AAS BALTA

Annual report in accordance with
the requirements of
International Financial Reporting Standards
as adopted by the European Union
for the year ended 31 December 2011
and Independent Auditor's Report

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

Council

Name, Surname	*Position*
Andrew John Burke	Chairman of the Council
Kestutis Serpytis	Member of the Council
Kaido Kepp	Member of the Council
Miriam Assumpta Connole	Deputy of Chairman of the Council (until 04.08.2011)
Ditte Marstrand Wulf	Member of the Council

Board

Name, Surname	*Position*
Uldis Dzintars	Member of the Board
Madara Melnmate	Member of the Board
Aivars Vilnītis	Member of the Board
Kristians Pudans	Member of the Board
Dmitrij Nosko	Member of the Board
Inga Ezera	Member of the Board (until 19.10.2011)
Tauseef Shaffi Chaudhry	Chairman of the Board (since 09.02.2011)
Iain Kennedy	Member of the Board (until 09.02.2011)

Name and address of the independent auditor and responsible certified auditor:

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

Responsible certified auditor:
Inguna Stasa
Certified auditor
Certificate No.145

REPORT OF THE COUNCIL AND THE BOARD OF DIRECTORS

In 2011, the insurance market in Latvia was still under stagnation, but Insurance Joint Stock Company Balta (AAS Balta) has, nevertheless, used this period of time to contribute to the development of its products and services, which would allow the company to strengthen its market leader position upon resumption of market growth. Such strategy has already yielded positive results at the end of 2011, permitting AAS Balta to maintain the status of the most reliable insurer, according to sociological opinion polling performed by *LETA* news agency and marketing and public opinion research centre *SKDS* in November, 2011, and to be recognised as the best employer in the field of insurance, according to the study performed by recruitment agency *WorkingDay Latvija* in January, 2012.

Steady achievements and a number of considerable changes in the Latvian insurance market in the past year contribute towards the formation of a good platform for AAS Balta to successfully grow and safely look forward to the future, foreseeing gradual market development.

Insurance market in 2011 and main trends for the year 2012
Within the period from 2008 till 2011, the volumes of the Latvian insurance market have reduced twice. Such decline is indicative of considerable influence of the economic crisis on local consumption and, especially, insurance, which is not often considered to be the service of prime necessity.

In 2011, no considerable local insurance market growth was expected, because the price level remained low and export driven growth of economic gross product still does not provide for the possibility to raise expenses. Price level started to grow only in the second half of the year 2011, in order to include winter generated losses in the price and improve financial statements of insurers. Financial results are increasingly influenced by large-scale indemnities, especially, in the legal property segment.

In 2012, we foresee a moderate market growth, driven by price changes and emersion of new insurance objects in the market. It is possible that the crisis in Eurozone countries would also trigger a specific uncertainty in the market.

In the light of new regulations proposed by the European Commission, it is possible to forecast larger influence on the part of claim insurers to invest into their risk management and capital management, to ensure the fulfilment of Solvency Standard II. Part of insurers, in order to facilitate implementation of these standards, will consolidate their activities within broader regions, for example, on a Pan-Baltic scale.

In general, the year 2012 can be expected in a positive mood, because several factors are indicative of anticipated increase of insurance premiums and also market growth. Growth experienced in the year 2011 in several indices, such as production and export, retail turnover, would also promote the improvement of the balance sheet of insurers. According to expert opinion, many economic indicators in the third and fourth quarter of the previous year were unexpectedly positive, and economic changes, as a rule, influence insurers with a delay of one year.

The abolishment of state moratorium on health insurance for employees of state institutions will considerably influence the field of health insurance. Such initiative will enlarge social guarantees of state employees and amounts of premiums underwritten by insurers. On the whole, it is expected that, in 2012, health insurance would become one of the main motivation tools for attraction and retention of valuable employees. This might be of special importance to small businesses, where it is especially difficult to compensate the loss of a valuable employee.

Development strategy of AAS Balta
Taking into account moderate market growth, insurance company Balta plans its activities so as to efficiently make use of all of its opportunities. The company keeps investing into client service and performs client segmentation, to ensure resilient and individually designed scope of client services. The priority of AAS Balta is to continue developing corporate culture that creates competition advantages and allows providing the best services to our clients.

Also, in 2012, AAS Balta will continue working on development of risk management solutions and introduction of its own solution of Solvency Standard II. Our objective is to apply conservative small risk investment policy and risk management implemented by AAS Balta, in order to gain preference over competitors along with implementation of Solvency Standard II. In the year 2012, the company plans to organise extensive training, to ensure the understanding of Solvency Standard II and its basic principles throughout the entire corporate structure.

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

Cooperation with market supervisory authorities
After amendments to the Law on Compulsory Third Party Liability, approved on 26 October 2011 and prescribing introduction of voluntary regulatory system of direct losses of compulsory third party liability, AAS Balta, jointly with other market participants, took active part in the development of regulatory provisions of this system.

Likewise, AAS Balta also continued successful collaboration with Latvian financial market regulatory authority - Financial and Capital Market Commission, providing its opinion on topical issues of insurance market on a regular basis.

Client service and disbursement of indemnities
In 2011, AAS Balta worked on the improvement of efficiency of distribution channels and introduction of several new solutions oriented towards improvement of client service, in order to strategically continue pursuing the best insurer status in Latvia. The company introduced several improvements in its branch network structure, performed investments into training of sales personnel, and defined clear efficiency indices.

In June 2011, AAS Balta has successfully introduced online indemnity claim service, supplementing the already efficiently functioning indemnity claim call service. This makes the process of receipt of indemnities considerably faster. At the moment, already 25 % of all health insurance indemnity claims are received via this system and already more than 93 % of clients have expressed their satisfaction with this service.

Last year, within the scope of improvement of client relations, the company also introduced new claim processing system with respect to main products of AAS Balta – *Promise to the Client* (*Solījums klientam*). Within this system, AAS Balta employees, together with the client review his / her indemnity case and jointly agree upon the process of adoption of decision and disbursement of indemnity, which would be the most suitable for the client.

As a result of these innovations, last year the company managed to improve the speed of processing of indemnity claims, and at present, in 25 % of *CASCO* insurance (comprehensive motor insurance) cases, the decision on disbursement of indemnity is adopted within the duration of one telephone call. The efficiency has also increased in the segment of private and corporate property insurance, correspondingly, in 20 % and 6 % of cases allowing for immediate adoption of decision on disbursement of indemnity.

In October of last year, AAS Balta has also disbursed the largest indemnity in the entire history of the operation of the company, in the total amount of almost LVL 900, 000. Indemnity was disbursed to a company, whose properties were damaged in malicious arson committed in the beginning of July in the office and warehouse complex *Baltais vejs*.

Work environment in the company and professional growth of employees
One of the priorities of AAS Balta is to take care of the development of employees and improvement of internal work environment. In 2011, the results of AAS Balta in the opinion poll of global public opinion research company *Gallup* regarding efficiency of engagement and motivation of employees exceeded the average level within RSA Group, achieving 4.42 points out of maximum five.

In 2011, AAS Balta introduced e-Learning media *Learning Zone* in Latvia, providing each employee of AAS Balta with the possibility to more easily improve their knowledge and contribute to career growth. Several employees of AAS Balta also took part in RSA Group development programme *Leadership Development*, and the *Global Graduate* programme was also introduced, within the scope whereof candidates from AAS Balta and talented young people, interested in the insurance industry, gained insight into career opportunities in the international insurance company.

Corporate social responsibility
Insurance company Balta and its parent company RSA Group, within the scope of implementation of corporate social responsibility policy, provide support to society in three main fields of support – environmental protection, safety and social integration.

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

In 2011, AAS Balta, jointly with trade partners, implemented various corporate social responsibility projects and activities. In collaboration with *The Safe Driving School* (*Drošas braukšanas skola*), the society was trained with respect to safe driving principles; in collaboration with the State Police, the population was informed regarding the best solutions for the provision of safety of property and considerable support was provided in the detention of several groups of car thieves. AAS Balta employees also took part in blood donor days, contributed to collective cleaning of Latvia within the scope of *Big Cleap-up* (*Lielā talka*), and organised Christmas campaigns in three orphanages.

Changes in the shareholders of AAS Balta
There were changes introduced in the composition of shareholders of AAS Balta in November, 2011, by which *RSA Insurance PLC* acquired 99.9 per cent of AAS Balta shares from the company *Codan*.

Financial risk management
Activities of AAS Balta, especially, investment management activities, are exposed to various financial risks. The most substantial of these risks are credit risks, liquidity risks and market risks, comprised of interest rate risks, currency exchange risks and stock price risks. To minimise the influence of potential financial risks on the financial condition of the company, AAS Balta management has developed policies restricting possible financial risks. For the purposes of credit risk management, AAS Balta adheres to certain restrictions with respect to transaction with one trade partner or group of similar trade partners, as well as to credit ratings of investment issuers. Liquidity risk is managed by allocating funds to financial instruments with high liquidity and holding funds with current accounts of credit institutions, as well as planning cash flow from insurance, administrative and investment activities. When managing market risks, the company performs the analysis of differences in regulations, duration analysis and sensibility analysis, as well as determines the permissible limits of currency items. Financial risks are subject to revision at least once per year. Asset Management Commission regularly supervises the compliance of exposed transactions with the said restrictions.

AAS Balta receives insurance indemnity claims on a regular basis. In order to maintain liquidity and minimise cash flow risk, AAS Balta takes certain measures, namely, company management administers the cash flow from direct insurance activities, by balancing it with investment cash flow. Thus, the company determines particular minimum quantity of funds, necessary for performance of indemnity payments.

Dividend payments
The Management Board and the Supervisory Board of AAS Balta do not recommend performing dividend payments.

Events after preparation of the balance sheet
After the date of submission of the balance sheet, there were no events, which could materially affect the annual results and financial condition of AAS Balta at the end of the year.

