

**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 2012  
and Independent Auditor's Report*

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**AAS BALTA**  
**ANNUAL ACCOUNTS FOR 2012**

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**AAS BALTA**  
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**MEMBERS OF THE COUNCIL AND THE BOARD OF DIRECTORS, THE INDEPENDENT  
AUDITORS**

**Council**

<u>Name, Surname</u>	<u>Position</u>
Andrew John Burke	Chairman of the Council (until 08.10.2012)
David Hill	Member of the Council (from 09.10.2012)
	Chairman of the Council (from 15.10.2012) (Accepted by Regulator 08.11.2012)
Kaido Kepp	Member of the Council
Phillippa Jane Grey	Member of the Council (from 24.04.2012, Accepted by Regulator 21.05.2012; until 08.10.2012)
Laurence Michael Loughnane	Member of the Council (from 24.04.2012, Accepted by Regulator 21.05.2012)
Ditte Marstranda Vulfa	Member of the Council (until 30.03.2012)
Kestutis Serpytis	Member of the Council (until 31.01.2013)

**Board**

<u>Name, Surname</u>	<u>Position</u>
Uldis Dzintars	Member of the Board
Madara Melnmate	Member of the Board
Aivars Vilnītis	Member of the Board (until 12.07.2012)
Kristians Pudans	Member of the Board
Dmitrij Nosko	Member of the Board
Tauseef Shaffi Chaudhry	Chairman of the Board (until 31.01.2013)
Tauseef Shaffi Chaudhry	Member of the Board (from 01.02.2013)
Uģis Vorons	Member of the Board (from 02.08.2012, Accepted by Regulator 21.08.2012)
Kestutis Serpytis	Chairman of the Board (from 01.02.2013, Accepted by Regulator 06.02.2013)

**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:  
Jelena Mihejenkova  
Certified auditor  
Certificate No.166

**REPORT OF THE COUNCIL AND THE BOARD OF DIRECTORS**

Notwithstanding stagnation of the Latvian insurance market in prior years, a slight market increase was observed last year. Prior year investments made in the product segmentation and business development of BALTA enabled the Company to retain its market leader position. According to the results of a survey on insurance companies in Latvia, carried out by LETA and SKDS in 2012, BALTA was recognised as the country's most reliable insurer for the tenth consecutive year. Furthermore, in 2012, according to a survey carried out by Nozare.lv and SKDS, BALTA was recognised as the most trusted insurer, and according to the Reputation Rating 2012 arranged for by Nords Porter Novelli and the Dienas Business BALTA was rated as the best among Latvian insurance companies.

Worthy improvements in the operations over the past year enabled the Company to create a strong and long-term platform for a successful development and strengthening of its market leader position in 2013, too.

**Insurance market in 2012 and the key trends for 2013**

In 2012, competition in the insurance market intensified therefore the market players continued improving their solutions to available services, by providing an opportunity for everyone to select the most appropriate offering in terms of the risks and the price.

The performance of the insurance market in the past year suggests that insurance prices in Latvia have disproportionately decreased over the last couple of years and do not cover indemnity costs and operating expenses yet, losses still prevail in some market segments therefore a price increase for policies in these segments is likely in the future.

In 2012, the insurance market was mainly influenced by the improvement of macroeconomic indicators. According to the estimates of BALTA, in 2013, the growth of the insurance market will outperform that of the GDP and retail turnover, reversing the trend against the background of the years of crisis during which the insurance market experienced the steepest decline.

New entrants to the Latvian insurance market will fuel competition. It will require a greater focus on innovative solutions designed for customers and a dedicated service approach from the current market players to ensure that the analysis of cost and indemnity ratios performed will minimise the cost of risks and an increased return to shareholders would be ensured.

In turn, increased competition could be expected to prompt further consolidation of the broker market - mergers of strongest brokers and a decrease in the number of market players. The monitoring of insurance companies is likely to get more intense because of the implementation of the Solvency II.

Although insurers have started preparing for the changeover to the euro in Latvia, the work started will be carried on in 2013 to ensure the changeover to the single European currency is painless to customers and insurers.

**Development strategy of BALTA**

In 2013, the development strategy of BALTA will continue to be aimed at pursuing the directions set in prior year to achieve the following goals:

- “Think Customer”;
- “One Team”;
- “Desire to win”.

The purpose of “Think Customer” is to ensure such quality standard of customer service and development of solutions that the customer would feel like a winner when cooperating with the Company. All employees are engaged in achieving this objective through considering the interests of the particular customer when taking their decisions and through rectifying deficiencies in the provision of services, even if the employees' daily work does not involve a direct contact with customers.

The purpose of “One Team” is to create an inspiring environment for teamwork and for rewarding it. It is an environment in which everyone can best express themselves and develop. This objective is shared by other companies of the RSA Group to promote teamwork in an international environment and experience sharing between different countries. Many employees of BALTA are employed in the companies of the RSA Group in other countries, same as the employees of the companies of the RSA Group are employed to work in BALTA. This provides a great opportunity for professional development.

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

The purpose of “Desire to Win” is to carry out activities in the targeted market areas with a view of outperforming other market players in terms of profitability and growth. The market targeted by BALTA is Latvian customers, their business transactions or travels outside Latvia.

In pursuing this strategy, the management of BALTA sets priorities and selects projects to be developed during the year. Such setting of strategic objectives ensures that all development goals are well-balanced and growth is achieved in all areas of operations.

BALTA continues investing resources in risk management to ensure compliance with the Solvency II. The implementation of the Solvency II in Latvia is delayed because the institutions of the European Union have been adopting decisions at a slower pace than expected. Despite the delay in accepting the standard, the Company is carrying on the work started in the areas of risk management development, internal capital model development and governance system improvement to achieve transparency and stability.

**Cooperation with the market supervisory authorities**

The Financial and Capital Market Commission (the FCMC) is the supervisory authority of the Latvian financial market and is engaged in carrying out a supervisory function over the insurance sector companies, including BALTA. In addition to the regular cooperation with the supervisory authority, the Company is actively involved with the FCMC on the matters relating to the internal capital model within the scope of Solvency II. In addition to assessing the principles of operation of the internal capital model and the assumptions underlying it, other matters which will become topical when the standard/rule becomes effective are considered, such as the corporate governance system, validation of the internal model, data quality, etc.

**Customer service and disbursement of indemnities**

In 2012, BALTA carried out an assessment of the customer feedback process. Within the scope of the assessment, internal communication across structural units was improved, which enabled the Company to significantly increase the speed of handling customer feedback followed by customer appreciation.

Two forums for representing the interests of customers have been set up: The Feedback Assessment Working Group and the so-called “Customer Ambassadors” representing the interests of customers across all structural units of BALTA. Within the said framework a number of important projects have been initiated and implemented, such as regular informing of customers on potential natural disasters and seasonal risks, the CASCO product personalization for consumer segment needs, claim settlement over the Internet and communication with media, based on customer recommendations on the required activities aimed to educate the public.

Over the past year, the Company was able to significantly speed-up the processing of claim applications and at present the decision on the disbursement of indemnity is adopted during the phone call in 30% of all cases. The efficiency of the insurance of property owned by private persons and legal entities has increased enabling instant decisions on the disbursement of indemnities in 20% and 12% of all cases, respectively. Broadly, the claims on the health product are decided, on average, within three days, the CASCO claims are decided in five days and property insurance product claims are decided in nine days.

