 January 2007). IFRS 7 introduces new conditions of disclosures in order to improve the financial instrument information presented in statements. The Standard requires disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including analysis of sensitivity to market risk. The Amendment replaces IAS 32 Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under IFRS. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages the capital. The Company will apply IFRS 7 and amendment to IAS 1 from annual periods starting on 1 January 2007 and foresees that changes will affect its disclosures related to financial instruments and capital management.

c) Standards, amendments and interpretations that are not yet effective and that have no impact on the Company

The following standards and IFRIC interpretations that are mandatory for accounting periods beginning on or after 1 March 2006, but that are not relevant to, or according to considerations made by the management, which should not significantly affect the Company's accounting policy and disclosures in the financial statements, have been published:

IFRS 8 Operating Segments (effective from 1 January 2009).

IFRIC 7 Applying the Restatement Approach under IAS 29 (effective for annual periods beginning on and after 1 March 2006).

IFRIC 8 Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006).

IFRIC 9 Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006).

IFRIC 10 Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006).

IFRIC 11, IFRS 2 – Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007).

IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008).

(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 35). 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 Note (5) 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.

	31.12.2006	31.12.2005
1 USD	LVL 0.536	LVL 0.593
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 consolidated 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 at call with banks.

(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 Group 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) Consolidation and accounting for investment in subsidiary in Company's separate financial statements

The Company sold its investment in its single subsidiary in 2005.

Subsidiary undertakings are all entities over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiary undertakings by the Company. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in business combination are measured initially at their fair value at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Company's share of the identifiable net assets acquired is recorded as goodwill.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries are changed where necessary to ensure consistency with the policies adopted by the Company.

In Company's separate financial statements the investment in subsidiary is accounted at cost, less impairment, if any.

NOTES TO THE FINANCIAL STATEMENTS (continued)

(14) 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

	2006			2005		
	Gross amount	Reinsurers' share	Net amount	Gross amount	Reinsurers' share	Net amount
Personal accident	1,089,679	(33,286)	1,056,393	973,595	(27,483)	946,112
Health	5,713,191	-	5,713,191	4,076,842	-	4,076,842
Motor own damage	18,200,303	(212,830)	17,987,473	12,964,730	(119,523)	12,845,207
Marine	44,340	(4,340)	40,000	24,409	(2,653)	21,756
Cargo	486,334	(52,385)	433,949	394,904	(83,011)	311,893
Property	11,087,532	(819,826)	10,267,706	8,494,021	(730,867)	7,763,154
Voluntary motor Third Party Liability (TPL)	-	-	-	2,722	-	2,722
General TPL	1,052,985	(153,443)	899,542	696,002	(105,999)	590,003
Guarantees	20,024	-	20,024	60	-	60
Financial risks	187,061	-	187,061	152,034	-	152,034
Travel accident	320,424	(7,104)	313,320	266,247	(5,862)	260,385
Obligatory motor TPL	5,451,160	(166,399)	5,284,761	4,593,942	(202,300)	4,391,642
	43,653,033	(1,449,613)	42,203,420	32,639,508	(1,277,698)	31,361,810

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.

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 0.40 per contract and fixed sum LVL 30,000 in year or LVL 2,500 in month

In year 2006 OMTPL mandatory deductions summed up to LVL 321,408 (2005: LVL 360,753). 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 2004	12,409,843	(327,877)	12,081,966
Change in the year	3,591,468	139,214	3,730,682
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

b) 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
	<u>5,575,977</u>	<u>(27,348)</u>	<u>5,548,629</u>

c) changes in provision for unearned premiums and distribution by type of insurance for the year 2005:

	Gross amount	Reinsurers' share	Net amount
Personal accident	40,405	468	40,873
Health	845,757	-	845,757
Motor own damage	1,604,625	(12,652)	1,591,973
Marine	4,641	1,220	5,861
Cargo	29,056	(2,318)	26,738
Property	1,186,963	115,626	1,302,589
Voluntary motor TPL	(3,053)	-	(3,053)
General TPL	80,549	23,625	104,174
Guarantees	(2,924)	2,091	(833)
Financial risks	(3,750)	-	(3,750)
Travel accident	4,877	37	4,914
Obligatory motor TPL	(195,678)	11,117	(184,561)
	<u>3,591,468</u>	<u>139,214</u>	<u>3,730,682</u>

3. INTEREST INCOME

	2006	2005
Government bonds	420,400	501,062
Deposits with banks	409,411	364,034
Mortgage backed debt securities	47,891	51,282
Corporate bonds	35,530	19,563
Other income	9,465	22,407
	<u>922,697</u>	<u>958,348</u>

4. NET FAIR VALUE GAINS/LOSSES ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2006	2005
Government bonds	(269,026)	51,714
Mortgage backed debt securities	(22,204)	19,505
Corporate bonds	(11,234)	(6,124)
Listed shares	(6,138)	52,537
	<u>(308,602)</u>	<u>117,632</u>

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(all amounts in Latvian Lats)