Company information
AAS Balta is a group company of *RSA Insurance Group* – one of world's leading international insurance groups with 300 years of experience. It offers insurance services in approximately 140 countries. Group companies employ about 23 thousand employees.

In February 2012, rating agency Standard & Poor's has upgraded RSA Group rating to A+ Stable.

Andrew John Burke	Tauseef Shaffi Chaudhry
Chairman of the Council	Chairman of the Board

27 March 2012

STATEMENT OF THE RESPONSIBILITY OF THE COUNCIL AND THE BOARD OF DIRECTORS

The Council and the Board of Directors of AAS BALTA confirms that the Financial Statements for the year ended 31 December 2011 are prepared in accordance with the International Financial Reporting Standards as adopted by EU and appropriate accounting policies, applied on a consistent basis. The Council and the Board of Directors of AAS BALTA is responsible for preparing these financial statements from the books of primary entry. The Council and the Board of Directors confirms that these Financial Statements for the year ended 31 December 2011 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 Council and Board of Directors in the preparation of the Financial Statements for the year ended 31 December 2011.

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

Andrew John Burke	Tauseef Shaffi Chaudhry
Chairman of the Council	Chairman of the Board

27 March 2012

STATEMENT OF COMPREHENSIVE INCOME

	Note	2011	2010
Income			
Gross written premiums	3	30 093 377	31 326 610
Less: reinsurance premiums	3	(1 389 459)	(1 477 366)
Net written premiums		28 703 918	29 849 244
Change in the gross provision for unearned premiums	4	*126 905*	*2 359 649*
Less: change in provision for unearned premiums, reinsurers' share	4	*46 068*	*(799)*
Change in provision for unearned premiums		172 973	2 358 850
Net earned premiums		28 876 891	32 208 094
Interest income	5	1 058 984	1 360 886
Net fair value (losses) on financial assets at fair value through profit or loss	6	(271 609)	483 763
Other income	7	374 282	289 211
Total income		**30 038 548**	**34 341 954**
Expenses			
Gross claims paid to policyholders		(17 471 061)	(18 217 502)
Claims settlement expense		(2 295 518)	(2 406 043)
Less: recovered loss amount		1 180 325	1 507 776
Gross claims paid	8	(18 586 254)	(19 115 769)
Less: reinsurers' share	8	452 859	451 715
Net claims paid		(18 133 395)	(18 664 054)
Change in gross provision for claims	9	2 069 439	1 455 847
Less: change in provision for claims, reinsurers' share	9	(565 463)	331 080
Net claims incurred		(16 629 419)	(16 877 127)
Client acquisition costs	10	(3 811 572)	(3 681 489)
Administrative expense	11	(11 846 817)	(12 151 675)
Other expense	12	(20 929)	(23 970)
Total expenses		**(32 308 737)**	**(32 734 261)**
Finance income	13	74 129	48 669
(Loss) / profit before tax		**(2 196 060)**	**1 656 362**
Income tax expense	14	254 223	(334 547)
(Loss) / profit for the year		**(1 941 837)**	**1 321 815**
Other comprehensive income for the year			
Revaluation reserve		(11 596)	(6 193)
Total comprehensive income for the year		**(1 953 433)**	**1 315 622**

Notes on pages 13 to 44 are an integral part of these financial statements.

Andrew John Burke
Chairman of the Council

Tauseef Shaffi Chaudhry
Chairman of the Board

27 March 2012

STATEMENT OF FINANCIAL POSITION

	Note	31.12.2011	31.12.2010
ASSETS			
Intangible assets	15	**3 693 897**	**3 033 046**
Property, plant and equipment	16	**2 387 705**	**2 788 501**
Financial investments at fair value through profit or loss	17	21 711 558	30 781 605
Loans	18	14 878	15 500
Term deposits with banks	37	5 348 135	5 612 086
Total investments		**27 074 571**	**36 409 191**
Receivables due from policyholders		5 207 855	5 014 418
Receivables due from intermediaries		141 816	215 857
Direct insurance debtors	19	5 349 671	5 230 275
Reinsurance debtors	20	299 264	119 675
Total insurance and reinsurance debtors		**5 648 935**	**5 349 950**
Unearned premium reserve, reinsurers' share	4	168 085	122 017
Outstanding claims reserve, reinsurers' share	9	4 103 628	4 669 091
Reinsurers' share of insurance contract liabilities		**4 271 713**	**4 791 108**
Deferred income tax asset	21	**486 615**	**230 375**
Current tax assets	14	**384 043**	**905 979**
Accrued income and deferred expense	22	3 641 481	4 263 622
Other debtors	23	461 446	641 593
Total other debtors and other assets		**4 102 927**	**4 905 215**
Cash and cash equivalents	24	**1 066 035**	**2 432 252**
TOTAL ASSETS		**49 116 441**	**60 845 617**

Notes on pages 13 to 44 are an integral part of these financial statements.

Andrew John Burke
Chairman of the Council

Tauseef Shaffi Chaudhry
Chairman of the Board

27 March 2012

STATEMENT OF FINANCIAL POSITION (continued)

	Note	31.12.2011	31.12.2010
EQUITY, RESERVES AND LIABILITIES			
EQUITY AND RESERVES			
Share capital	25	4 652 067	4 652 067
Share premium		1 121 332	1 121 332
Reserve capital and other reserves	25	3 062 205	3 062 205
Revaluation reserve	26	6 854	18 450
Retained earnings		6 832 944	13 985 096
TOTAL EQUITY AND RESERVES		**15 675 402**	**22 839 150**
LIABILITIES			
Unearned premium reserve	4	14 020 536	14 147 441
Outstanding claims reserve	9	14 300 538	16 369 977
Insurance contract liabilities		**28 321 074**	**30 517 418**
Insurance liabilities		947 409	1 119 015
Reinsurance liabilities		342 150	372 227
Taxes and the state compulsory social insurance contributions	27	280 189	456 631
Accrued expense and deferred income	28	2 514 268	2 272 970
Other creditors	29	1 035 949	3 268 206
Total creditors		**5 119 965**	**7 489 049**
TOTAL LIABILITIES		**33 441 039**	**38 006 467**
TOTAL EQUITY, RESERVES AND LIABILITIES		**49 116 441**	**60 845 617**

Notes on pages 13 to 44 are an integral part of these financial statements.

Andrew John Burke
Chairman of the Council

Tauseef Shaffi Chaudhry
Chairman of the Board

27 March 2012

STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Reserve capital and other reserves	Retained Earnings	Revaluation reserve	Total
Balance as at 31 December 2009	**4 652 067**	**1 121 332**	**3 062 205**	**16 850 141**	**24 643**	**25 710 388**
Paid dividends for 2009	-	-	-	(4 186 860)	-	(4 186 860)
Profit for the year	-	-	-	1 321 815	-	1 321 815
Changes in revaluation surplus on land and buildings, net of deferred income tax	-	-	-	-	(6 193)	(6 193)
Balance as at 31 December 2010	**4 652 067**	**1 121 332**	**3 062 205**	**13 985 096**	**18 450**	**22 839 150**
Paid dividends for 2010	-	-	-	(5 210 315)	-	(5 210 315)
Loss for the year	-	-	-	(1 941 837)	-	(1 941 837)
Changes in revaluation surplus on land and buildings, net of deferred income tax	-	-	-	-	(11 596)	(11 596)
Balance as at 31 December 2011	**4 652 067**	**1 121 332**	**3 062 205**	**6 832 944**	**6 854**	**15 675 402**

Notes on pages 13 to 44 are an integral part of these financial statements.

Andrew John Burke
Chairman of the Council

Tauseef Shaffi Chaudhry
Chairman of the Board

27 March 2012

STATEMENT OF CASH FLOWS

	Note	2011	2010
Cash flows from operating activities			
Premiums received from direct insurance		29 994 292	32 319 416
Claims paid for direct insurance		(17 471 061)	(18 217 502)
Payments received from ceded reinsurance		63 808	299 471
Payments made for ceded reinsurance		(1 136 043)	(1 345 426)
Income tax received / (paid)		236 936	(855 877)
Other expense		(17 140 924)	(13 978 625)
Net cash used in operating activities:		**(5 452 992)**	**(1 778 543)**
Cash flows from investing activities			
Sale of investments		11 344 534	24 459 285
Purchase of investments		(3 333 217)	(27 266 920)
Income from investing activities		1 281 268	1 843 083
Net cash generated from / (used in) investing activities:		**9 292 585**	**(964 552)**
Cash flows from financing activities			
Dividends paid		(5 210 044)	(4 158 754)
Net cash used in financing activities:		**(5 210 044)**	**(4 158 754)**
Result of foreign exchange rate fluctuations		**4 234**	**91 510**
Net decrease in cash and cash equivalents		**(1 366 217)**	**(6 810 339)**
Cash and cash equivalents at the beginning of year		2 432 252	9 242 591
Cash and cash equivalent at the end of the year	24	**1 066 035**	**2 432 252**

Notes on pages 13 to 44 are an integral part of these financial statements.

Andrew John Burke
Chairman of the Council

Tauseef Shaffi Chaudhry
Chairman of the Board

27 March 2012

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

There were changes introduced in the composition of shareholders of AAS Balta in November, 2011, by which *Royal &Sun Alliance Insurance PLC* acquired 99.9 per cent of AAS Balta shares from the company *Codan*.

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

The shares of the Company are not listed.