In 2012, BALTA continued to successfully develop the on-line claim application service, which complements the claim application system using the phone – an already effectively functioning service. This has contributed to achieving a high-standard outcome - 50% of all health insurance claim applications are being received over the Internet, and disbursements are being made within two business days.

Last year, BALTA was one of the first insurance companies in Latvia to take a significant step in creating an additional facility and quality customer service not only for the traditional voluntary insurance products, but also for the MTPL insurance. Since August, all MTPL insurance customers are able to get insurance coverage providing for the disbursement of indemnities from their insurance company. This is an added value for the MTPL insurance; at last customers have an opportunity to buy this product for themselves rather than for someone else.

Last year, BALTA disbursed significant sums in indemnities, the highest in the last four years. The largest insurance indemnity disbursed by the Company last year was LVL 1 million and LVL 350,000 to a commercial customer and an individual, respectively.

**REPORT OF THE COUNCIL AND THE BOARD OF DIRECTORS** (continued)**Work environment in the Company and professional development of staff**

In 2012, BALTA had a close focus on the development of specific skills and talents of employees. Last year, a special development and training programme for the Company's most talented employees aimed to develop their leadership skills was carried out.

At the end of 2012, to strengthen the Company's position in the insurance market the management embarked on carrying out a number of activities to improve the Company's operations with a view of ensuring an even better resource management and customer service, as well as promoting the Company's competitive advantage.

BALTA performed a review of almost all of its functions and processes which resulted in the centralisation of the Company's competencies across the functions, automation of processes, exclusion of non-value adding activities and changes in the Company's organization structure, as well. The changes mainly affected the staff of the support functions; this resulted in the number of employees reduced by 6 percent.

To strengthen the united team spirit of the employees of BALTA, various employee events were held, e.g. the family day for employees' children, a corporate sports festival, a meeting of the Company's senior and middle-level management at which the Company's strategy was produced.

**Corporate social responsibility**

Insurance company BALTA and its parent company – the RSA Group, through implementing its corporate social responsibility policy, provide support to the public in three key areas of support – environmental protection, safety and social integration.

In 2012, BALTA, jointly with its business partners, carried out various corporate social responsibility projects and activities: in collaboration with the Safe Driving School (Drošas braukšanas skola) the public was educated on the principles of safe driving, a competition was arranged for Latvian entrepreneurs for the annual BALTA award The Safest Company Car Fleet (Drošākais uzņēmuma autoparks); in liaison with the State Fire and Rescue Service the population was informed about the risks of fire caused by lightning. The Company donated 50 sets of computer hardware equipment throughout Latvia. The employees of BALTA took part in two blood donor days and to tidy up the environment in the Big Clean-up (Liela talka).

**Changes in BALTA shareholders**

In 2012 there were no major changes.

**Financial risk management**

Activities of BALTA, in particular, investment management activities, are exposed to various financial risks. The key risks include credit risk, liquidity risk and market risk comprising interest rate risk, currency exchange risk and stock price risk.

With a view of minimising the impact of potential financial risks on the financial position of the Company, the management of BALTA has developed policies aimed at restricting potential financial risks. In managing the credit risk, BALTA complies with certain restrictions regarding the transactions with a single business partner or a group of similar business partners, as well as with credit ratings of investment issuers. Liquidity risk is managed by placing funds in highly liquid financial instruments and holding funds in current accounts with credit institutions, as well as forecasting cash flows from insurance, administrative and investment activities. For the purpose of managing market risks, the Company performs variance analysis, duration analysis and sensitivity analysis, as well as determines the permissible limits of currency positions. Financial risks are subject to a review at least once a year. Asset Management Commission regularly monitors the compliance of exposed transactions with the said restrictions.

Insurance indemnity claims are filed to BALTA on a regular basis. In order to maintain liquidity and minimise the cash flow risk, BALTA carries out certain activities. E.g. the management of the Company manages cash flows from direct insurance activities, by balancing them with cash flows from investing activities. That way, the particular minimum quantity of funds necessary for the payment of indemnities is maintained.

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**AAS BALTA**  
**ANNUAL ACCOUNTS FOR 2012**

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

**Dividend payment**

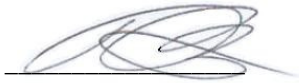
The Management Board and the Council of BALTA do not recommend the payment of dividend.

**Events after the balance sheet date**

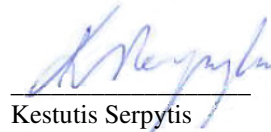
Since the balance sheet date to the date of signing these financial statements there have been no events that could materially affect the annual performance and financial position of BALTA at the end of the year.

**Information about BALTA**

BALTA is a part of the RSA Insurance Group which is one of the leading global international insurance groups with 300 years of experience. It offers insurance services in approximately 140 countries. About 23,000 employees are employed by the Group's companies.



David Hill  
Chairman of the Council



Kestutis Serpytis  
Chairman of the Board

20 March 2013


**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 2012 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 are responsible for preparing these financial statements from the books of primary entry. The Council and the Board of Directors confirm that these Financial Statements for the year ended


31 December 2012 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 2012.

The Council and the Board of Directors of AAS BALTA are 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. They are also responsible for operating the Company in compliance with the legislation of the Republic of Latvia.



David Hill  
Chairman of the Council



Kestutis Serpytis  
Chairman of the Board

20 March 2013



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**AAS BALTA****FINANCIAL STATEMENTS FOR 2012**(all amounts in Latvian Lats)

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**STATEMENT OF COMPREHENSIVE INCOME**

	Note	2012	2011
<b>Income</b>			
Gross written premiums	4	31 004 493	30 093 377
Less: reinsurance premiums	4	(1 423 041)	(1 389 459)
Net written premiums		29 581 452	28 703 918
Change in the gross provision for unearned premiums	5	(664 951)	126 905
Less: change in provision for unearned premiums, reinsurers' share	5	32 426	46 068
Change in provision for unearned premiums		(632 525)	172 973
Net earned premiums		28 948 927	28 876 891
Interest income	6	801 532	1 058 984
Net fair value profit / (losses) on financial assets at fair value through profit or loss	7	237 350	(271 609)
Other income	8	252 249	374 171
<b>Total income</b>		<b>30 240 058</b>	<b>30 038 437</b>
<b>Expenses</b>			
Gross claims paid to policyholders		(16 898 335)	(17 471 061)
Claims settlement expense		(2 335 229)	(2 295 518)
Less: recovered loss amount		1 077 184	1 180 325
Gross claims paid	9	(18 156 380)	(18 586 254)
Less: reinsurers' share	9	801 760	452 859
Net claims paid		(17 354 620)	(18 133 395)
Change in gross provision for claims	10	(62 270)	2 069 439
Less: change in provision for claims, reinsurers' share	10	520 466	(565 463)
<u>Net claims incurred</u>		(16 896 424)	(16 629 419)
Client acquisition costs	11	(2 462 418)	(3 811 572)
Administrative expense	12	(11 996 837)	(11 846 817)
Other expense	13	(51 975)	(20 818)
<b>Total expenses</b>		<b>(31 430 186)</b>	<b>(32 308 626)</b>
Finance income	14	2 266	74 129
Finance expenses	15	(12 805)	-
<b>Losses before tax</b>		<b>(1 178 135)</b>	<b>(2 196 060)</b>
Income tax expense	16	76 673	254 223
<b>Losses for the year</b>		<b>(1 101 462)</b>	<b>(1 941 837)</b>
<b>Other comprehensive losses for the year</b>			
Revaluation reserve, net of deferred income tax		(6 854)	(11 596)
<b>Total comprehensive losses for the year</b>		<b>(1 108 316)</b>	<b>(1 953 433)</b>

Notes on pages 14 to 45 are an integral part of these financial statements.