5. OTHER INCOME

	2006	2005
Income from reversal of provisions for doubtful debts	181,040	-
Income from cancellation of policies	75,500	9,006
Income from distribution of policies of SEB Dzīvības Apdrošināšana	66,171	139,647
Income from pool administration (see Note 1)	34,789	29,987
Gain on sale of tangible assets	21,726	19,856
Commissions for distribution of other insurance companies' products	8,953	12,240
Expertise income	8,850	12,323
Insurance claims received	5,406	-
Income from rent	4,309	13,367
Reinsurance commission income (see Note 31)	3,560	37,145
Bad debt recovery income	415	17,063
Repayment of guaranty funds accumulated by RAS by Motor Insurers' Bureau of Latvia	-	146,685
Other income	11,753	26,093
	<u>422,472</u>	<u>463,412</u>

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

Personal accident	148,044	139,494
Health	42,558	728
Motor own damage	109,247	2,175
Marine	74	337
Cargo	(224)	8,209
Property	11,715	25,551
General TPL	531	11,185
Guarantees	13,167	5,817
Financial risks	11	(8)
Travel accident	45	107
Obligatory motor TPL	97,304	269,817
	<u>422,472</u>	<u>463,412</u>

6. CLAIMS PAID

	2006			2005		
	Gross amount	Reinsurers' share	Net amount	Gross amount	Reinsurers' share	Net amount
Personal accident	(279,256)	-	(279,256)	(286,407)	-	(286,407)
Health	(3,187,722)	-	(3,187,722)	(2,067,712)	-	(2,067,712)
Motor own damage	(8,911,995)	-	(8,911,995)	(5,361,445)	10,119	(5,351,326)
Marine	(9,392)	-	(9,392)	(1,100)	-	(1,100)
Cargo	(108,237)	30,139	(78,098)	(27,831)	13,788	(14,043)
Property	(4,145,675)	187,929	(3,957,746)	(4,803,072)	916,264	(3,886,808)
Voluntary motor TPL	-	-	-	1,278	-	1,278
Loan insurance	154	-	154	501	-	501
General TPL	(204,842)	1,546	(203,296)	(53,213)	(7,126)	(60,339)
Guarantees	-	-	-	(17,959)	14,367	(3,592)
Financial risks	(63,602)	-	(63,602)	-	-	-
Travel accident	(68,833)	-	(68,833)	(93,855)	-	(93,855)
Obligatory motor TPL	(3,300,317)	-	(3,300,317)	(2,848,116)	-	(2,848,116)
	<u>(20,279,717)</u>	<u>219,614</u>	<u>(20,060,103)</u>	<u>(15,558,931)</u>	<u>947,412</u>	<u>(14,611,519)</u>

7. PROVISION FOR CLAIMS

a) movement in provision for claims

	2006			2005		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Year ended 31 December						
Notified claims	4,453,232	(818,590)	3,634,642	3,842,671	(792,916)	3,049,755
Incurred but not reported	1,527,825	-	1,527,825	1,491,910	-	1,491,910
Total at beginning of year	5,981,057	(818,590)	5,162,467	5,334,581	(792,916)	4,541,665
Cash paid for claims settled in year	(3,869,461)	188,850	(3,680,611)	(2,849,506)	14,469	(2,835,037)
Increase in liabilities						
- Arising from current year claims	7,344,093	-	7,344,093	4,146,476	(19,003)	4,127,473
- Arising from prior year claims	(115,585)	76,791	(38,794)	(650,494)	(21,140)	(671,634)
Total change in year	3,359,047	265,641	3,624,688	646,476	(25,674)	620,802
Total at end of year	9,340,104	(552,949)	8,787,155	5,981,057	(818,590)	5,162,467
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 end of year	9,340,104	(552,949)	8,787,155	5,981,057	(818,590)	5,162,467

b) 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

c) change in provisions for claims and distribution by type of insurance for the year 2005:

Personal accident	(14,577)	-	(14,577)
Health	167,352	-	167,352
Motor own damage	538,103	-	538,103
Marine	4,458	-	4,458
Cargo	132	(4,536)	(4,404)
Property	129,548	(283,955)	(154,407)
Voluntary motor TPL	507	-	507
General TPL	40,243	(1,069)	39,174
Guarantees	(58,650)	54,074	(4,576)
Financial risks	89,355	-	89,355
Travel accident	(24,082)	-	(24,082)
Obligatory motor TPL	(225,913)	209,812	(16,101)
	646,476	(25,674)	620,802

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8. CLIENT ACQUISITION COSTS

	2006	2005
Commissions to brokers and other intermediaries	(2,261,137)	(1,730,064)
Commissions and other agent related expense	(3,686,681)	(2,841,458)
Social insurance expense	(805,909)	(750,716)
Commissions on reinsurance accepted	1	(897)
Other client acquisition costs	(2,008)	(2,921)
Changes in deferred client acquisition costs (Note 14)	930,280	773,873
	<u>(5,825,454)</u>	<u>(4,552,183)</u>

Distribution of client acquisition costs (DAC) and changes in deferred acquisition costs by type of insurance in 2006 has been as follows:

	Client acquisition costs	Changes in DAC	Client acquisition costs, net
Personal accident	(190,680)	(3,576)	(194,256)
Health	(475,109)	89,793	(385,316)
Motor own damage	(2,625,597)	522,594	(2,103,003)
Marine	(3,859)	959	(2,900)
Cargo	(44,507)	4,311	(40,196)
Property fire	(2,682,946)	236,028	(2,446,918)
Voluntary motor TPL	-	(23)	(23)
General TPL	(126,262)	25,648	(100,614)
Guarantees	(3,223)	3,414	191
Financial risks	(27,650)	1,278	(26,372)
Travel accident	(33,478)	(4,192)	(37,670)
Obligatory motor TPL	(542,423)	54,046	(488,377)
	<u>(6,755,734)</u>	<u>930,280</u>	<u>(5,825,454)</u>

9. ADMINISTRATIVE EXPENSE

	2006	2005
Salaries		
- salaries to staff	(3,963,035)	(3,109,144)
- social insurance expense	(803,945)	(660,792)
Depreciation and amortisation	(1,280,767)	(1,027,377)
Professional services	(193,558)	(302,235)
Information and communication expense	(695,152)	(656,056)
Advertising and public relations	(684,281)	(467,223)
Rent of premises	(455,083)	(364,376)
Premise maintenance and repair expense	(333,260)	(258,636)
Office expense	(250,118)	(194,572)
Transport	(243,377)	(206,664)
Payments to Financial and Capital Market Commission	(230,508)	(192,052)
Payments to Foundation of Insured Interests Protection	(136,492)	(97,004)
Other administrative expense	(455,928)	(499,821)
	<u>(9,725,504)</u>	<u>(8,035,952)</u>

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 0.192% from gross premiums collected in Obligatory Motor Third Party Liability insurance after all deductions and in amount of 0.593% 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 2006, 529 employees (2005: 517) and 524 agents (2005: 858) were employed in the Company. As at 31 December 2006, 323 (2005: 286) employees were working in the central office, and 206 (2005: 231) employees and 524 (2005: 858) agents in branches.

FINANCIAL STATEMENTS FOR 2006

(all amounts in Latvian Lats)

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

	2006	2005
Personal accident	(434,920)	(308,833)
Health	(1,162,274)	(792,156)
Motor own damage	(3,588,508)	(3,127,453)
Marine	(8,674)	(4,970)
Cargo	(107,779)	(85,114)
Property	(2,553,569)	(2,191,734)
Voluntary motor TPL	(6)	(1,190)
General TPL	(250,068)	(178,120)
Guarantees	(3,709)	(564)
Financial risks	(38,856)	(34,024)
Travel accident	(110,695)	(110,149)
Obligatory motor TPL	(1,466,446)	(1,201,645)
	<u>(9,725,504)</u>	<u>(8,035,952)</u>

10. OTHER EXPENSE

	2006	2005
Costs related to distribution of SEB Dzīvības Apdrošināšana policies	(38,650)	(107,236)
Loss on sale of property, plant and equipment	(15,971)	-
Provisions for doubtful debts	-	(120,736)
Other expense	(545)	(54)
	<u>(55,166)</u>	<u>(228,026)</u>

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

	2006	2005
Personal accident	(54,504)	(6,208)
Health	(39)	(26,768)
Motor own damage	-	(85,124)
Marine	-	(160)
Cargo	-	433
Property	-	(70,763)
Voluntary motor TPL	-	(18)
General TPL	-	(4,212)
Financial risks	-	(998)
Travel accident	-	(1,748)
Obligatory motor TPL	(623)	(32,460)
	<u>(55,166)</u>	<u>(228,026)</u>

11. FINANCE INCOME

	2006	2005
Interest on cash and cash equivalents	51,295	30,767
Gain from foreign currency fluctuations	15,600	21,192
	<u>66,895</u>	<u>51,959</u>

12. CORPORATE INCOME TAX

	2006	2005 Parent	2005 Group
Parent company current tax for the reporting year	-	(341,798)	(341,798)
Change in deferred tax balances (Note 26)	219,476	(116,700)	(20,302)
	<u>219,476</u>	<u>(458,498)</u>	<u>(362,100)</u>
Current tax effect from discontinued operations (Note 13 a)	-	376,584	280,186
Total corporate income tax	<u>219,476</u>	<u>(81,914)</u>	<u>(81,914)</u>

As at 31 December 2006 the Company has overpaid corporate income tax for the amount of LVL 413,950 (2005: current income tax liability in the amount of LVL 5,093).