These financial statements have been authorised for issue by the Board of Directors on 27 March 2012.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of presentation of the financial statements

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

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except from the following standards, amendments to the existing standards and interpretations, which were not endorsed for use as at 31 December 2011:

- *IFRS 9 "Financial Instruments"* and subsequent *amendments to IFRS 9 and IFRS 7* (effective for annual periods beginning on or after 1 January 2015).
- *IFRS 10 "Consolidated Financial Statements"* (effective for annual periods beginning on or after 1 January 2013).
- *IFRS 11 "Joint Arrangements"* (effective for annual periods beginning on or after 1 January 2013).
- *IFRS 12 "Disclosures of Interests in Other Entities"* (effective for annual periods beginning on or after 1 January 2013).
- *IFRS 13 "Fair Value Measurement"* (effective for annual periods beginning on or after 1 January 2013).
- *IAS 27 "Separate Financial Statements"* (effective for annual periods beginning on or after 1 January 2013).
- *IAS 28 "Investments in Associates and Joint Ventures"* (effective for annual periods beginning on or after 1 January 2013).
- *Amendments to IFRS 1 "First-time Adoption of IFRS*" - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after 1 July 2011).
- *Amendments to IFRS 7 "Financial Instruments: Disclosures"* – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2013).
- *Amendments to IAS 1 "Presentation of Financial Statements"* - Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012).
- *Amendments to IAS 12 "Income Taxes"* - Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012).

NOTES TO THE FINANCIAL STATEMENTS (continued)

- *Amendments to IAS 19 "Employee Benefits"* (effective for annual periods beginning on or after 1 January 2013).
- *Amendments to IAS 32 "Financial Instruments: Presentation"* – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014).
- *IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine"* (effective for annual periods beginning on or after 1 January 2013).

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

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

The preparation of financial statements in conformity with IFRS as adopted by the EU requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where estimates and judgements are significant to the financial statements are disclosed in Note 35.

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

a) Standards and Interpretations effective in the current period

The following amendments to the existing standards issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) adopted by the EU are effective for the current period:
- *Amendments to IAS 24 "Related Party Disclosures"* – Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party, adopted by the EU on 19 July 2010 (effective for annual periods beginning on or after 1 January 2011).
- *Amendments to IAS 32 "Financial Instruments: Presentation"* – Accounting for rights issues, adopted by the EU on 23 December 2009 (effective for annual periods beginning on or after 1 February 2010).
- *Amendments to IFRS 1 "First-time Adoption of IFRS"* – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters, adopted by the EU on 30 June 2010 (effective for annual periods beginning on or after 1 July 2010).
- *Amendments to IFRIC 14 "IAS 19 – The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction"* – Prepayments of a Minimum Funding Requirement, adopted by the EU on 19 July 2010 (effective for annual periods beginning on or after 1 January 2011).
- *Amendments to various standards and interpretations "Improvements to IFRSs (2010)"* resulting from the annual improvement project of IFRS published on 6 May 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on 18 February 2011 (most amendments are to be applied for annual periods beginning on or after 1 January 2011).
- *IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"*, adopted by the EU on 23 July 2010 (effective for annual periods beginning on or after 1 July 2010).

The adoption of these amendments to the existing standards has not led to any changes in the Company's accounting policies.

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

At the date of authorisation of these financial statements the following standard adopted by the EU was in issue but not yet effective:
- *Amendments to IFRS 7 "Financial Instruments: Disclosures"* - Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011).

NOTES TO THE FINANCIAL STATEMENTS (continued)

The Company has elected not to adopt this standard in advance of its effective date. The Company anticipates that the adoption of this standard will have no material impact on the financial statements of the Company in the period of initial application.

2.2 Insurance contracts

a) Premiums

Written insurance premiums consist of the premiums in contracts, which become effective during the year, irrespective of whether the premium has become due or not. All written premiums are decreased by the amount of premiums cancelled or suspended during the year.

b) Claims incurred

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

c) Administrative expenses

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

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

d) Acquisition costs

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

e) Deferred client acquisition costs (DAC)

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. All other client acquisition costs are recognised as expenses when incurred. The DAC is subsequently amortised over the terms of the policies as premium is earned on pro-rata basis.

f) Insurance contract liabilities

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

Outstanding claims reserve is an amount provided at the end of the reporting year in respect of estimated losses incurred but not yet settled. Outstanding claims reserve includes provisions for reported but not settled claims and provision for incurred but not reported claims. Outstanding claims reserve includes direct claims settlement expense, which will incur on settlement of claims incurred in the reporting and prior years. Estimated future proceeds from salvage and subrogation related to claims incurred in the reporting and prior years have been deducted from claims reserve.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.3 Interest income and expense

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

2.4 Investments

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

a) Loans and receivables

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

b) Financial assets at fair value through profit or loss

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

Regular purchases and sales of financial assets are recognised on the settlement date – the date on which the Company received or delivered 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 actual 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

The Company assesses at each balance sheet date whether there is objective evidence that a loan or receivable or a group of those financial assets is impaired. A provision for impairment on loans and receivables is established if there is objective evidence that the Company will not be able to collect all amounts due according to the original contractual terms of respective instruments. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of respective instruments. Impairment charges are included in the income statement.

2.5 Direct insurance debtors

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

2.6 Intangible assets and Property, plant and equipment

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

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

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

Buildings	2% per annum
Office equipment	20% per annum
Computer equipment	25% per annum
Internally developed software	20% per annum
Transport vehicles	20% per annum
External software	25% per annum

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.7 Foreign currency translation

a) Functional and presentation currency

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

b) Transactions and balances

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

	31.12.2011	**31.12.2010**
1 USD	LVL 0.544	LVL 0.535
1 GBP	LVL 0.840	LVL 0.824
1 LTL	LVL 0.204	LVL 0.203
1 EUR	LVL 0.702804	LVL 0.702804

2.8 Taxation

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

Deferred income tax is provided for, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred income tax is calculated based on currently enacted tax rates that are expected to apply when the temporary differences reverse. The principal temporary differences arise from different fixed asset depreciation rates, as well as from accrued expenses, provisions for bad and doubtful debts and tax losses carried forward. The deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2.9 Cash and cash equivalents

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

2.10 Accruals for unused annual leave

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

2.11 Distribution of direct and indirect income and expense by types of insurance

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

2.12 Employee benefits

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

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

2.13 Share capital and dividend distribution

Ordinary shares are classified as equity.

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

3. NET WRITTEN PREMIUMS

	2011			2010		
	Gross amount	**Reinsurers' share**	**Net amount**	**Gross amount**	**Reinsurers' share**	**Net amount**
Personal accident	935 111	(8 962)	926 149	1 005 889	(38 712)	967 177
Health	4 970 884	-	4 970 884	5 483 706	-	5 483 706
Motor own damage	8 521 828	(163 044)	8 358 784	8 554 504	(235 556)	8 318 948
Marine	21 912	(3 692)	18 220	24 156	(2 891)	21 265
Cargo	363 337	(24 411)	338 926	297 690	(34 396)	263 294
Property	9 633 063	(746 017)	8 887 046	10 077 285	(661 828)	9 415 457
General TPL	1 151 788	(151 633)	1 000 155	1 174 314	(117 658)	1 056 656
Guarantees	64 012	-	64 012	37 389	-	37 389
Financial risks	158 812	(61 188)	97 624	133 244	(39 071)	94 173
Travel accident	389 805	(3 149)	386 656	360 645	(4 413)	356 232
Obligatory motor TPL	3 882 825	(227 363)	3 655 462	4 177 788	(342 841)	3 834 947
	30 093 377	**(1 389 459)**	**28 703 918**	**31 326 610**	**(1 477 366)**	**29 849 244**

Almost all policies are issued to clients residing in Latvia.

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

OMTPL Guarantees Foundation	fixed sum for certain type of vehicle; in 2011 (and 2010) no payments have been made as the total assets of OMTPL Guarantees Fund exceeded LVL 14 million.
State Traffic Security Foundation	2% from signed insurance premium during the accounting period.
Motor Insurers` Bureau of Latvia	variable sum LVL 0.23 per contract and fixed sum LVL 30 000 in year or LVL 2 500 in a month.

NOTES TO THE FINANCIAL STATEMENTS (continued)

In year 2011 OMTPL mandatory deductions amounted to LVL 141 310 (2010: LVL 156 419). The gross premiums in OMTPL are shown above net of these mandatory deductions.

4. UNEARNED PREMIUM RESERVE

a) Movement in unearned premium reserve

	Gross amount	Reinsurers' share	Net amount
Balance as at 31 December 2009	**16 507 090**	**(122 816)**	**16 384 274**
Change in the year	(2 359 649)	799	(2 358 850)
Balance as at 31 December 2010	**14 147 441**	**(122 017)**	**14 025 424**
Change in the year	(126 905)	(46 068)	(172 973)
Balance as at 31 December 2011	**14 020 536**	**(168 085)**	**13 852 451**

b) Changes in unearned premium reserve and distribution by type of insurance for the year 2011:

	Gross amount	Reinsurers' share	Net Amount
Personal accident	(27 064)	-	(27 064)
Health	(261 699)	-	(261 699)
Motor own damage	330 826	(19 788)	311 038
Marine	(1 072)	-	(1 072)
Cargo	8 400	404	8 804
Property	(46 229)	(12 616)	(58 845)
General TPL	6 129	(5 554)	575
Guarantees	21 091	-	21 091
Financial risks	8 434	(6 315)	2 119
Travel accident	687	-	687
Obligatory motor TPL	(166 408)	(2 199)	(168 607)
	(126 905)	**(46 068)**	**(172 973)**

c) Changes in unearned premium reserve and distribution by type of insurance for the year 2010:

	Gross amount	Reinsurers' share	Net Amount
Personal accident	(62 823)	-	(62 823)
Health	96 769	-	96 769
Motor own damage	(1 241 540)	(76 921)	(1 318 461)
Marine	(5 672)	-	(5 672)
Cargo	22 322	164	22 486
Property	(659 751)	95 147	(564 604)
General TPL	(1 771)	6 093	4 322
Guarantees	(6 458)	-	(6 458)
Financial risks	529	(8 234)	(7 705)
Travel accident	(343)	-	(343)
Obligatory motor TPL	(500 911)	(15 450)	(516 361)
	(2 359 649)	**799**	**(2 358 850)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