  
David Hill  
Chairman of the Council  
Kestutis Serpytis  
Chairman of the Board


20 March 2013

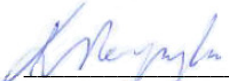
**AAS BALTA**  
**FINANCIAL STATEMENTS FOR 2012**  
(all amounts in Latvian Lats)

**STATEMENT OF FINANCIAL POSITION**

	Note	31.12.2012	31.12.2011
<b>ASSETS</b>			
<b>Intangible assets</b>	17	<b>6 090 638</b>	<b>3 693 897</b>
<b>Property, plant and equipment</b>	18	<b>2 178 906</b>	<b>2 387 705</b>
Financial investments at fair value through profit or loss	19	18 004 098	21 711 558
Loans	20	14 878	14 878
Term deposits with banks		6 161 594	5 348 135
<b>Total investments</b>		<b>24 180 570</b>	<b>27 074 571</b>
Receivables due from policyholders		5 667 862	5 207 855
Receivables due from intermediaries		143 581	141 816
Direct insurance debtors	21	5 811 443	5 349 671
Reinsurance debtors	22	386 087	299 264
<b>Total insurance and reinsurance debtors</b>		<b>6 197 530</b>	<b>5 648 935</b>
Unearned premium reserve, reinsurers' share	5	200 511	168 085
Outstanding claims reserve, reinsurers' share	10	4 624 094	4 103 628
<b>Reinsurers' share of insurance contract liabilities</b>		<b>4 824 605</b>	<b>4 271 713</b>
<b>Deferred income tax asset</b>	23	<b>564 497</b>	<b>486 615</b>
<b>Current tax assets</b>	16	<b>21 025</b>	<b>384 043</b>
Accrued income and deferred expense	24	3 009 829	3 641 481
Other debtors	25	410 793	461 446
<b>Total other debtors and other assets</b>		<b>3 420 622</b>	<b>4 102 927</b>
<b>Cash and cash equivalents</b>	26	<b>1 448 827</b>	<b>1 066 035</b>
<b>TOTAL ASSETS</b>		<b>48 927 220</b>	<b>49 116 441</b>

Notes on pages 14 to 45 are an integral part of these financial statements.

  
David Hill  
Chairman of the Council

  
Kestutis Serpytis  
Chairman of the Board

20 March 2013

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**AAS BALTA**  
**FINANCIAL STATEMENTS FOR 2012**


(all amounts in Latvian Lats)

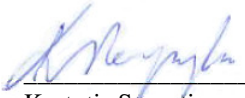
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**STATEMENT OF FINANCIAL POSITION (continued)**

	Note	31.12.2012	31.12.2011
<b>EQUITY, RESERVES AND LIABILITIES</b>			
<b>EQUITY AND RESERVES</b>			
Share capital	27	4 652 067	4 652 067
Share premium		1 121 332	1 121 332
Reserve capital and other reserves	27	3 062 205	3 062 205
Revaluation reserve	28	-	6 854
Retained earnings		5 731 482	6 832 944
<b>TOTAL EQUITY AND RESERVES</b>		<b>14 567 086</b>	<b>15 675 402</b>
<b>LIABILITIES</b>			
Unearned premium reserve	5	14 685 487	14 020 536
Outstanding claims reserve	10	14 362 808	14 300 538
<b>Insurance contract liabilities</b>		<b>29 048 295</b>	<b>28 321 074</b>
Insurance liabilities		897 224	947 409
Reinsurance liabilities		318 998	342 150
Taxes and the state compulsory social insurance contributions	29	486 670	280 189
Accrued expense and deferred income	30	1 463 235	2 514 268
Other creditors	31	2 145 712	1 035 949
<b>Total creditors</b>		<b>5 311 839</b>	<b>5 119 965</b>
<b>TOTAL LIABILITIES</b>		<b>34 360 134</b>	<b>33 441 039</b>
<b>TOTAL EQUITY, RESERVES AND LIABILITIES</b>		<b>48 927 220</b>	<b>49 116 441</b>

Notes on pages 14 to 45 are an integral part of these financial statements.

  
David Hill  
Chairman of the Council

  
Kestutis Serpytis  
Chairman of the Board

20 March 2013

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**AAS BALTA****FINANCIAL STATEMENTS FOR 2012**(all amounts in Latvian Lats)

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**STATEMENT OF CHANGES IN EQUITY**

	Share capital	Share premium	Reserve capital and other reserves	Retained Earnings	Revaluation reserve	Total
<b>Balance as at 31 December 2010</b>	<b><u>4 652 067</u></b>	<b><u>1 121 332</u></b>	<b><u>3 062 205</u></b>	<b><u>13 985 096</u></b>	<b><u>18 450</u></b>	<b><u>22 839 150</u></b>
Paid dividends for 2010	-	-	-	(5 210 315)	-	(5 210 315)
Losses 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)
<b>Balance as at 31 December 2011</b>	<b><u>4 652 067</u></b>	<b><u>1 121 332</u></b>	<b><u>3 062 205</u></b>	<b><u>6 832 944</u></b>	<b><u>6 854</u></b>	<b><u>15 675 402</u></b>
Losses for the year	-	-	-	(1 101 462)	-	(1 101 462)
Changes in revaluation surplus on land and buildings, net of deferred income tax	-	-	-	-	(6 854)	(6 854)
<b>Balance as at 31 December 2012</b>	<b><u>4 652 067</u></b>	<b><u>1 121 332</u></b>	<b><u>3 062 205</u></b>	<b><u>5 731 482</u></b>	<b><u>-</u></b>	<b><u>14 567 086</u></b>

Notes on pages 14 to 45 are an integral part of these financial statements.