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

	2006	2005 Parent	2005 Group
(Loss)/ profit before tax (continuing operations)	(1,532,662)	1,173,997	1,173,997
Profit before tax (discontinuing operations), Note 13 a)	-	2,510,558	1,893,775
Total (loss)/ profit before tax	<u>(1,532,662)</u>	<u>3,684,555</u>	<u>3,067,772</u>
Theoretically calculated tax at a tax rate of 15%	229,899	(552,683)	(460,166)
Expenses not deductible for tax purposes	(31,399)	(56,555)	(56,972)
Non-taxable income	1,658	30,579	112,935
Tax discount for donations	-	42,056	42,056
Release of previously unrecognised deferred tax liability	-	78,058	-
Tax rebate for foreign tax payment	34	47	47
Adjustment to prior years Corporate income tax	19,283	-	-
Current tax charge	<u>219,476</u>	<u>(458,498)</u>	<u>(362,100)</u>

13. DISCONTINUED OPERATIONS

Discontinued operations for AAS BALTA is a disposal of Balta Dzīvība, 100% owned company who provides life and accident insurance. Balta Dzīvība was sold on 3 August 2005.

a) analysis of the result of discontinued operations:

	2005 Parent	2005 Group
Income from disposal of SEB Dzīvības Apdrošināšana	4,937,993	4,937,993
Investment in subsidiary – cost (Parent) or net assets disposed (Group)	(2,234,403)	(2,296,305)
Loss from discontinued operations – before tax (Note 13 b)	-	(554,881)
Management costs for sales transaction	(193,032)	(193,032)
Profit from discontinued operations – before tax	2,510,558	1,893,775
Corporate income tax	(376,584)	(280,186)
Profit from discontinued operations – after tax	<u>2,133,974</u>	<u>1,613,589</u>

b) result from SEB Dzīvības Apdrošināšana operations:

Analysis of the result of discontinued operations, and the result recognised on the re-measurement of assets or disposal group:

	2005
Net income	2,067,202
Net expense	(2,622,083)
Loss from discontinued operations – before tax	(554,881)
Corporate income tax	96,398
Loss from discontinued operations	(458,483)

c) cash flow from SEB Dzīvības Apdrošināšana operations:

	2005
Operating cash flows	444,029
Investing cash flows	(925,903)
Financing cash flows	-
Total cash flows	(481,874)

14. INTANGIBLE ASSETS

	Deferred client acquisition costs	Software	Total
Cost			
As at 01 January 2005	1,475,336	2,186,802	3,662,138
Additions for 2005	4,871,173	921,092	5,792,265
Disposals for 2005	(4,097,300)	-	(4,097,300)
As at 31 December 2005	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	3,179,487	3,584,604	6,764,091
Amortisation			
As at 01 January 2005	-	(411,764)	(411,764)
Charge for the year 2005	-	(520,668)	(520,668)
As at 31 December 2005	-	(932,432)	(932,432)
Charge for the year 2006	-	(703,570)	(703,570)
As at 31 December 2006	-	(1,636,002)	(1,636,002)
Net Book Value at 31 December 2005	2,249,209	2,175,462	4,424,671
Net Book Value at 31 December 2006	3,179,487	1,948,602	5,128,089

15. PROPERTY, PLANT AND EQUIPMENT

	Constructi on work in progress	Land and buildings	Leasehold improvem ents	Transport vehicles	Computer equipment	Furniture and fittings	Total
Cost							
As at 1 January 2005	-	2,011,657	177,881	680,757	1,446,695	528,936	4,845,926
Additions in 2005	354,440	189,740	67,555	178,497	231,441	103,118	1,124,791
Disposals in 2005	-	(29,302)	-	(126,836)	(407,479)	(140,793)	(704,410)
As at 31 December 2005	354,440	2,172,095	245,436	732,418	1,270,657	491,261	5,266,307
Additions in 2006	1,237,531	-	241,625	42,721	289,185	307,746	2,118,808
Disposals in 2006	-	-	-	(53,221)	(6,124)	(15,314)	(74,659)
Reclassification in 2006	(1,591,971)	1,591,971	-	-	-	-	-
As at 31 December 2006	-	3,764,066	487,061	721,918	1,553,718	783,693	7,310,456
Depreciation							
As at 1 January 2005	-	(281,859)	(22,361)	(229,890)	(784,654)	(330,357)	(1,649,121)
Charge for 2005	-	(37,878)	(34,395)	(137,383)	(262,141)	(69,307)	(541,104)
Depreciation on disposed assets in 2005	-	3,111	-	117,253	406,333	139,160	665,857
As at 31 December 2005	-	(316,626)	(56,756)	(250,020)	(640,462)	(260,504)	(1,524,368)
Charge for 2006	-	(45,242)	(15,524)	(148,244)	(293,115)	(90,595)	(592,720)
Depreciation on disposed assets in 2006	-	-	-	37,250	6,124	15,314	58,688
As at 31 December 2006	-	(361,868)	(72,280)	(361,014)	(927,453)	(335,785)	(2,058,400)
Net Book Value at 31 December 2005	354,440	1,855,469	188,680	482,398	630,195	230,757	3,741,939
Net Book Value at 31 December 2006	-	3,402,198	414,781	360,904	626,265	447,908	5,252,056

All property was for Company's own use.

16. FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH PROFIT/ LOSS

	31.12.2006		31.12.2005	
	Carrying amount of investment	Cost	Carrying amount of investment	Cost
Latvian government bonds	12,880,754	12,770,228	10,230,142	9,891,190
German government bonds	1,990,963	1,952,201	1,157,438	1,103,701
Corporate bonds	850,128	850,691	861,362	850,691
Mortgage backed debt securities	819,027	786,980	989,765	937,925
Latvian companies	86,573	39,204	94,066	39,204
Estonian companies	21,017	11,626	18,813	11,626
Lithuanian companies	38,119	31,038	38,958	31,038
	16,686,581	16,441,968	13,390,544	12,865,375

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 37.

17. LOANS

	31.12.2006			31.12.2005		
	Current	Non- current	Total	Current	Non-current	Total
Loans to employees	19,310	16,197	35,507	30,653	41,797	72,450
Loans secured by a car pledge	1,368	7,827	9,195	-	16,659	16,659
Mortgage loans	16,066	29,276	45,342	22,729	57,180	79,909
	36,744	53,300	90,044	53,382	115,636	169,018

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

18. REINSURANCE RECEIVABLES

The Company operates with ceded reinsurance and accepted reinsurance. As at 31 December 2006 the Company claims against reinsurance debtors are LVL 129,231 (2005: LVL 96,952) of which LVL 129,188 (2005: LVL 96,378) are ceded reinsurance, but LVL 43 (2005: LVL 574) are receivables from accepted reinsurance. These receivables are due within 12 months from the balance sheet date and carry no interest.

19. OTHER RECEIVABLES

	31.12.2006	31.12.2005
Receivables from agents	50,960	27,891
Receivables for claims regulation	28,617	6,285
Receivables from the Motor Insurers' Bureau of Latvia	26,023	22,194
Receivables from other insurance companies	-	46,048
Real estate tax overpayment	1,931	1,853
Other debtors	143,893	138,828
	<u>251,424</u>	<u>243,099</u>

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

20. ACCRUED INCOME AND DEFERRED EXPENSE

	31.12.2006	31.12.2005
Prepayments for software maintenance	42,121	2,062
Deferred commission expense	19,713	4,307
Prepayments for rent	14,135	19,832
Other accrued income and deferred expense	8,913	3,661
	<u>84,882</u>	<u>29,862</u>

21. REINSURERS' SHARE OF PROVISION FOR CLAIMS

The reinsurers' share of provision for claims include LVL 417,981 (2005: LVL 427,040) for OMTPL insurance case in Germany. Remaining part in the amount of LVL 106,941 (2005: LVL 397,944) of claims provision represent reinsurance part of unsettled claims for storm in January 2005.

22. CASH AND CASH EQUIVALENTS

	31.12.2006	31.12.2005
Cash in hand	500	500
Cash at bank	2,063,115	1,142,224
Short-term bank deposits	370,764	1,751,029
	<u>2,434,379</u>	<u>2,893,753</u>

The effective interest rate for 2006 on short-term bank deposits was 4.3% (2005: 3.7%) and has an average maturity of 71 (2005: 29) days.

23. 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 shareholders

The following shareholders held more than 10% of the parent company's shares as at the end of the year:

	31.12.2006		31.12.2005	
	Number of shares	Share-holding	Number of shares	Share-holding
Codan AS	4,649,047	99.94%	2,416,055	51.94%
IO Fund (The Danish Investment Fund for Central and Eastern Europe)	-	-	1,116,496	24.00%
European Bank For Reconstruction and Development	-	-	1,116,496	24.00%
	<u>4,649,047</u>	<u>99.94%</u>	<u>4,649,047</u>	<u>99.94%</u>

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.

24. CREDITORS FROM REINSURANCE ACTIVITIES

The Company operates with ceded reinsurance and accepted reinsurance. As at 31 December 2006 there are liabilities in amount of LVL 910,754 (2005: LVL 551,260) outstanding to reinsurers. As at 31 December 2006 the Company had no liabilities outstanding to cedents (no liabilities outstanding to cedents in 2005).

25. TAX AND SOCIAL INSURANCE

	31.12.2006	31.12.2005
Social insurance	174,534	171,583
Personal income tax	136,288	127,034
Value added tax	12,046	14,449
Unemployment risk duty	280	480
	<u>323,148</u>	<u>313,546</u>

During the year the following tax payments have been made:

	2006	2005
Social insurance payments	2,315,793	1,890,829
Personal income tax	1,640,422	1,320,755
Corporate income tax	447,262	155,276
Value added tax	112,072	121,046
Property tax	26,178	28,365
Unemployment risk duty	3,975	6,263
	<u>4,545,702</u>	<u>3,522,534</u>

26. DEFERRED CORPORATE INCOME TAX LIABILITY

	2006	2005 Parent	2005 Group
Deferred tax liability as at the beginning of the year	332,121	215,421	225,021
Deferred tax (credited)/ charged to income statement (see Note 12)	(219,476)	116,700	20,302
Disposal of subsidiary	-	-	86,798
Deferred tax liability as at the end of the year	112,645	332,121	332,121

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:

	31.12.2006	31.12.2005
Temporary difference on depreciation of tangible assets and buildings	498,933	440,856
Loss for the period	(253,280)	-
Temporary difference for insurance provisions	23,530	27,264
Temporary difference for accrued expense	(116,118)	(104,321)
Temporary difference for provisions on doubtful debtors	(9,190)	(33,401)
Temporary difference for value adjustments on securities	(31,230)	1,723
Deferred tax liability as at the end of the year	112,645	332,121

27. ACCRUED EXPENSES AND DEFERRED INCOME

	31.12.2006	31.12.2005
Accruals for personnel bonuses	387,709	202,000
Accruals for unused annual leave	230,793	182,114
Next period written premium for long term policies	272,245	10,925
Accruals for other expenses	142,531	168,679
Accruals for intermediary commissions	13,080	160,276
Unearned reinsurance commissions	471	1,702
	1,046,829	725,696

28. OTHER CREDITORS

	31.12.2006	31.12.2005
Deferred commissions payable to agents	533,490	307,286
Personnel	387,944	440,300
Claims payable	125,509	12,302
Liability to Finance and Capital Market Commission	102,366	69,246
Payable to SEB Dzīvības Apdrošināšana	64,175	100,378
Liability for payments to Motor Insurers' Bureau of Latvia	55,508	43,357
Liability to related company (Note 32)	13,418	34,714
Other creditors	295,528	4,936
	1,577,938	1,012,519

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

29. DIVIDENDS PER SHARE

No dividends paid in 2006. The dividend paid in 2005 was LVL 744,330 (LVL 0.16 per share). No dividends to be proposed at the Annual Shareholders' Meeting.

30. MANDATORY PAYMENTS

Types of mandatory payments made during the year:

	2006	2005
Motor Insurers' Bureau of Latvia	344,234	384,359
Finance and Capital Market Commission	333,880	279,092
	<u>678,114</u>	<u>663,451</u>

31. RESULTS OF THE CEDED REINSURANCE

	2006	2005
Reinsurers' share in premiums (see Note 1)	(1,449,613)	(1,277,698)
Reinsurers' share in changes in unearned premiums (see Note 2)	27,348	(139,214)
Reinsurers' share in claims (see Note 6)	219,614	947,412
Reinsurers' share in changes in provision for claims (see Note 7)	(265,641)	25,674
Reinsurers' share in changes in life insurance technical provisions	-	-
Reinsurers' commission income (see Note 5)	3,560	37,145
Net result of ceded reinsurance activities:	<u>(1,464,732)</u>	<u>(406,681)</u>

32. RELATED PARTY TRANSACTIONS

The parent company of the Company is Codan AS (Denmark). The ultimate parent company of the Company is Royal Sun Alliance (UK). Lietuvos 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

	2006	2005
<i>Lietuvos Draudimas:</i>		
Reinsurance premiums ceded	(181)	(14,982)
Reinsurance commissions received	10	853
Recovered loss amounts	154	501
	<u>(17)</u>	<u>(13,628)</u>
<i>Royal Sun Alliance:</i>		
Reinsurance premiums ceded	(136,367)	(108,824)
Reinsurance commissions paid	(8,730)	(3,939)
Claims received	187,930	872,896
	<u>42,833</u>	<u>760,133</u>

Other transactions

During the reporting year the Company used management consulting services provided by Codan AS for LVL 120 thousand (2005: LVL 278 thousand) and by Lietuvos Draudimas for LVL 1 thousand (2005: LVL 9 thousand). These fees are included in administrative expense.

b) balances with related parties

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

	31.12.2006	31.12.2005
Reinsurance claims reserves with Royal Sun Alliance	106,941	347,944
Liabilities Royal Sun Alliance	-	(21,339)
Liabilities to Codan AS	(13,418)	(34,714)

c) key management remuneration

The Company has paid remuneration to the Council and Board of Directors in the amount of 275 thousands lats (2005: 326 thousands lats).

33. 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 2006 there were 12 open legal claims against the Company amounting to LVL 119 thousands (2005: LVL 148 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 152,521 in 2007 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 2006.

The Company does not have any non-cancellable operating leases as at 31 December 2006, these can usually be terminated at one to six months notice. Total commitment for lease payments as at 31 December 2006 amounts to LVL 138,844.

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.

34. 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 2006.

35. 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 2006 there is no premium deficiency detected. For premium deficiency tests are considered claims and direct costs.

36. 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 2005 arise most often from the realisation of natural disaster and fire risks. Larger losses in 2006 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 at the acceptable level.