	31.12.2011	**31.12.2010**
Personal accident	443 372	470 437
Health	1 623 814	1 885 511
Motor own damage	4 742 936	4 412 109
Marine	9 347	10 419
Cargo	78 553	70 153
Property	4 905 973	4 952 202
General TPL	569 981	563 853
Guarantees	37 403	16 312
Financial risks	58 895	50 461
Travel accident	11 520	10 833
Obligatory motor TPL	1 538 742	1 705 151
	14 020 536	**14 147 441**

5. INTEREST INCOME

	2011	**2010**
From financial investments at fair value through profit or loss:		
Government bonds	675 277	956 860
Corporate bonds	278 238	302 704
Mortgage backed debt securities	42 000	42 000
Loans and receivables:		
Deposits with banks	63 465	58 929
Loans	4	393
	1 058 984	**1 360 886**

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

	2011	**2010**
Government bonds	(132 438)	392 619
Mortgage backed debt securities	(16 519)	193 829
Corporate bonds	(122 652)	(102 685)
	(271 609)	**483 763**

	2011	**2010**
Realised gains / (losses):		
Government bonds	25 486	(489 064)
Corporate bonds	(104 627)	39 899
Unrealised gains / (losses):		
Government bonds	(157 924)	881 683
Mortgage backed debt securities	(16 519)	193 829
Corporate bonds	(18 025)	(142 584)
	(271 609)	**483 763**

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. OTHER INCOME

	2011	**2010**
Revaluation gains on land and buildings (see Note 16)	143 254	82 746
Changes in provisions for overdue debts	59 679	49 455
Reinsurance commission income (see Note 32)	33 437	51 544
Income from cancellation of policies	31 920	33 703
Commissions from insurance policies fronting	21 133	15 388
Expertise income	16 710	6 697
Gain on sale of tangible assets	6 979	20 814
Income from recalculation of income tax and VAT	6 527	-
Income of agreement penalties	6 209	13 722
Income from rent	5 248	7 743
Income on sale of damaged cars	3 600	3 600
Other income	39 586	3 799
	374 282	**289 211**

Distribution of other income by type of insurance, based on management allocation, has been as follows:

	2011	**2010**
Personal accident	11 576	6 427
Health	61 536	24 189
Motor own damage	105 494	97 155
Marine	271	340
Cargo	4 498	2 029
Property	119 250	82 040
General TPL	14 258	26 563
Guarantees	792	217
Financial risks	1 966	6 494
Travel accident	4 825	2 794
Obligatory motor TPL	49 816	40 963
	374 282	**289 211**

8. CLAIMS PAID

	2011			**2010**		
	Gross amount	**Reinsurers' share**	**Net amount**	**Gross amount**	**Reinsurers' share**	**Net amount**
Personal accident	(367 478)	-	(367 478)	(521 201)	129 720	(391 481)
Health	(3 873675)	-	(3 873675)	(4 153 223)	-	(4 153 223)
Motor own damage	(5 516 880)	89 974	(5 426 906)	(5 550 957)	58 660	(5 492 297)
Marine	(12 344)	-	(12 344)	(11 248)	-	(11 248)
Cargo	(162 111)	-	(162 111)	(29 732)	-	(29 732)
Property	(4 920 532)	257 922	(4 662 610)	(5 507 650)	241 045	(5 266 605)
General TPL	(365 046)	-	(365 046)	(222 990)	-	(222 990)
Guarantees	(8 296)	-	(8 296)	(10 672)	-	(10 672)
Financial risks	(59 059)	53 105	(5 954)	(21 134)	-	(21 134)
Travel accident	(187 534)	-	(187 534)	(87 728)	-	(87 728)
Obligatory motor TPL	(3 113 299)	51 858	(3 061 441)	(2 999 234)	22 290	(2 976 944)
	(18 586 254)	**452 859**	**(18 133 395)**	**(19 115 769)**	**451 715**	**(18 664 054)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. OUTSTANDING CLAIMS RESERVE

a) Movement in outstanding claims reserve

	2011			2010		
	Gross amount	**Reinsurance**	**Net amount**	**Gross amount**	**Reinsurance**	**Net amount**
Year ended 31 December						
Notified claims	11 377 995	(4 669 091)	6 708 904	12 034 011	(4 338 011)	7 696 000
Incurred, but not reported	4 991 982	-	4 991 982	5 791 813	-	5 791 813
Total at beginning of year	**16 369 977**	**(4 669 091)**	**11 700 886**	**17 825 824**	**(4 338 011)**	**13 487 813**
Cash paid for claims settled in year	(3 432 216)	143 763	(3 288 453)	(4 776 241)	164 607	(4 611 634)
Changes in liabilities arising from current and prior year claims	1 362 777	421 700	1 784 477	3 320 394	(495 687)	2 824 707
Total change in year	(2 069 439)	565 463	(1 503 976)	(1 455 847)	(331 080)	(1 786 927)
Total at end of year	**14 300 538**	**(4 103 628)**	**10 196 910**	**16 369 977**	**(4 669 091)**	**11 700 886**
Notified claims	10 918 167	(4 103 628)	6 814 539	11 377 995	(4 669 091)	6 708 904
Incurred, but not reported	3 382 371	-	3 382 371	4 991 982	-	4 991 982
Total at end of year	**14 300 538**	**(4 103 628)**	**10 196 910**	**16 369 977**	**(4 669 091)**	**11 700 886**

b) Change in outstanding claims reserve and distribution by type of insurance for the year 2011:

	Gross amount	**Reinsurance**	**Net amount**
Personal accident	(29 513)	-	(29 513)
Health	(77 291)	-	(77 291)
Motor own damage	(264 267)	115	(264 152)
Marine	36	-	36
Cargo	134 426	(12 166)	122 260
Property	(288 579)	307 182	18 603
General TPL	233 996	(75 993)	158 003
Guarantees	(4 593)	-	(4 593)
Financial risks	(82 175)	105 421	23 246
Travel accident	32 417	-	32 417
Obligatory motor TPL	(1 723 896)	240 904	(1 482 992)
	(2 069 439)	**565 463**	**(1 503 976)**

c) Change in outstanding claims reserve and distribution by type of insurance for the year 2010:

	Gross amount	**Reinsurance**	**Net amount**
Personal accident	(175 529)	129 720	(45 809)
Health	(445 441)	-	(445 441)
Motor own damage	(251 403)	(23 814)	(275 217)
Marine	(2 793)	-	(2 793)
Cargo	(39 237)	-	(39 237)
Property	(542 642)	(396 837)	(939 479)
General TPL	(14 854)	-	(14 854)
Guarantees	2 014	-	2 014
Financial risks	100 424	(105 421)	(4 997)
Travel accident	11 313	-	11 313
Obligatory motor TPL	(97 699)	65 272	(32 427)
	(1 455 847)	**(331 080)**	**(1 786 927)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

	31.12.2011	31.12.2010
Personal accident	53 562	83 076
Health	399 195	476 487
Motor own damage	927 794	1 192 060
Marine	10 404	10 367
Cargo	211 282	76 856
Property	2 021 157	2 309 734
General TPL	824 361	590 366
Guarantees	13 180	17 774
Financial risks	184 518	266 693
Travel accident	72 747	40 330
Obligatory motor TPL	9 582 338	11 306 234
	14 300 538	**16 369 977**

10. CLIENT ACQUISITION COSTS

	2011	2010
Commissions and other agent related expense	(1 887 886)	(1 610 481)
Commissions to brokers and other intermediaries	(1 596 183)	(1 762 513)
State compulsory social insurance contributions	(428 250)	(354 377)
Changes in deferred client acquisition costs (Note 15)	101 156	46 092
Other client acquisition costs	(409)	(210)
	(3 811 572)	**(3 681 489)**

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

2011	Client acquisition costs	Changes in DAC	Client acquisition costs, net
Personal accident	(167 235)	23 103	(144 132)
Health	(303 885)	48 552	(255 333)
Motor own damage	(1 060 469)	29 703	(1 030 766)
Marine	(1 796)	(642)	(2 438)
Cargo	(36 527)	(23)	(36 550)
Property	(1 707 528)	(57 500)	(1 765 028)
General TPL	(180 869)	41 851	(139 018)
Guarantees	(20 126)	7 522	(12 604)
Financial risks	(14 941)	(727)	(15 668)
Travel accident	(71 480)	1 595	(69 885)
Obligatory motor TPL	(347 872)	7 722	(340 150)
	(3 912 728)	**101 156**	**(3 811 572)**

2010	Client acquisition costs	Changes in DAC	Client acquisition costs, net
Personal accident	(118 858)	11 128	(107 730)
Health	(278 844)	15 357	(263 487)
Motor own damage	(970 589)	(69 149)	(1 039 738)
Marine	(2 563)	(1 034)	(3 597)
Cargo	(23 244)	4 079	(19 165)
Property	(1 824 801)	17 182	(1 807 619)
General TPL	(161 103)	25 050	(136 053)
Guarantees	(574)	(909)	(1 483)
Financial risks	(19 383)	1 221	(18 162)
Travel accident	(26 095)	235	(25 860)
Obligatory motor TPL	(301 527)	42 932	(258 595)
	(3 727 581)	**46 092**	**(3 681 489)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. ADMINISTRATIVE EXPENSE

	2011	2010
Salaries		
- salaries to staff	(3 942 994)	(4 409 258)
- state compulsory social insurance contributions	(841 820)	(990 445)
Information technology and communication expense	(3 413 217)	(2 602 392)
Professional services *	(1 189 090)	(1 158 291)
Depreciation and amortisation	(856 982)	(1 171 293)
Premises utility, maintenance and repair expense	(477 255)	(484 041)
Advertising and public relations	(396 433)	(388 848)
Rent of premises	(251 937)	(283 734)
Transport	(239 555)	(218 190)
Payments to Financial and Capital Market Commission	(152 178)	(172 490)
Office expense	(140 641)	(125 415)
Payments to Foundation of Insured Interests Protection	(106 676)	(115 970)
Administration expenses related to Claims Handling Expenses **	663 833	588 620
Other administrative expense	(501 872)	(619 928)
	(11 846 817)	**(12 151 675)**

* – professional services include also services received from RSA group companies (see Note 33).
** – reclassified to and included in Claims Handling Expenses in Note 8.