  
David Hill  
Chairman of the Council  
Kestutis Serpytis  
Chairman of the Board

20 March 2013

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**AAS BALTA**  
**FINANCIAL STATEMENTS FOR 2012**


(all amounts in Latvian Lats)

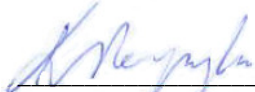
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**STATEMENT OF CASH FLOWS**

	Note	2012	2011
<b>Cash flows from operating activities</b>			
Premiums received from direct insurance		30 657 655	29 994 292
Claims paid for direct insurance		(16 898 335)	(17 471 061)
Payments received from ceded reinsurance		460 620	63 808
Payments made for ceded reinsurance		(1 053 967)	(1 136 043)
Income tax received		363 064	236 936
Other expense		(15 581 947)	(17 159 120)
<b>Net cash used in operating activities:</b>		<b>(2 052 910)</b>	<b>(5 471 188)</b>
<b>Cash flows from investing activities</b>			
Sale of investments		15 397 560	11 344 534
Purchase of investments		(12 292 640)	(2 844 620)
Purchase of fixed and intangible assets		(1 699 790)	(488 597)
Proceeds from sale of fixed and intangible assets		60 824	18 196
Interest received		65 512	85 726
Proceeds from investing activities		900 183	1 195 542
<b>Net cash generated from investing activities:</b>		<b>2 431 649</b>	<b>9 310 781</b>
<b>Cash flows from financing activities</b>			
Dividends paid		-	(5 210 044)
<b>Net cash used in financing activities:</b>		<b>-</b>	<b>(5 210 044)</b>
<b>Result of foreign exchange rate fluctuations</b>		<b>4 053</b>	<b>4 234</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>382 792</b>	<b>(1 366 217)</b>
Cash and cash equivalents at the beginning of year		1 066 035	2 432 252
<b>Cash and cash equivalent at the end of the year</b>	26	<b>1 448 827</b>	<b>1 066 035</b>

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David Hill  
Chairman of the Council

  
Kestutis Serpytis  
Chairman of the Board

20 March 2013

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**AAS BALTA****FINANCIAL STATEMENTS FOR 2012**

(all amounts in Latvian Lats)

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**NOTES TO THE FINANCIAL STATEMENTS****1. GENERAL INFORMATION**

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

Name of the Company:	Insurance joint stock company BALTA
Legal address:	Raunas Street 10/12, Riga, LV-1039
Phone, fax numbers:	(+371) 6708 2333, (+371) 6708 2345
VAT reg. number:	LV 40003049409
State Revenue Service department:	Department of large taxpayers
The major shareholder:	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 20 March 2013.

**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 for the following standards, amendments to the existing standards and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), which were not endorsed for use as at 31 December 2012:

- *IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2015),*
- *Amendments to IFRS 1 "First-time Adoption of IFRS" – Government Loans (effective for annual periods beginning on or after 1 January 2013),*
- *Amendments to IFRS 9 "Financial Instruments" and IFRS 7 "Financial Instruments: Disclosures" – Mandatory Effective Date and Transition Disclosures,*
- *Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosures of Interests in Other Entities" - Transition Guidance (effective for annual periods beginning on or after 1 January 2013),*
- *Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosures of Interests in Other Entities" and IAS 27 "Separate Financial Statements" - Investment Entities (effective for annual periods beginning on or after 1 January 2014),*
- *Amendments to various standards "Improvements to IFRSs (2012)" resulting from the annual improvement project of IFRS published on 17 May 2012 (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2013).*

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

At the same time, hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated. According to the entity's estimates, application of hedge accounting for the portfolio of financial assets or liabilities pursuant to IAS 39: "Financial Instruments: Recognition and Measurement", would not significantly impact the financial statements, if applied as at the balance sheet date.

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**AAS BALTA****FINANCIAL STATEMENTS FOR 2012**

(all amounts in Latvian Lats)

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**NOTES TO THE FINANCIAL STATEMENTS** (continued)

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

The preparation of financial statements in conformity with IFRS as adopted by the EU requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where estimates and judgements are significant to the financial statements are disclosed in Note 3.

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 IASB adopted by the EU are effective for the current period:

- *Amendments to IFRS 7 "Financial Instruments: Disclosures"* – Transfers of Financial Assets, adopted by the EU on 22 November 2011 (effective for annual periods beginning on or after 1 July 2011).

The adoption of these amendments to the existing standard 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 standards, revisions and interpretations adopted by the EU were in issue but not yet effective:

- *IFRS 10 "Consolidated Financial Statements"*, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014).
- *IFRS 11 "Joint Arrangements"*, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014).
- *IFRS 12 "Disclosures of Interests in Other Entities"*, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014).
- *IFRS 13 "Fair Value Measurement"*, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).
- *IAS 27 (revised in 2011) "Separate Financial Statements"*, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014).
- *IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures"*, adopted by the EU on 11 December 2012 (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, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).
- *Amendments to IFRS 7 "Financial Instruments: Disclosures"* – Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (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, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 July 2012).
- *Amendments to IAS 12 "Income Taxes"* – Deferred Tax: Recovery of Underlying Assets, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).
- *Amendments to IAS 19 "Employee Benefits"* – Improvements to the Accounting for Post-employment Benefits, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 January 2013).
- *Amendments to IAS 32 "Financial Instruments: Presentation"* – Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014).
- *IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine"*, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).

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**AAS BALTA****FINANCIAL STATEMENTS FOR 2012**

(all amounts in Latvian Lats)

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

The Company has elected not to adopt these standards, amendments to the existing standards and interpretations before its effective date. The Company anticipates that the adoption of these standards, amendments to existing standards and interpretations will have no material impact on the financial statements of the Company in the period of initial application.

**2.2 Insurance contracts****a) Premiums**

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

**b) Claims incurred**

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

**c) Administrative expenses**

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

Administrative expenses consist of two parts:

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

**d) Acquisition costs**

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

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

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**AAS BALTA****FINANCIAL STATEMENTS FOR 2012**

(all amounts in Latvian Lats)

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**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.

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**AAS BALTA**  
**FINANCIAL STATEMENTS FOR 2012**

(all amounts in Latvian Lats)

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**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.

	<b>31.12.2012</b>	<b>31.12.2011</b>
1 USD	LVL 0.531	LVL 0.544
1 GBP	LVL 0.857	LVL 0.840
1 LTL	LVL 0.204	LVL 0.204
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.

Statement of cash flows is prepared using the direct method.

**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 plus related social tax.

**2.11 Allocation of direct and indirect income and expense by types of insurance**

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.

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**AAS BALTA****FINANCIAL STATEMENTS FOR 2012**

(all amounts in Latvian Lats)

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**NOTES TO THE FINANCIAL STATEMENTS** (continued)**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. 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 Bornhuetter - Ferguson method. Motor TPL insurance receives recourse claims requests from Social Insurance Agency (SSIA). Those recourses are reported to insurance companies with average delay of more than 2.5 years from accident date to claims recourse reporting date. Recourses includes short term as well as long term claim cases. Taking into account uncertainties and potential reserving difficulties the Latvian Actuarial Association has developed recommended method (expected claim severity and frequency method) for those claim cases. Balta has adopted this method. Our analysis shows that adoption of other reserving methods (triangles etc) leads to very high risk on underreserving.

Claims handling reserve is calculated from RBNS and IBNR reserves as a proportion which is taken from the claims handler salaries 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.