AAS BALTA

FINANCIAL STATEMENTS FOR 2006

(all amounts in Latvian Lats)

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 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	2,530	924	-	3,454
Other liabilities	1,159	-	-	1,159
Total liabilities	34,564	959	7	35,530
Net assets as at 31 December 2006	10,180	2,726	105	13,011

Year 2005	Latvia	OECD countries	Other countries	Total
Assets				
Investments	20,215	2,019	58	22,292
Debtors	5,888	97	-	5,985
Cash in hand and with banks	2,894	-	-	2,894
Property, equipment, and intangibles	8,167	-	-	8,167
Reinsurance share of provisions	-	786	221	1,007
Other assets	30	-	-	30
Total assets	37,194	2,902	279	40,375
Liabilities				
Technical provisions	21,982	-	-	21,982
Creditors	2,426	586	-	3,012
Other liabilities	1,058	-	-	1,058
Total liabilities	25,466	586	-	26,052
Net assets as at 31 December 2005	11,728	2,316	279	14,323

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	50,000
Motor own damage	50,000
Cargo	52,710
Hull, CMR	52,710
Property	527,103
General TPL	125,000
Travel medical expense	35,140

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).

37. 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

	2006	2005
Latvian government bonds	12,880,754	10,230,142
German government bonds	1,990,963	1,157,438
Mortgage backed debt securities	819,027	989,765
Corporate bonds	850,128	861,362
Deposits with banks	10,573,986	8,732,949
Loans, shares, cash and cash equivalents	2,670,131	3,214,608
Credit risk	29,784,989	25,186,264
Reinsurers` share of provision for unearned premiums	216,011	188,663
Reinsurers` share of provision for claims	552,949	818,590
Receivables arising from reinsurance operations	129,231	96,953
Receivables from policyholders	6,691,867	5,291,507
Receivables from intermediaries	35,384	353,940
Maximum credit risk	36,991,992	22,347,856

b) Reinsurance risk broken down by key counterparties

Reinsurer	2006		2005	
	Receivables arising from reinsurance operations	S&P Rating	Receivables arising from reinsurance operations	S&P Rating
GeneralCologne Re	507,178	AAA	457,709	AAA
Swiss Re Group	152,396	AA-	153,464	AA
Munich Re Group	14,929	A+	2,873	A+
Royal & Sun Alliance	106,941	A-	348,114	A-
Partner Re	29,447	AA-	30,085	AA-
Hannover Re	29,446	AA-	30,085	AA-
Other	57,854		81,876	
Reinsurance risk	898,191		1,104,206	

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

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

Year 2005	AAA	A	less than BBB	non rated	Total
Government bonds	1,157	10,231	-	-	11,388
Other Europe credit institutions' bonds	861	990	-	-	1,851
Deposits with credit institutions	-	7,207	1,525	-	8,732
Shares	-	-	-	152	152
Loans	-	-	-	169	169
Total investment assets	2,018	18,428	1,525	321	22,292

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.

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FINANCIAL STATEMENTS FOR 2006

(all amounts in Latvian Lats)

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 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	3,454	-	-	3,454
Other liabilities	1,159	-	-	1,136
Total liabilities	34,440	1,080	10	35,530
Net assets as at 31 December 2006	(3,886)	10,495	6,402	13,011
Year 2005	Up to 12 months	1 to 5 years	Over 5 years	Total
Assets				
Investments	5,692	12,647	3,953	22,292
Debtors	5,985	-	-	5,985
Cash in hand and with banks	2,894	-	-	2,894
Property, plant and equipment, and intangibles	2,282	3,036	2,849	8,167
Reinsurance share of provisions	1,007	-	-	1,007
Other assets	30	-	-	30
Total assets	17,890	15,683	6,802	40,375
Liabilities				
Technical provisions	21,169	806	7	21,982
Creditors	3,012	-	-	3,012
Other liabilities	1,058	-	-	1,058
Total liabilities	25,239	806	7	26,052
Net assets as at 31 December 2005	(7,349)	14,877	6,795	14,323

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.

AAS BALTA

FINANCIAL STATEMENTS FOR 2006

(all amounts in Latvian Lats)

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

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 insurance liabilities	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	-	-	-	-	498	-	498
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)	(27,518)	(74)	(30,917)
Total liabilities:	(68)	(3,617)	(25)	(20)	(31,713)	(87)	(35,530)
Foreign exchange risk	7	1,263	(4)	19	11,809	(83)	13,011

Year 2005

	USD	EUR	EEK	LTL	LVL	Other	Total
Financial assets:							
Cash and cash equivalents	132	88	-	-	2,669	5	2,894
Insurance receivables	39	428	-	-	5,518	-	5,985
Reinsurers' share of insurance liabilities	6	530	-	-	471	-	1,007
German government bonds	-	1,157	-	-	-	-	1,157
Latvian government bonds	-	-	-	-	10,231	-	10,231
Mortgage backed debt securities	-	-	-	-	990	-	990
Corporate bonds	-	-	-	-	861	-	861
Deposits with banks	-	1,418	-	-	7,314	-	8,732
Loans	10	2	-	-	157	-	169
Shares	-	-	19	39	94	-	152
Property, equipment, intangibles	-	-	-	-	8,167	-	8,167
Other assets	-	-	-	-	30	-	30
Total assets:	187	3,623	19	39	36,502	5	40,375
Financial liabilities:							
Other payables	(9)	(66)	-	-	(3,974)	(21)	(4,070)
Insurance liabilities	(106)	(2,254)	(28)	(9)	(19,496)	(89)	(21,982)
Total liabilities:	(115)	(2,320)	(28)	(9)	(23,470)	(110)	(26,052)
Foreign exchange risk	70	1,303	(9)	30	13,032	(105)	14,323