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 0.20% from gross premiums collected in Obligatory Motor Third Party Liability (OMTPL) insurance and in amount of 0.555% from gross premiums collected in other types of insurance. Payments to Foundation of Insured Interests Protection amount to 1.000% of premiums collected from individuals in voluntary types of insurance.

At the end of year 2011, 334 employees (2010: 422) and 385 agents (2010: 296) were employed in the Company. As at 31 December 2011, 299 employees (2010: 332) and 87 agents (2010: 52) were working in the central office, and 35 (2010: 90) employees and 298 (2010: 244) agents in branches.

Distribution of administrative expense by type of insurance, based on management allocation, has been as follows:

	2011	2010
Personal accident	(418 716)	(420 946)
Health	(1 867 083)	(1 732 443)
Motor own damage	(3 034 050)	(3 293 438)
Marine	(9 494)	(9 515)
Cargo	(99 706)	(88 747)
Property	(3 905 869)	(3 926 444)
General TPL	(431 443)	(402 315)
Guarantees	(10 635)	(15 467)
Financial risks	(52 593)	(40 655)
Travel accident	(215 404)	(194 382)
Obligatory motor TPL	(1 801 824)	(2 027 323)
	(11 846 817)	**(12 151 675)**

12. OTHER EXPENSE

	2011	2010
Disposal of property, plant and equipment	(111)	(3 428)
Other expense	(20 818)	(20 542)
	(20 929)	**(23 970)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

Distribution of other expense by type of insurance, based on management allocation, has been as follows:

	2011	2010
Personal accident	(735)	(765)
Health	(3 322)	(3 189)
Motor own damage	(5 326)	(5 998)
Marine	(17)	(18)
Cargo	(176)	(163)
Property	(6 857)	(7 143)
General TPL	(762)	(737)
Guarantees	(19)	(29)
Financial risks	(93)	(75)
Travel accident	(380)	(639)
Obligatory motor TPL	(3 242)	(5 214)
	(20 929)	**(23 970)**

13. FINANCE INCOME

	2011	2010
Interest on cash and cash equivalents	8 690	23 312
Gain from foreign currency fluctuations	65 439	25 357
	74 129	**48 669**

14. INCOME TAX EXPENSE

	2011	2010
Current tax for the reporting year	-	(243 235)
Change in deferred income tax balances (Note 21)	254 223	(91 312)
Total income tax expense	**254 223**	**(334 547)**

At the end of December 2011 the Company has corporate income tax assets at the amount of LVL 384 043 (31.12.2010: LVL 905 979).

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

	2011	2010
(Loss) / profit before tax	**(2 196 060)**	**1 656 362**
Theoretically calculated tax at a tax rate of 15%	329 409	(248 454)
Expenses not deductible for tax purposes	(92 396)	(257 518)
Non-taxable income	19 227	170 525
Tax discount for donations	-	1 969
Deferred Taxation of Revaluation of property surplus trough Equity	(2 017)	(1 069)
Current tax charge	**254 223**	**(334 547)**

Effective income tax in 2011 is 11.6% (2010: 20.2%).

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. INTANGIBLE ASSETS

	Deferred client acquisition costs	Software	Total
At 31 December 2009			
Cost	1 964 831	4 413 293	6 378 124
Accumulated amortisation	-	(3 474 254)	(3 474 254)
Net book amount	**1 964 831**	**939 039**	**2 903 870**
Year ended 31 December 2010			
Opening net book amount	1 964 831	939 039	2 903 870
Additions	3 727 581	582 983	4 310 564
Disposals	(3 681 489)	-	(3 681 489)
Amortisation charge	-	(499 899)	(499 899)
Closing net book amount	2 010 923	1 022 123	3 033 046
At 31 December 2010			
Cost	2 010 923	4 996 276	7 007 199
Accumulated amortisation	-	(3 974 153)	(3 974 153)
Net book amount	**2 010 923**	**1 022 123**	**3 033 046**
Year ended 31 December 2011			
Opening net book amount	2 010 923	1 022 123	3 033 046
Additions	3 912 728	836 236	4 748 964
Disposals	(3 811 572)	-	(3 811 572)
Amortisation charge	-	(276 541)	(276 541)
Closing net book amount	2 112 079	1 581 818	3 693 897
At 31 December 2011			
Cost	2 112 079	5 832 512	7 944 591
Accumulated amortisation	-	(4 250 694)	(4 250 694)
Net book amount	**2 112 079**	**1 581 818**	**3 693 897**

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Leasehold improve-ments	Transport vehicles	Computer equipment	Furniture and fittings	Total
At 31 December 2009						
Cost or valuation	2 204 670	649 286	1 008 434	1 584 333	889 785	6 336 508
Accumulated depreciation	(563 437)	(348 388)	(468 147)	(1 276 674)	(472 001)	(3 128 647)
Net book amount	**1 641 233**	**300 898**	**540 287**	**307 659**	**417 784**	**3 207 861**
Year ended 31 December 2010						
Opening net book amount	1 641 233	300 898	540 287	307 659	417 784	3 207 861
Additions	-	-	29 950	124 609	42 699	197 258
Disposals	-	(55 559)	(123 443)	(10 932)	(77 029)	(266 963)
Depreciation charge: to equity	(743)	-	-	-	-	(743)
Depreciation charge: to income statement	(36 459)	(113 021)	(172 678)	(173 532)	(175 704)	(671 394)
Depreciation on disposed assets	-	55 559	106 163	10 058	74 475	246 255
Revaluation surplus: charged to income statement	92 452	-	-	-	-	92 452
Impairment losses: charged to equity	(6 519)	-	-	-	-	(6 519)
Impairment losses: charged to income statement	(9 706)	-	-	-	-	(9 706)
Closing net book amount	1 680 258	187 877	380 279	257 862	282 225	2 788 501
At 31 December 2010						
Cost or valuation	2 280 897	600 515	914 941	1 698 404	857 057	6 351 814
Accumulated depreciation	(600 639)	(412 638)	(534 662)	(1 440 542)	(574 832)	(3 563 313)
Net book amount	**1 680 258**	**187 877**	**380 279**	**257 862**	**282 225**	**2 788 501**
Year ended 31 December 2011						
Opening net book amount	1 680 258	187 877	380 279	257 862	282 225	2 788 501
Additions	-	13 362	522	40 729	13 267	67 880
Disposals	-	(44 425)	(45 562)	(4 767)	-	(94 754)
Depreciation charge: to equity	(576)	-	-	-	-	(576)
Depreciation charge: to income statement	(38 359)	(100 547)	(155 816)	(140 551)	(145 168)	(580 441)
Depreciation on disposed assets	-	37 877	38 562	439	-	76 878
Revaluation surplus: charged to income statement	164 594	-	-	-	-	164 594
Revaluation surplus: charged to equity	8 063	-	-	-	-	8 063
Impairment losses: charged to equity	(21 100)	-	-	-	-	(21 100)
Impairment losses: charged to income statement	(21 340)	-	-	-	-	(21 340)
Closing net book amount	1 771 540	94 144	217 985	153 712	150 324	2 387 705
At 31 December 2011						
Cost or valuation	2 411 113	569 452	869 900	1 734 366	870 323	6 455 154
Accumulated depreciation	(639 573)	(475 308)	(651 915)	(1 580 654)	(719 999)	(4 067 449)
Net book amount	**1 771 540**	**94 144**	**217 985**	**153 712**	**150 324**	**2 387 705**

All property was for Company's own use.

NOTES TO THE FINANCIAL STATEMENTS (continued)

The Company's land and buildings were revaluated as at 31 December 2011 and 2010. The valuation was made by external independent appraiser using discounted cash flow method. Revaluation surplus in total LVL 164 594 (2010: LVL 92 452) and impairment losses in total LVL 21 340 (2010: LVL 9 706) were recognised to the income statement. LVL 21 100 (2010: LVL 6 519) were debited and LVL 8 063 (2010: LVL 0) credited to the revaluation surplus in the equity, net of deferred income tax.

17. FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31.12.2011 Carrying amount of investment	Cost	31.12.2010 Carrying amount of investment	Cost
Latvian government bonds	3 436 334	3 342 237	4 721 581	4 475 779
German government bonds	5 566 402	5 467 135	8 340 326	8 208 591
Austrian government bonds	386 475	381 693	388 308	381 693
Swedish government bonds	1 511 895	1 480 051	1 498 307	1 480 051
Netherland government bonds	1 244 453	1 225 839	3 113 866	3 020 671
Danish government bonds	1 317 517	1 285 852	1 313 609	1 285 852
Finish government bonds	1 767 511	1 771 374	2 572 989	2 539 660
Corporate bonds	5 662 203	5 624 684	7 997 332	7 884 911
Mortgage backed debt securities	818 768	786 980	835 287	786 980
	21 711 558		**30 781 605**	

The split between current and non-current financial investments at fair value through profit or loss is included in Note 37. Financial investments at fair value through profit or loss in total LVL 18.27 million (31.12.2010: LVL 30.8 million) are in Level 1 fair value hierarchy level and LVL 3.44 million (31.12.2010: LVL 0) are in Level 2 fair value hierarchy level in accordance with IFRS 7 definitions.