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**AAS BALTA****FINANCIAL STATEMENTS FOR 2012**(all amounts in Latvian Lats)

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**4. NET WRITTEN PREMIUMS**

	<b>2012</b>			<b>2011</b>		
	<b>Gross amount</b>	<b>Reinsurers' share</b>	<b>Net amount</b>	<b>Gross amount</b>	<b>Reinsurers' share</b>	<b>Net amount</b>
Personal accident	858 983	(2 553)	856 430	935 111	(8 962)	926 149
Health	5 150 271	-	5 150 271	4 970 884	-	4 970 884
Motor own damage	9 733 996	(166 975)	9 567 021	8 521 828	(163 044)	8 358 784
Marine	17 714	(1 958)	15 756	21 912	(3 692)	18 220
Cargo	410 340	(21 903)	388 437	363 337	(24 411)	338 926
Property	9 695 615	(797 281)	8 898 334	9 633 063	(746 017)	8 887 046
General TPL	1 175 849	(128 999)	1 046 850	1 151 788	(151 633)	1 000 155
Guarantees	64 185	(29 014)	35 171	64 012	-	64 012
Financial risks	215 043	(97 600)	117 443	158 812	(61 188)	97 624
Travel accident	453 939	(897)	453 042	389 805	(3 149)	386 656
Obligatory motor TPL	3 228 558	(175 861)	3 052 697	3 882 825	(227 363)	3 655 462
	<b>31 004 493</b>	<b>(1 423 041)</b>	<b>29 581 452</b>	<b>30 093 377</b>	<b>(1 389 459)</b>	<b>28 703 918</b>

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 2012 (and 2011) 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 0.22 per contract and fixed sum LVL 30 000 in year or LVL 2 500 in a month.

In year 2012 OMTPL mandatory deductions amounted to LVL 118 220 (2011: LVL 141 310). The gross premiums in OMTPL are shown above net of these mandatory deductions.

**AAS BALTA**  
**FINANCIAL STATEMENTS FOR 2012**

(all amounts in Latvian Lats)

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**5. UNEARNED PREMIUM RESERVE**

**a) Movement in unearned premium reserve**

	Gross amount	Reinsurers' share	Net amount
<b>Balance as at 31 December 2010</b>	<b>14 147 441</b>	<b>(122 017)</b>	<b>14 025 424</b>
Change in the year	(126 905)	(46 068)	(172 973)
<b>Balance as at 31 December 2011</b>	<b>14 020 536</b>	<b>(168 085)</b>	<b>13 852 451</b>
Change in the year	664 951	(32 426)	632 525
<b>Balance as at 31 December 2012</b>	<b>14 685 487</b>	<b>(200 511)</b>	<b>14 484 976</b>

**b) Changes in unearned premium reserve and distribution by type of insurance for the year 2012:**

	Gross amount	Reinsurers' share	Net Amount
Personal accident	(21 112)	-	(21 112)
Health	13 820	-	13 820
Motor own damage	625 455	5 099	630 554
Marine	(894)	-	(894)
Cargo	9 546	58	9 604
Property	160 990	(10 290)	150 700
General TPL	16 965	2 448	19 413
Guarantees	17 427	(21 342)	(3 915)
Financial risks	35 014	(8 420)	26 594
Travel accident	110	-	110
Obligatory motor TPL	(192 370)	21	(192 349)
	<b>664 951</b>	<b>(32 426)</b>	<b>632 525</b>

**c) 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)
	<b>(126 905)</b>	<b>(46 068)</b>	<b>(172 973)</b>

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**AAS BALTA****FINANCIAL STATEMENTS FOR 2012**(all amounts in Latvian Lats)

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**NOTES TO THE FINANCIAL STATEMENTS (continued)****d) Gross unearned premium reserve as at the year end:**

	<b>31.12.2012</b>	<b>31.12.2011</b>
Personal accident	422 260	443 372
Health	1 637 634	1 623 814
Motor own damage	5 368 391	4 742 936
Marine	8 453	9 347
Cargo	88 099	78 553
Property	5 066 963	4 905 973
General TPL	586 946	569 981
Guarantees	54 830	37 403
Financial risks	93 909	58 895
Travel accident	11 630	11 520
Obligatory motor TPL	1 346 372	1 538 742
	<u><b>14 685 487</b></u>	<u><b>14 020 536</b></u>

**6. INTEREST INCOME**

	<b>2012</b>	<b>2011</b>
From financial investments at fair value through profit or loss:		
Government bonds	521 965	675 277
Corporate bonds	191 753	278 238
Mortgage backed debt securities	5 250	42 000
From loans and receivables:		
Deposits with banks	82 564	63 465
Loans	-	4
	<u><b>801 532</b></u>	<u><b>1 058 984</b></u>

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

	<b>2012</b>	<b>2011</b>
Government bonds	284 649	(132 438)
Mortgage backed debt securities	(3 018)	(16 519)
Corporate bonds	(44 281)	(122 652)
	<u><b>237 350</b></u>	<u><b>(271 609)</b></u>
	<b>2012</b>	<b>2011</b>
Realised gains / (losses):		
Government bonds	(95 850)	25 486
Corporate bonds	(62 689)	(104 627)
Mortgage	13 020	-
Unrealised gains / (losses):		
Government bonds	380 499	(157 924)
Mortgage backed debt securities	(16 038)	(16 519)
Corporate bonds	18 408	(18 025)
	<u><b>237 350</b></u>	<u><b>(271 609)</b></u>

**AAS BALTA**  
**FINANCIAL STATEMENTS FOR 2012**

(all amounts in Latvian Lats)

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**8. OTHER INCOME**

	<b>2012</b>	<b>2011</b>
Revaluation gains on land and buildings (see Note 18)	-	143 254
Gain on sale of tangible assets	31 680	6 868
Reinsurance commission income (see Note 34)	43 449	33 437
Changes in provisions for overdue debts	36 571	59 679
Expertise income	32 142	16 710
Income from cancellation of policies	28 410	31 920
Commissions from insurance policies fronting	26 552	21 133
Income from rent	8 003	5 248
Income of agreement penalties	5 544	6 209
Income on sale of damaged cars	2 700	3 600
Income from recalculation of income tax and VAT	1 196	6 527
Other income	36 002	39 586
	<b>252 249</b>	<b>374 171</b>

**9. CLAIMS PAID**

	<b>2012</b>			<b>2011</b>		
	<b>Gross amount</b>	<b>Reinsurers' share</b>	<b>Net amount</b>	<b>Gross amount</b>	<b>Reinsurers' share</b>	<b>Net amount</b>
Personal accident	(266 574)	-	(266 574)	(367 478)	-	(367 478)
Health	(4 048 822)	-	(4 048 822)	(3 873 675)	-	(3 873 675)
Motor own damage	(5 173 482)	60 343	(5 113 139)	(5 516 880)	89 974	(5 426 906)
Marine	(7 945)	-	(7 945)	(12 344)	-	(12 344)
Cargo	(410 363)	33 814	(376 549)	(162 111)	-	(162 111)
Property	(5 063 741)	635 452	(4 428 289)	(4 920 532)	257 922	(4 662 610)
General TPL	(237 573)	4 396	(233 177)	(365 046)	-	(365 046)
Guarantees	(9 522)	-	(9 522)	(8 296)	-	(8 296)
Financial risks	(72 826)	17 627	(55 199)	(59 059)	53 105	(5 954)
Travel accident	(162 724)	-	(162 724)	(187 534)	-	(187 534)
Obligatory motor TPL	(2 702 808)	50 128	(2 652 680)	(3 113 299)	51 858	(3 061 441)
	<b>(18 156 380)</b>	<b>801 760</b>	<b>(17 354 620)</b>	<b>(18 586 254)</b>	<b>452 859</b>	<b>(18 133 395)</b>