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FINANCIAL STATEMENTS FOR 2006

(all amounts in Latvian Lats)

Contractual reprising or maturity dates:

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

Year 2005	< 1 year	1 – 2 year	2 – 3 year	3 – 4 years	4 – 5 years	> 5 years	Total
Latvian government bonds	4,241	2,875	-	-	-	3,115	10,231
German government bonds	-	-	1,157	-	-	-	1,157
Mortgage backed debt securities	151	-	-	-	-	839	990
Corporate bonds	-	861	-	-	-	-	861
Deposits with banks	980	2,884	1,274	2,760	834	-	8,732
Loans	53	49	34	11	-	22	169
Cash and cash equivalents	2,894	-	-	-	-	-	2,894
Financial assets	8,319	6,669	2,465	2,771	834	3,976	25,034

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 reprising 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:

	2006	2005
German government debt securities	3.8%	2.9%
Latvian government debt securities	4.3%	3.3%
Other corporate debt securities	4.5%	3.5%
Mortgage backed debt securities	5.2%	4.6%
Deposits with banks	4.6%	4.4%
Loans	7.0%	7.0%

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):

	31.12.2006	31.12.2005
Required regulatory capital	7,620	5,761
Regulatory capital held	10,928	9,422
Cover ratio (minimum required is 100%)	143%	164%

38. LOSS DEVELOPMENT TABLE

	2001 and earlier	2002	2003	2004	2005	2006
Outstand Claims Net	3,142,771	3,656,351	3,787,889	4,541,665	5,162,468	8,787,155
Outstand Claims Reinsurance share	55,175	710,209	760,768	792,916	818,589	552,949
Outstand Claims Gross	3,197,946	4,366,560	4,548,657	5,334,581	5,981,057	9,340,104
Payments One Year Later Gross	2,449,548	3,138,429	2,652,842	2,849,506	3,869,461	
Payments Two Years Later Gross	2,546,111	3,329,870	2,892,114	3,222,745		
Payments Three Years Later Gross	2,601,659	3,451,620	2,965,317			
Payments Four Years Later Gross	2,681,919	3,491,436				
Payments Five Years Later Gross	2,699,996					
Cumulative payments to 31 December 2006	2,699,996	3,491,436	2,965,317	3,222,745	3,869,461	
Outstanding Claims Reserves Period End One Year Later Gross	691,596	1,080,949	1,551,836	1,834,581	1,996,011	
Outstanding Claims Reserves Period End Two Years Later Gross	288,515	888,142	758,616	888,779		
Outstanding Claims Reserves Per End Three Years Later Gross	192,781	654,248	642,399			
Outstanding Claims Reserves Per End Four Years Later Gross	102,487	598,497				
Outstanding Claims Reserves Per End Five Years Later Gross	69,668					
Outstanding Claims Reserves as at 31 December 2006	69,668	598,497	642,399	888,779	1,996,011	
Run off Gross	428,282	276,627	940,941	1,223,057	115 585	

(translation of the Latvian original)

INDEPENDENT AUDITORS' REPORT

To the Shareholders of AAS BALTA

Report on the Financial Statements

We have audited the accompanying financial statements on pages 7 to 41 of AAS BALTA which comprise the balance sheet as of 31 December 2006 and the income 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 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.

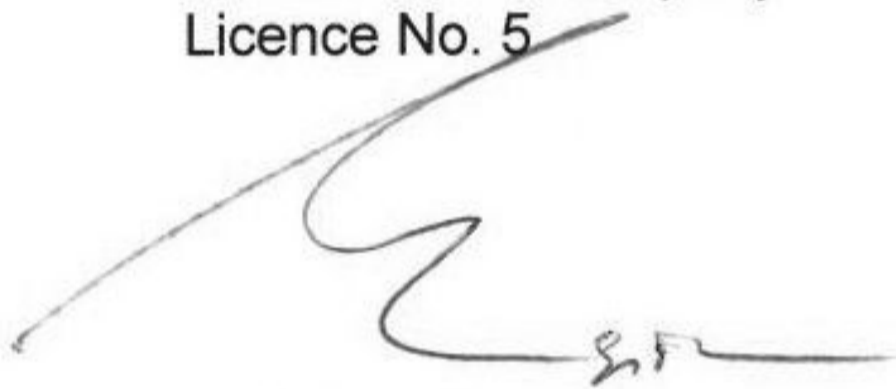
Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as of 31 December 2006, and of 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 Other Legal and Regulatory Requirements

We have read the Report of the Board of Directors set out on pages 4 to 5 and did not identify material inconsistencies between the financial information contained in the Report of the Board of Directors and that contained in the financial statements for 2006.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5



Juris Lapshe
Certified auditor in charge
Certificate No. 116

Member of the Board

Riga, Latvia
28 March 2007