18. LOANS

	31.12.2011			31.12.2010		
	Current	Non-current	Total	Current	Non-current	Total
Loans to employees	-	-	-	300	-	300
Loans secured by a car pledge	-	-	-	323	-	323
Mortgage loans	14 878	-	14 878	14 877	-	14 877
	14 878	**-**	**14 878**	**15 500**	**-**	**15 500**

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

19. DIRECT INSURANCE DEBTORS

	31.12.2011	31.12.2010
Gross receivables from direct insurance operations	5 444 895	5 338 918
Provisions for overdue receivables from direct insurance operations	(95 224)	(108 643)
	5 349 671	**5 230 275**

20. REINSURANCE DEBTORS

	31.12.2011	31.12.2010
Gross receivables from reinsurance operations	301 490	121 901
Provisions for overdue receivables from reinsurance operations	(2 226)	(2 226)
	299 264	**119 675**

NOTES TO THE FINANCIAL STATEMENTS (continued)

21. DEFERRED INCOME TAX ASSET

	2011	2010
Deferred income tax asset as at the beginning of the year	(230 375)	(320 618)
Deferred income tax changes recognised to the income statement (see Note 14)	(254 223)	91 312
Deferred income tax changes recognised to equity (see Note 26)	(2 017)	(1 069)
Deferred income tax asset as at the end of the year	**(486 615)**	**(230 375)**

Deferred income 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:

	31.12.2011	31.12.2010
Temporary difference on depreciation of property, plant and equipment	139 316	115 216
Temporary difference on revaluation of buildings charged to Equity (see Note 26)	1 210	3 227
Temporary difference for accrued expense	(373 260)	(321 593)
Tax losses	(233 251)	-
Temporary difference for provisions on overdue debtors	(20 630)	(27 225)
Deferred income tax asset as at the end of the year	**(486 615)**	**(230 375)**

Tax losses can be used in further period and has no expiry date.

22. ACCRUED INCOME AND DEFERRED EXPENSE

	31.12.2011	31.12.2010
Prepayment to IBM for Transition & Transformation services *	3 288 529	3 653 921
Repair works	226 153	295 077
Prepayments for reinsurance	73 775	76 394
Prepayments for rent	16 096	21 478
Prepayments for software maintenance	15 788	158 298
Prepayments for insurance	8 881	4 671
Deferred commission expense	-	37 249
Other deferred expense	12 259	16 534
	3 641 481	**4 263 622**

* - according to the IT outsourcing agreement with IBM, AAS “Balta” has made a prepayment to IBM for Transition & Transformation services. This payment will be amortised to expenses within the term of the contract. LVL 487 thousand of this amount will be amortised to expenses within 12 months from the balance sheet date, LVL 2 801 thousand will be amortised in following periods.

23. OTHER DEBTORS

	31.12.2011	31.12.2010
Receivables from other insurance companies for salvage transactions	339 069	504 172
Provisions for other insurance companies for overdue salvage settlements	(73 211)	(114 078)
Receivables from related companies	58 088	130 253
Receivables from others insurance companies	50 000	48 232
Receivables from Pool “BALTA-PAREX-ERGO”	24 389	23 481
Receivables from suitable scrap buyers	17 850	23 049
Overpaid VAT (see Note 27)	10 336	-
Receivables for claims regulation	10 109	10 327
Receivables from agents	10 068	2 502
Receivables from Motor Insurers’ Bureau of Latvia	2 955	2 923
Other debtors	80 525	90 541
Accruals for other overdue debtors	(68 732)	(79 809)
	461 446	**641 593**

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

24. CASH AND CASH EQUIVALENTS

	31.12.2011	31.12.2010
Cash at bank	1 066 035	1 177 503
Bank deposits with original maturity of three months or less	-	1 254 749
	1 066 035	**2 432 252**

The effective interest rate for 2011 on bank deposits with original maturity of three months or less was 0.7% (2010: 0.5%) and has an average maturity of 31 (2010: 31) days.

25. SHARE CAPITAL AND RESERVES

a) Issued and fully paid share capital

The total authorised number of ordinary shares is 4 652 067 (2010: 4 652 067), with nominal value of LVL 1 per share (2010: LVL 1 per share). All issued shares are fully paid.

The Company's shares are not listed.

b) Major shareholder

There were changes introduced in the composition of major shareholders of AAS Balta in November, 2011, by which Royal &Sun Alliance Insurance PLC acquired 4 651 825 or 99.9 per cent of AAS Balta shares from the company Codan.

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.

26. REVALUATION RESERVE

	31.12.2011	31.12.2010
Revaluation surplus for land and buildings	8 064	21 677
Deferred income tax arising on revaluation of land and buildings	(1 210)	(3 227)
Total	**6 854**	**18 450**

27. TAXES AND THE STATE COMPULSORY SOCIAL INSURANCE CONTRIBUTIONS

	31.12.2011	31.12.2010
State compulsory social insurance contributions	179 279	176 555
Personal income tax	100 731	114 223
Value added tax	(10 336)	165 674
Unemployment risk duty	179	179
Liabilities	**280 189**	**456 631**
Overpaid (included in Note 23)	**(10 336)**	**-**

During the year the following tax payments have been made:

	2011	2010
State compulsory social insurance payments	2 233 169	2 182 637
Personal income tax	1 250 270	1 442 374
Corporate income tax	383 064	855 877
Value added tax	335 152	449 060
Property tax	18 227	16 945
Unemployment risk duty	2 177	2 191
	4 222 059	**4 949 084**

NOTES TO THE FINANCIAL STATEMENTS (continued)

28. ACCRUED EXPENSES AND DEFERRED INCOME

	31.12.2011	31.12.2010
Accruals for Group entities expenses	1 213 735	640 875
Accruals for personnel bonuses	429 729	585 233
Accruals for unused annual leave	355 139	394 728
Unearned reinsurance commissions	24 077	15 754
Accruals for intermediary commissions	18 051	111 859
Next period written premium for long term policies	-	112 235
Accruals for other expenses	471 746	411 257
Other deferred income	1 791	1 029
	2 514 268	**2 272 970**

29. OTHER CREDITORS

	31.12.2011	31.12.2010
Deferred commissions payable	352 319	353 195
Personnel	299 115	285 645
Payable to IBM Latvia	215 621	362 083
Liability to Finance and Capital Market Commission	65 629	70 401
Liability for Group entities	44 016	2 098 141
Liability for payments to Motor Insurers' Bureau of Latvia	25 521	30 868
Other creditors	33 728	67 873
	1 035 949	**3 268 206**

30. DIVIDENDS PER SHARE

In 2011 dividends in total LVL 5 210 315 (2010: LVL 4 186 860) or LVL 1.12 (2010: LVL 0.90) per share have been paid to the shareholders of AAS BALTA. No dividend payment is planned to be proposed at the Annual Shareholders' Meeting for 2011.

31. MANDATORY PAYMENTS

Types of mandatory payments made during the year:

	2011	2010
Motor Insurers' Bureau of Latvia	146 658	155 777
Finance and Capital Market Commission	251 378	291 435
	398 036	**447 212**

NOTES TO THE FINANCIAL STATEMENTS (continued)

32. RESULTS OF THE CEDED REINSURANCE

	2011	**2010**
Reinsurers' share in premiums (see Note 3)	(1 389 459)	(1 477 366)
Reinsurers' share in changes in unearned premiums (see Note 4)	46 068	(799)
Reinsurers' share in claims (see Note 8)	452 859	451 715
Reinsurers' share in changes in provision for claims (see Note 9)	565 463	(331 080)
Reinsurers' commission income (see Note 7)	33 437	51 544
Net result of ceded reinsurance activities:	**(291 632)**	**(1 305 986)**

33. RELATED PARTY TRANSACTION

A party is related to the Company if:

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

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

The Parent company of the Company is Royal &Sun Alliance Insurance PLC (UK). The ultimate parent company of the Company is RSA (UK). There were changes introduced in the composition of shareholders of AAS Balta in November, 2011, by which Royal &Sun Alliance Insurance PLC acquired 99.9 per cent of AAS Balta shares from the company Codan (Denmark). Lietuvos Draudimas (Lithuania) is a subsidiary of Royal &Sun Alliance Insurance PLC. Codan Forsikring AS Eesti filiaal is a branch of Codan AS in Estonia.

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

a) Transactions with related parties

<u>*Reinsurance and fronting insurance*</u>

	2011	**2010**
RSA:		
Fronting insurance premiums	(201 675)	(135 633)
Reinsurance premiums ceded	(102 244)	(79 953)
Fronting insurance commissions received	21 133	23 433
Fronting insurance claims	66 887	241 045
Change of fronting insurance unearned premium reserve	24 081	3 864
Change of fronting insurance deferred client acquisition costs	786	1 144
Change of fronting insurance claim reserve	(38 363)	(84 898)
	(229 395)	**(30 998)**
Codan AS:		
Reinsurance premiums ceded	(161 836)	(74 832)
Reinsurance commissions paid	(11 903)	(10 326)
Reinsurance commissions received	16 702	14 859
Change of reinsurance unearned premium reserve	-	89 306
Change of reinsurance deferred client acquisition costs	109	(8 312)
Change of reinsurance paid to reinsurance intermediaries	1 577	(656)
	(155 351)	**10 039**

NOTES TO THE FINANCIAL STATEMENTS (continued)

Other transactions

	2011	2010
RSA:		
Management consulting services	(804 824)	(1 305 008)
IT consultation	(13 367)	(106 042)
Recruitment services	(4 760)	-
Training for employees	(4 494)	(10 724)
Other services	(291 400)	(88 410)
Cost compensation	60 956	2 491
Income of consultation	-	3 541
	(1 057 889)	**(1 504 152)**
Lietuvos Draudimas:		
Compensation of reinsurance agreement	-	54 566
	-	**54 566**
Codan Forsikring AS Eesti filiaal:		
Income from consultation	-	12 901
	-	**12 901**
Direct:		
Income from consultation	220	220
	220	**220**
RSA Insurance (Asia & Middle East)		
Income from consultation	-	1 493
	-	**1 493**

b) Balances with related parties

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

	31.12.2011	31.12.2010
Fronting insurance claims reserves with RSA	69 739	108 101
Fronting insurance claims with RSA	71 216	28 642
Fronting insurance premiums RSA	(59 505)	(36 708)
Fronting insurance unearned premium reserve	53 728	29 647
Fronting insurance deferred client acquisition costs	(407)	(1 193)
Recovered loss amounts with Lietuvos Draudimas	146	146
Reinsurance with Codan AS	(71 398)	(72 028)
Receivables from Codan Forsikring AS Eesti filial	-	18 768
Receivables from Lietuvos Draudimas	254	54 580
Receivables from RSA	57 835	56 685
Receivables from Direct	-	220
Liabilities to RSA	(44 016)	(2 739 016)
	77 592	**(2 552 156)**

c) Key management remuneration

In year 2011 the Company has paid remuneration to the Board of Directors in the amount of LVL 553 thousands (2010: LVL 562 thousands).