**10. OUTSTANDING CLAIMS RESERVE**

**a) Movement in outstanding claims reserve**

	<b>2012</b>			<b>2011</b>		
	<b>Gross amount</b>	<b>Reinsurance</b>	<b>Net amount</b>	<b>Gross amount</b>	<b>Reinsurance</b>	<b>Net amount</b>
Year ended 31 December						
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
<b>Total at beginning of year</b>	<b>14 300 538</b>	<b>(4 103 628)</b>	<b>10 196 910</b>	<b>16 369 977</b>	<b>(4 669 091)</b>	<b>11 700 886</b>
Cash paid for claims settled in year	(3 292 156)	137 113	(3 155 043)	(3 432 216)	143 763	(3 288 453)
Changes in liabilities arising from current and prior year claims	3 354 426	(657 579)	2 696 847	1 362 777	421 700	1 784 477
Total change in year	62 270	(520 466)	(458 196)	(2 069 439)	565 463	(1 503 976)
<b>Total at end of year</b>	<b>14 362 808</b>	<b>(4 624 094)</b>	<b>9 738 714</b>	<b>14 300 538</b>	<b>(4 103 628)</b>	<b>10 196 910</b>
Notified claims	11 639 777	(4 624 094)	7 015 683	10 918 167	(4 103 628)	6 814 539
Incurred, but not reported	2 723 031	-	2 723 031	3 382 371	-	3 382 371
<b>Total at end of year</b>	<b>14 362 808</b>	<b>(4 624 094)</b>	<b>9 738 714</b>	<b>14 300 538</b>	<b>(4 103 628)</b>	<b>10 196 910</b>



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**AAS BALTA****FINANCIAL STATEMENTS FOR 2012**(all amounts in Latvian Lats)

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**NOTES TO THE FINANCIAL STATEMENTS (continued)****b) Change in outstanding claims reserve and distribution by type of insurance for the year 2012:**

	<b>Gross amount</b>	<b>Reinsurance</b>	<b>Net amount</b>
Personal accident	6 021	-	6 021
Health	(6 408)	-	(6 408)
Motor own damage	154 900	(3 010)	151 890
Marine	(7 485)	-	(7 485)
Cargo	(127 829)	12 166	(115 663)
Property	1 035 594	(64 261)	971 333
General TPL	(177 928)	65 743	(112 185)
Guarantees	(1 392)	-	(1 392)
Financial risks	(125 287)	-	(125 287)
Travel accident	(12 913)	-	(12 913)
Obligatory motor TPL	(675 003)	(531 104)	(1 206 107)
	<b><u>62 270</u></b>	<b><u>(520 466)</u></b>	<b><u>(458 196)</u></b>

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

	<b>Gross amount</b>	<b>Reinsurance</b>	<b>Net amount</b>
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)
	<b><u>(2 069 439)</u></b>	<b><u>565 463</u></b>	<b><u>(1 503 976)</u></b>

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

	<b>31.12.2012</b>	<b>31.12.2011</b>
Personal accident	59 583	53 562
Health	392 787	399 195
Motor own damage	1 082 694	927 794
Marine	2 919	10 404
Cargo	83 453	211 282
Property	3 056 751	2 021 157
General TPL	646 433	824 361
Guarantees	11 788	13 180
Financial risks	59 231	184 518
Travel accident	59 834	72 747
Obligatory motor TPL	8 907 335	9 582 338
	<b><u>14 362 808</u></b>	<b><u>14 300 538</u></b>

**11. CLIENT ACQUISITION COSTS**

	<b>2012</b>	<b>2011</b>
Commissions and other agent related expense	(2 007 312)	(1 887 886)
Commissions to brokers and other intermediaries	(1 811 487)	(1 596 183)
State compulsory social insurance contributions	(450 315)	(428 250)
Changes in deferred client acquisition costs (Note 17) *	<b>1 807 238</b>	101 156
Other client acquisition costs	(542)	(409)

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**AAS BALTA****FINANCIAL STATEMENTS FOR 2012**(all amounts in Latvian Lats)

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**NOTES TO THE FINANCIAL STATEMENTS** (continued)

\* - during 2012 Pan Baltic initiative was performed to harmonise deferred acquisition cost recognition in line with RSA Group IFRS practices. Change in estimate was applied to DAC recognition including sales payroll and related direct expenses as well as product marketing campaign expenses.

**12. ADMINISTRATIVE EXPENSE**

	<b>2012</b>	<b>2011</b>
Salaries		
- salaries to staff	(4 709 019)	(3 942 994)
- state compulsory social insurance contributions	(926 627)	(841 820)
Information technology and communication expense	(3 148 496)	(3 413 217)
Professional services *	(770 330)	(1 189 090)
Depreciation and amortisation	(929 182)	(856 982)
Premises utility, maintenance and repair expense	(445 469)	(477 255)
Advertising and public relations	(444 129)	(396 433)
Transport	(258 143)	(239 555)
Rent of premises	(244 974)	(251 937)
Payments to Financial and Capital Market Commission	(143 173)	(152 178)
Office expense	(116 041)	(140 641)
Payments to Foundation of Insured Interests Protection	(111 038)	(106 676)
Administration expenses related to Claims Handling Expenses **	556 044	663 833
Other administrative expense	(306 260)	(501 872)
	<u><b>(11 996 837)</b></u>	<u><b>(11 846 817)</b></u>

\* – professional services include also services received from RSA group companies (see Note 35).

\*\* – reclassified to and included in Claims Handling Expenses (see Note 9).

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 0.5% 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 2012, 299 employees (2011: 334) and 353 agents (2011: 385) were employed in the Company. As at 31 December 2012, 265 employees (2011: 299) and 84 agents (2011: 87) were working in the central office, and 34 (2011: 35) employees and 269 (2011: 298) agents in branches.

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

	<b>2012</b>	<b>2011</b>
Personal accident	(442 962)	(418 716)
Health	(1 814 911)	(1 867 083)
Motor own damage	(3 438 380)	(3 034 050)
Marine	(7 486)	(9 494)
Cargo	(102 969)	(99 706)
Property	(3 860 780)	(3 905 869)
General TPL	(467 910)	(431 443)
Guarantees	(19 962)	(10 635)
Financial risks	(56 374)	(52 593)
Travel accident	(261 540)	(215 404)
Obligatory motor TPL	(1 523 563)	(1 801 824)
	<u><b>(11 996 837)</b></u>	<u><b>(11 846 817)</b></u>

**AAS BALTA**  
**FINANCIAL STATEMENTS FOR 2012**

(all amounts in Latvian Lats)

**NOTES TO THE FINANCIAL STATEMENTS** (continued)

**13. OTHER EXPENSE**

	<b>2012</b>	<b>2011</b>
Revaluation losses on land and buildings (see Note 18)	(40 817)	-
Other expense	(11 158)	(20 818)
	<u><b>(51 975)</b></u>	<u><b>(20 818)</b></u>

**14. FINANCE INCOME**

	<b>2012</b>	<b>2011</b>
Interest on cash and cash equivalents	2 266	8 690
Gain from foreign currency fluctuations, net	-	65 439
	<u><b>2 266</b></u>	<u><b>74 129</b></u>

**15. FINANCE EXPENSES**

	<b>2012</b>	<b>2011</b>
Losses from foreign currency fluctuations, net	12 805	-
	<u><b>12 805</b></u>	<u><b>-</b></u>

**16. INCOME TAX EXPENSE**

	<b>2012</b>	<b>2011</b>
Current tax for the reporting year	-	-
Change in deferred income tax balances (Note 23)	76 673	254 223
<b>Total income tax expense</b>	<u><b>76 673</b></u>	<u><b>254 223</b></u>

At the end of December 2012 the Company has corporate income tax assets at the amount of LVL 21 025 (31.12.2011: LVL 384 043).