NOTES TO THE FINANCIAL STATEMENTS (continued)

34. CONTINGENT LIABILITIES AND COMMITMENTS

a) General claims

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

b) Litigation

The Company, like all other insurers, is subject to litigation in the normal course of its business. As at 31 December 2011 there were 38 (31.12.2010: 19) open legal claims against the Company amounting to LVL 1 973 thousands (31.12.2010: LVL 1 446 thousands). The management is of the opinion that no material unprovided losses will be incurred.

In addition to above, in 2011 were initiated litigations against the Company by one former employee. Accrual for still opened one claim at the end of the year is not made since the Company's management is of the opinion that there is insignificant probability of negative outcome for the Company.

c) Capital commitments

The Company does not have any capital commitments as at 31 December 2011.

The Company does not have any non-cancellable operating leases as at 31 December 2011, these can usually be terminated at one to six months notice. Total minimal commitment for lease payments as at 31 December 2011 amounts to LVL 75 thousands (31.12.2010: LVL 76 thousands).

d) Tax contingency

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

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 or statistical data fluctuate to a considerable extent to use chain – ladder method, the reserve is calculated using Bornhuetter - Ferguson or expected ultimate method.

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

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

The Company annually performs premium deficiency test to ensure that no losses are transferred to next periods. As at the 31 December 2011 there is no premium deficiency detected. For premium deficiency tests are considered claims and direct costs.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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.

<u>Types of insurance contracts</u>

Motor third party liability insurance.
It is a compulsory insurance type, whose policy conditions and indemnification rules are prescribed by the Motor Third Party Liability Insurance Act and other related legislation. Insurance premiums for motor third party liability are determined individually for each customer based on several both customer as well as vehicle based risk criteria. In Latvia, a unified criterion for evaluating the road traffic accident history of a particular vehicle owner – the bonus malus system – is also available.

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 is a money compensation for the death, permanent incapacity for work or trauma arising from an accident. Also refund of costs for medical treatment as well as medical expenses, caused by injury. In addition it is possible to get daily allowances for time spend in hospital and having medical treatment. 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 as well as General Third Party Liability (GTPL) or personal accident coverage.

NOTES TO THE FINANCIAL STATEMENTS (continued)

The indemnity limit for the medical treatment and repatriation costs of passenger is limited to 100 thousands lats. A larger risk is related to potential natural disasters in holiday areas or transport crashes, where the number of injured is large. The reinsurance program covers indemnifies for losses exceeding 70 thousands lats per occurrence.

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

Casco insurance
The insurance indemnifies for losses which arise from damage to the vehicle, destruction, theft or robbery of it. Several additional insurance covers may also be purchased which are related to insured vehicle. Insurance premiums are determined individually for each customer based on several both customer as well as vehicle based risk criteria. Product package can contain several additional insurance covers – road assistance and replacement car, for instance. Value of insured vehicles commonly does not exceed 50 thousands lats. More than two thirds of losses by amount accumulate from the damage to vehicles sustained in road traffic accidents.

Property insurance, business interruption insurance and building risks insurance
Property insurance covers losses arisen because of fire, weather, leakage of liquid or steam, explosion, malicious acts by third parties (robbery, burglary) or collision. There is a possibility for individuals (private persons) to insure their contents (property) and civil third party liability additionally to private property insurance.
Business interruption insurance covers lost business profits and fixed costs incurred, which arise from the realisation of any risk covered by property insurance of a company. Upon the sale of that insurance type, it is considered to be particularly important take into account the reliability of customers and transparency of financial statements.

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

The most frequently realised risks for private property include leakage of liquid or steam, fire and weather losses (storm, snowing and flood). The largest losses usually are because of fire.

General liability insurance
This insurance provides coverage for bodily injury and property damage caused to a third party by an insured person, due to its activity or inactivity. In respect of property damages only direct loses are covered, but in respect of bodily injuries direct as well as consequential loses are covered, such as unearned income because of temporary or permanent inability and allowances for dependents. Upon the assessment/ selection of liability insurance risks, it is particularly important to take into account the specifics of customer’s commercial activity and customer’s turnover.

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

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

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

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

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

Year 2011	**Latvia**	**OECD countries**	**Other countries**	**Total**
Financial assets				
Financial investments at fair value through profit or loss	3 436	18 276	-	21 712
Loans	15	-	-	15
Term deposits with banks	5 348	-	-	5 348
Insurance and reinsurance debtors	5 350	299	-	5 649
Reinsurers' share of outstanding claims reserve	-	4 104	-	4 104
Cash and cash equivalents	1 066	-	-	1 066
Other debtors and accrued income	357	73	31	461
Total financial assets	**15 572**	**22 752**	**31**	**38 355**
Financial liabilities				
Outstanding claims reserve	(14 301)	-	-	(14 301)
Creditors and accrued expense	(3 518)	(1 595)	(7)	(5 120)
Total financial liabilities	**(17 819)**	**(1 595)**	**(7)**	**(19 421)**
Net financial assets / (liabilities) as at 31 December 2011	**(2 247)**	**21 157**	**24**	**18 934**

Year 2010	**Latvia**	**OECD countries**	**Other countries**	**Total**
Financial assets				
Financial investments at fair value through profit or loss	5 557	25 225	-	30 782
Loans	16	-	-	16
Term deposits with banks	5 612	-	-	5 612
Insurance and reinsurance debtors	5 230	120	-	5 350
Reinsurers' share of outstanding claims reserve	-	4 669	-	4 669
Cash and cash equivalents	2 432	-	-	2 432
Other debtors and accrued income	471	127	81	679
Total financial assets	**19 318**	**30 141**	**81**	**49 540**
Financial liabilities				
Outstanding claims reserve	(16 370)	-	-	(16 370)
Creditors and accrued expense	(4 195)	(3 140)	(25)	(7 360)
Total financial liabilities	**(20 565)**	**(3 140)**	**(25)**	**(23 730)**
Net financial assets / (liabilities) as at 31 December 2010	**(1 247)**	**27 001**	**56**	**25 810**

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

Maximum own retention:

	2011	**2010**
Personal accident & Travel medical expense	70 280	70 280
Motor own damage	70 280	70 280
Cargo	105 421	105 421
Hull, CMR	105 421	105 421
Property	702 804	702 804
General TPL	140 561	140 561

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

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, liquidity risks and market risks, which include interest rate risks, currency risks, as well as fair value risks. The Company’s management seeks to minimise potential adverse effects of financial risks on the financial performance of the Company by placing limits on the level of exposure that can be taken.

37.1. Credit risk

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

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

a) Maximum credit risk:

	31.12.2011	**31.12.2010**
Latvian government bonds	3 436 334	4 721 581
German government bonds	5 566 402	8 340 327
Austrian government bonds	386 475	388 308
Swedish government bonds	1 511 895	1 498 307
Netherland government bonds	1 244 453	3 113 866
Danish government bonds	1 317 517	1 313 609
Finish government bonds	1 767 511	2 572 989
Mortgage backed debt securities	818 768	835 287
Corporate bonds	5 662 203	7 997 331
Deposits with banks	5 348 135	5 612 086
Loans	14 878	15 500
Cash and cash equivalents	1 066 035	2 432 252
Credit risk	**28 140 606**	**38 841 443**

NOTES TO THE FINANCIAL STATEMENTS (continued)

	31.12.2011	31.12.2010
Unearned premium reserve, reinsurers' share	168 085	122 017
Outstanding claims reserve, reinsurers' share	4 103 628	4 669 091
Reinsurance debtors	299 264	119 675
Receivables due from policyholders	5 207 855	5 014 418
Receivables due from intermediaries	141 816	215 857
Other debtors	461 446	641 593
Maximum credit risk	**38 522 700**	**49 624 094**

b) Reinsurance risk breakdown by key counterparties

Reinsurer	2011 Receivables arising from reinsurance operations	S&P Rating	2010 Receivables arising from reinsurance operations	S&P Rating
Swiss Re Group	1 157 566	A+	1 196 867	A+
Munich Re Group	995 738	AA-	1 133 787	AA-
Hannover Re	547 033	AA-	635 545	AA-
GeneralCologne Re	330 339	AA+	321 954	AA+
SCOR Global P&C	294 781	A	333 965	A
Caisse Centrale de Reassurances	240 808	AAA	265 018	AAA
RSA	194 683	A	166 390	A
ALD Re	173 683	NR	139 021	NR
ACE Tempest Re Europe	157 487	A+	188 496	A+
Liberty Syndicate, Cologne	157 487	A+	188 496	A+
Odyssey America Reinsurance Corporation	124 122	A-	114 222	A-
Sirius International Insurance Corporation	101 569	A-	143 495	A-
R + V	81 725	A+	83 527	A+
Other	13 956	-	-	-
Reinsurance risk	**4 570 977**		**4 910 783**	