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

	<b>2012</b>	<b>2011</b>
<b>Losses before tax</b>	<u><b>(1 178 135)</b></u>	<u><b>(2 196 060)</b></u>
Theoretically calculated tax at a tax rate of 15%	176 720	329 409
Non deductible items	(98 838)	(73 169)
Changes Deferred Taxation of Revaluation of property surplus through Equity	(1 209)	(2 017)
<b>Current tax charge</b>	<u><b>76 673</b></u>	<u><b>254 223</b></u>

Effective income tax in 2012 is 6.5% (2011: 11.6%)

**AAS BALTA**  
**FINANCIAL STATEMENTS FOR 2012**

(all amounts in Latvian Lats)

**NOTES TO THE FINANCIAL STATEMENTS** (continued)

**17. INTANGIBLE ASSETS**

	<b>Deferred client acquisition costs</b>	<b>Software</b>	<b>Total</b>
<b>At 31 December 2010</b>			
Cost	2 010 923	4 996 276	7 007 199
Accumulated amortisation	-	(3 974 153)	(3 974 153)
<b>Net book amount</b>	<b>2 010 923</b>	<b>1 022 123</b>	<b>3 033 046</b>
<b>Year ended 31 December 2011</b>			
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
<b>At 31 December 2011</b>			
Cost	2 112 079	5 832 512	7 944 591
Accumulated amortisation	-	(4 250 694)	(4 250 694)
<b>Net book amount</b>	<b>2 112 079</b>	<b>1 581 818</b>	<b>3 693 897</b>
<b>Year ended 31 December 2012</b>			
Opening net book amount	2 112 079	1 581 818	3 693 897
Additions	4 269 656	1 051 280	5 320 936
Disposals	(2 462 417)	-	(2 462 417)
Amortisation charge	-	(461 778)	(461 778)
Closing net book amount	3 919 318	2 171 320	6 090 638
<b>At 31 December 2012</b>			
Cost	3 919 318	6 883 792	10 803 110
Accumulated amortisation	-	(4 712 472)	(4 712 472)
<b>Net book amount</b>	<b>3 919 318</b>	<b>2 171 320</b>	<b>6 090 638</b>

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**AAS BALTA****FINANCIAL STATEMENTS FOR 2012**(all amounts in Latvian Lats)

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**NOTES TO THE FINANCIAL STATEMENTS (continued)****18. PROPERTY, PLANT AND EQUIPMENT**

	<b>Land and buildings</b>	<b>Leasehold improve- ments</b>	<b>Transport vehicles</b>	<b>Computer equipment</b>	<b>Furniture and fittings</b>	<b>Total</b>
<b>At 31 December 2010</b>						
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)
<b>Net book amount</b>	<b>1 680 258</b>	<b>187 877</b>	<b>380 279</b>	<b>257 862</b>	<b>282 225</b>	<b>2 788 501</b>
<b>Year ended</b>						
<b>31 December 2011</b>						
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
<b>At 31 December 2011</b>						
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)
<b>Net book amount</b>	<b>1 771 540</b>	<b>94 144</b>	<b>217 985</b>	<b>153 712</b>	<b>150 324</b>	<b>2 387 705</b>
<b>Year ended</b>						
<b>31 December 2012</b>						
Opening net book amount	1 771 540	94 144	217 985	153 712	150 324	2 387 705
Additions	128 515	20 399	60 583	33 774	62 809	306 080
Disposals	-	(319 466)	(44 284)	(692 091)	(246 726)	(1 302 567)
Depreciation charge: to equity	(221)	-	-	-	-	(221)
Depreciation charge: to income statement	(54 135)	(64 078)	(155 612)	(79 098)	(90 545)	(443 468)
Depreciation on disposed assets	-	319 466	41 316	690 050	229 204	1 280 036
Revaluation surplus: charged to income statement	28 462	-	-	-	-	28 462
Impairment losses: charged to equity	(7 842)	-	-	-	-	(7 842)
Impairment losses: charged to income statement	(69 279)	-	-	-	-	(69 279)
Closing net book amount	1 797 040	50 465	119 988	106 347	105 066	2 178 906
<b>At 31 December 2012</b>						
Cost or valuation	2 490 969	270 385	886 199	1 076 049	686 406	5 410 008
Accumulated depreciation	(693 929)	(219 920)	(766 211)	(969 702)	(581 340)	(3 231 102)
<b>Net book amount</b>	<b>1 797 040</b>	<b>50 465</b>	<b>119 988</b>	<b>106 347</b>	<b>105 066</b>	<b>2 178 906</b>

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**AAS BALTA****FINANCIAL STATEMENTS FOR 2012**(all amounts in Latvian Lats)

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**NOTES TO THE FINANCIAL STATEMENTS** (continued)

All property was for Company's own use.

The Company's land and buildings were revaluated as at 31 December 2012 and 2011. The valuation was made by external independent appraiser using discounted cash flow method and effective date of valuation was 31 December 2012.

Following base assumptions used:

- Rental Income increased during Y2013-2016 by 3.6% annually;
- Maintenance costs and capital expenditures indexed according to annual inflation forecast, i.e. 2.5% in Y2013-2014, and 3% starting from Y2015;
- Vacancy decreased from 20% in Y2013, to 15% in Y2014, 10% in Y2015, and 7.5% starting from Y2016
- The reversionary yield has been calculated using the Net Operating Income from Y2018, when we assume 7.5% vacancy into perpetuity and the gross market value.

Revaluation surplus in total LVL 28 462 (2011: LVL 164 594) and impairment losses in total LVL 69 279 (2011: LVL 21 340) were recognised to the income statement. LVL 7 842 (2011: LVL 21 100) were debited and LVL 0 (2011: LVL 8 063) credited to the revaluation surplus in the equity, net of deferred income tax.

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

	<b>31.12.2012</b>	<b>31.12.2011</b>
Cost	4 170 244	4 041 728
Accumulated depreciation	(788 770)	(706 998)
Net book amount	<u>3 381 474</u>	<u>3 334 730</u>

**19. FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS**

	<b>31.12.2012</b>		<b>31.12.2011</b>	
	<b>Carrying amount</b>	<b>Cost</b>	<b>Carrying amount</b>	<b>Cost</b>
	<b>of investment</b>		<b>of investment</b>	
Latvian government bonds	6 943 119	6 444 165	3 436 334	3 342 237
German government bonds	4 596 308	4 508 049	5 566 402	5 467 135
Swedish government bonds	1 491 787	1 480 051	1 511 895	1 480 051
Danish government bonds	1 305 467	1 285 852	1 317 517	1 285 852
Corporate bonds	3 667 417	3 657 558	5 662 203	5 624 684
Austrian government bonds	-	-	386 475	381 693
Netherlands government bonds	-	-	1 244 453	1 225 839
Finish government bonds	-	-	1 767 511	1 771 374
Mortgage backed debt securities	-	-	818 768	786 980
	<u><b>18 004 098</b></u>		<u><b>21 711 558</b></u>	

The split between current and non-current financial investments at fair value through profit or loss is included in Note 38. Financial investments at fair value through profit or loss in total LVL 11.06 million (31.12.2011: LVL 18.27 million) are in Level 1 fair value hierarchy level and LVL 6.94 million (31.12.2011: LVL 3.44) are in Level 2 fair value hierarchy level in accordance with IFRS 7 definitions.