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

Year 2011	**AAA**	**AA**	**A**	**Less than BBB**	**Non rated**	**Total**
Government bonds	7 010	4 785	-	3 436	-	15 231
Corporate bonds	499	3 085	2 078	-	-	5 662
Term deposits with banks	-	-	5 348	-	-	5 348
Mortgage backed debt securities	-	-	-	819	-	819
Loans	-	-	-	-	15	15
Total investment assets	**7 509**	**7 870**	**7 426**	**4 255**	**15**	**27 075**

Year 2010	**AAA**	**AA**	**A**	**Less than BBB**	**Non Rated**	**Total**
Government bonds	10 842	6 385	-	4 722	-	21 949
Corporate bonds	495	4 150	3 352	-	-	7 997
Term deposits with banks	-	-	5 266	346	-	5 612
Mortgage backed debt securities	-	-	-	835	-	835
Loans	-	-	-	-	16	16
Total investment assets	**11 337**	**10 535**	**8 618**	**5 903**	**16**	**36 409**

NOTES TO THE FINANCIAL STATEMENTS (continued)

37.2. Liquidity risk

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

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

Year 2011	**Without maturity**	**Up to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Financial assets					
Financial investments at fair value through profit or loss	-	4 262	17 450	-	21 712
Loans	-	15	-	-	15
Term deposits with banks	-	5 348	-	-	5 348
Insurance and reinsurance debtors	-	5 649	-	-	5 649
Cash and cash equivalents	1 066	-	-	-	1 066
Reinsurers' share of outstanding claims reserve	-	934	2 215	955	4 104
Other debtors and accrued income	-	461	-	-	461
Total financial assets	**1 066**	**16 669**	**19 665**	**955**	**38 355**
Financial liabilities					
Outstanding claims reserve	-	(7 103)	(6 079)	(1 119)	(14 301)
Creditors and accrued expense	-	(5 120)	-	-	(5 120)
Total financial liabilities	**-**	**(12 223)**	**(6 079)**	**(1 119)**	**(19 421)**
Net financial assets / (liabilities) as at 31 December 2011	**1 066**	**4 446**	**13 586**	**(164)**	**18 934**

Year 2010	**Without maturity**	**Up to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Financial assets					
Financial investments at fair value through profit or loss	-	6 848	23 934	-	30 782
Loans	-	16	-	-	16
Term deposits with banks	-	5 612	-	-	5 612
Insurance and reinsurance debtors	-	5 293	57	-	5 350
Cash and cash equivalents	1 178	1 254	-	-	2 432
Reinsurers' share of outstanding claims reserve	-	1 296	2 347	1 026	4 669
Other debtors and accrued income	-	679	-	-	679
Total financial assets	**1 178**	**20 998**	**26 338**	**1 026**	**49 540**
Financial liabilities					
Outstanding claims reserve	-	(7 602)	(5 839)	(2 929)	(16 370)
Creditors and accrued expense	-	(7 360)	-	-	(7 360)
Total financial liabilities	**-**	**(14 962)**	**(5 839)**	**(2 929)**	**(23 730)**
Net financial assets / (liabilities) as at 31 December 2010	**1 178**	**6 036**	**20 499**	**(1 903)**	**25 810**

37.3. Market risk

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

a) Interest rate risk

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

	2011	**2010**
German government debt securities	1.1%	1.7%
Austrian government debt securities	1.1%	1.8%
Swedish government debt securities	0.7%	1.7%
Latvian government debt securities	3.2%	2.3%
Netherland government debt securities	0.8%	1.2%
Danish government debt securities	1.0%	1.7%
Finish government debt securities	0.4%	1.3%
Other corporate debt securities	1.6%	1.9%
Mortgage backed debt securities	5.0%	4.2%
Deposits with banks	2.0%	1.7%
Loans	7.0%	7.0%

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

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

		2011	**2010**
Market interest rate and impact on fair value	+1 percent point	(416 165)	(667 006)
	-1 percent point	408 738	691 470

b) Fair value

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

c) Foreign exchange risk

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

Year 2011	**USD**	**EUR**	**GBP**	**LTL**	**LVL**	**Other**	**Total**
Financial assets							
Financial investments at fair value through profit or loss	-	18 275	-	-	3 437	-	21 712
Loans	-	-	-	-	15	-	15
Term deposits with banks	-	4 668	-	-	680	-	5 348
Insurance and reinsurance debtors	10	749	-	-	4 890	-	5 649
Cash and cash equivalents	112	209	-	-	740	5	1 066
Reinsurers' share of outstanding claims reserve	-	3 462	-	-	640	2	4 104
Other debtors and accrued income	-	49	-	-	412	-	461
Total financial assets	**122**	**27 412**	**-**	**-**	**10 814**	**7**	**38 355**
Financial liabilities							
Outstanding claims reserve	(7)	(5 168)	(16)	(8)	(9 074)	(28)	(14 301)
Creditors and accrued expense	-	(264)	(1 229)	-	(3 548)	(79)	(5 120)
Total financial liabilities	**(7)**	**(5 432)**	**(1 245)**	**(8)**	**(12 622)**	**(107)**	**(19 421)**
Net financial assets / (liabilities) as at 31 December 2011	**115**	**21 980**	**(1 245)**	**(8)**	**(1 808)**	**(100)**	**18 934**

Year 2010	**USD**	**EUR**	**GBP**	**LTL**	**LVL**	**Other**	**Total**
Financial assets							
Financial investments at fair value through profit or loss	-	25 225	-	-	5 557	-	30 782
Loans	-	-	-	-	16	-	16
Term deposits with banks	-	5 266	-	-	346	-	5 612
Insurance and reinsurance debtors	76	841	-	-	4 433	-	5 350
Cash and cash equivalents	33	263	1 255	-	881	-	2 432
Reinsurers' share of outstanding claims reserve	-	4 216	-	-	453	-	4 669
Other debtors and accrued income	-	40	-	-	639	-	679
Total financial assets	**109**	**35 851**	**1 255**	**-**	**12 325**	**-**	**49 540**
Financial liabilities							
Outstanding claims reserve	(14)	(5 278)	(17)	(8)	(10 976)	(77)	(16 370)
Creditors and accrued expense	-	(318)	(2 763)	-	(4 207)	(72)	(7 360)
Total financial liabilities	**(14)**	**(5 596)**	**(2 780)**	**(8)**	**(15 183)**	**(149)**	**(23 730)**
Net financial assets / (liabilities) as at 31 December 2010	**95**	**30 255**	**(1 525)**	**(8)**	**(2 858)**	**(149)**	**25 810**

Changes in exchange rate do not materially affect the net of financial assets and liabilities. Most part of the financial assets and liabilities is held in LVL and EUR currencies what have a fixed exchange rate. The net of non LVL and EUR financial assets and liabilities represent only 6.5% (2010: 6.1%) of Company's total net financial assets and liabilities.

38. CAPITAL RISK MANAGEMENT

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

	31.12.2011	**31.12.2010**
Minimum required capital	5 839	7 666
Regulatory capital held according to FCMC regulations	14 040	20 309
Solvency ratio (minimum required is 100%)	**240%**	**265%**

39. LOSS DEVELOPMENT TABLE

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

	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**Total**
Estimate of cumulative claims												
At end of accident year	3 143	3 003	3 439	3 712	3 696	7 434	10 082	8 617	7 103	5 165	4 182	
1 year later	3 076	2 420	2 767	2 842	2 840	5 767	8 984	6 858	5 750	4 056		
2 years later	3 461	2 623	2 989	3 386	3 909	5 526	9 944	6 304	5 606			
3 years later	3 623	2 789	3 066	3 229	3 826	6 059	9 426	5 994				
4 years later	3 770	2 922	2 679	3 330	3 874	6 345	9 061					
5 years later	3 834	3 385	2 655	3 305	3 786	6 107						
6 years later	2 823	3 416	2 664	3 307	3 743							
7 years later	2 894	3 373	2 669	3 222								
8 years later	2 871	3 340	2 650									
9 years later	2 872	3 320										
10 years later	2 806											
Claims paid												
1 year later	2 423	3 014	2 457	2 610	3 308	4 537	7 446	4 508	4 178	2 764		
2 years later	96	136	118	299	126	329	351	241	252			
3 years later	54	41	33	104	90	199	110	189				
4 years later	66	22	9	46	4	53	21					
5 years later	18	22	8	80	8	47						
6 years later	26	6	4	6	12							
7 years later	30	19	1	30								
8 years later	11	3	-4									
9 years later	11	-5										
10 years later	-19											
Cumulative claims paid	**2 716**	**3 258**	**2 626**	**3 175**	**3 548**	**5 165**	**7 928**	**4 938**	**4 430**	**2 764**		
CY (deficiency) / redundancy	**66**	**19**	**19**	**85**	**43**	**237**	**366**	**310**	**144**	**1 109**		**2 398**

40. SUBSEQUENT EVENTS

There are no subsequent events since the last date of the reporting year, which would have a significant effect on the financial position of the Company as at 31 December 2011.

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of AAS Balta

Report on the Financial Statements

We have audited the accompanying financial statements of AAS Balta set out on pages 8 to 44 of the accompanying annual report, which comprise the balance sheet as of 31 December 2011, and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 about whether the financial statements are free from material misstatement.

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

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

Opinion
In our opinion, the financial statements give a true and fair view of the financial position of AAS Balta as of 31 December 2011, 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 management report for 2011 set out on page 4-6 of the accompanying annual report for 2011 and have not identified any material inconsistencies between the financial information contained in the management report and the financial statements for 2011.

Deloitte Audits Latvia SIA
Licence No. 43

Roberts Stuģis
Member of the Board

Riga, Latvia
27 March 2012

Inguna Staša
Certified auditor of Latvia
Certificate No. 145