**20. LOANS**

	<b>31.12.2012</b>			<b>31.12.2011</b>		
	<b>Current</b>	<b>Non-current</b>	<b>Total</b>	<b>Current</b>	<b>Non-current</b>	<b>Total</b>
Mortgage loans	14 878	-	14 878	14 878	-	14 878
	<u><b>14 878</b></u>	<u><b>-</b></u>	<u><b>14 878</b></u>	<u><b>14 878</b></u>	<u><b>-</b></u>	<u><b>14 878</b></u>

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

**AAS BALTA**  
**FINANCIAL STATEMENTS FOR 2012**

(all amounts in Latvian Lats)

**NOTES TO THE FINANCIAL STATEMENTS** (continued)

**21. DIRECT INSURANCE DEBTORS**

	<b>31.12.2012</b>	<b>31.12.2011</b>
Gross receivables from direct insurance operations	5 886 667	5 444 895
Provisions for overdue receivables from direct insurance operations	(75 224)	(95 224)
	<u><b>5 811 443</b></u>	<u><b>5 349 671</b></u>

**22. REINSURANCE DEBTORS**

	<b>31.12.2012</b>	<b>31.12.2011</b>
Gross receivables from reinsurance operations	386 087	301 490
Provisions for overdue receivables from reinsurance operations	-	(2 226)
	<u><b>386 087</b></u>	<u><b>299 264</b></u>

**23. DEFERRED INCOME TAX ASSET**

	<b>2012</b>	<b>2011</b>
Deferred income tax asset as at the beginning of the year	(486 615)	(230 375)
Deferred income tax changes recognised to the income statement (see Note 16)	(76 673)	(254 223)
Deferred income tax changes recognised to equity (see Note 28)	(1 209)	(2 017)
<b>Deferred income tax asset as at the end of the year</b>	<u><b>(564 497)</b></u>	<u><b>(486 615)</b></u>

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:

	<b>31.12.2012</b>	<b>31.12.2011</b>
Temporary difference on depreciation of property, plant and equipment	224 734	139 316
Temporary difference on revaluation of buildings charged to Equity (see Note 28)	-	1 209
Temporary difference for accrued expense	(216 029)	(373 260)
Tax losses	(557 101)	(233 251)
Temporary difference for provisions on overdue debtors	(16 101)	(20 629)
<b>Deferred income tax asset as at the end of the year</b>	<u><b>(564 497)</b></u>	<u><b>(486 615)</b></u>

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

**24. ACCRUED INCOME AND DEFERRED EXPENSE**

	<b>31.12.2012</b>	<b>31.12.2011</b>
Prepayment to IBM for Transition & Transformation services *	2 801 339	3 288 529
Repair works	127 421	226 153
Prepayments for software maintenance	40 684	15 788
Prepayments for rent	21 644	16 096
Prepayments for insurance	6 713	8 881
Prepayments for reinsurance	5 506	73 775
Other deferred expense	6 522	12 259
	<u><b>3 009 829</b></u>	<u><b>3 641 481</b></u>

\* - 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 2 314 thousand will be amortised in following periods.

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**AAS BALTA**  
**FINANCIAL STATEMENTS FOR 2012**

(all amounts in Latvian Lats)

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**NOTES TO THE FINANCIAL STATEMENTS** (continued)

**25. OTHER DEBTORS**

	<b>31.12.2012</b>	<b>31.12.2011</b>
Receivables from other insurance companies for salvage transactions	280 200	339 069
Provisions for other insurance companies for overdue salvage settlements	(60 640)	(73 211)
Receivables from related companies	83 435	58 088
Receivables from suitable scrap buyers	22 437	17 850
Receivables from other insurance companies	21 512	50 000
Receivables from agents	9 737	10 068
Receivables for claims regulation	9 225	10 109
Receivables from Motor Insurers' Bureau of Latvia	2 899	2 955
Overpaid VAT (see Note 29)	-	10 336
Other debtors	111 203	104 914
Accruals for other overdue debtors	(69 215)	(68 732)
	<u><b>410 793</b></u>	<u><b>461 446</b></u>

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

**26. CASH AND CASH EQUIVALENTS**

	<b>31.12.2012</b>	<b>31.12.2011</b>
Cash at bank	<u>1 448 827</u>	<u>1 066 035</u>
	<u><b>1 448 827</b></u>	<u><b>1 066 035</b></u>

AAS Balta does not have bank deposits with original maturity of three months or less as at 31.12.2012 (31.12.2011: LVL 0). The effective interest rate for 2012 on bank deposits with original maturity of three months or less was 0.37% (2011: 0.7%) and has an average maturity of 28 days (2011: 31 days).

**27. SHARE CAPITAL AND RESERVES**

**a) Issued and fully paid share capital**

The total authorised number of ordinary shares is 4 652 067 (2011: 4 652 067), with nominal value of LVL 1 per share (2011: LVL 1 per share). All issued shares are fully paid.

The Company's shares are not listed.

**b) Major shareholder**

The major shareholder of the Company with 4 651 825 (2011: 4 651 825) or 99.99% (2011: 99.99%) shares is Royal & Sun Alliance Insurance PLC.

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.

**28. REVALUATION RESERVE**

	<b>31.12.2012</b>	<b>31.12.2011</b>
Revaluation surplus for land and buildings	-	8 063
Deferred income tax arising on revaluation of land and buildings	-	(1 209)
<b>Total</b>	<u><b>-</b></u>	<u><b>6 854</b></u>



**AAS BALTA**  
**FINANCIAL STATEMENTS FOR 2012**

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**NOTES TO THE FINANCIAL STATEMENTS** (continued)

**29. TAXES AND THE STATE COMPULSORY SOCIAL INSURANCE CONTRIBUTIONS**

	<b>31.12.2012</b>	<b>31.12.2011</b>
State compulsory social insurance contributions	197 542	179 279
Personal income tax	117 061	100 731
Value added tax	171 904	(10 336)
Unemployment risk duty	163	179
<b>Liabilities</b>	<b>486 670</b>	<b>280 189</b>
<b>Overpaid</b> (included in Note 25)	<b>-</b>	<b>(10 336)</b>

During the year the following tax payments have been made:

	<b>2012</b>	<b>2011</b>
State compulsory social insurance payments	2 372 422	2 233 169
Personal income tax	1 435 397	1 250 270
Value added tax	339 747	335 152
Corporate income tax	22 229	383 064
Property tax	18 702	18 227
Unemployment risk duty	2 096	2 177
	<b>4 190 593</b>	<b>4 222 059</b>

**30. ACCRUED EXPENSE AND DEFERRED INCOME**

	<b>31.12.2012</b>	<b>31.12.2011</b>
Accruals for personnel bonuses	421 179	429 729
Accruals for unused annual leave	350 773	355 139
Accruals for Group entities expenses	104 998	1 213 735
Accruals for intermediary commissions	40 676	18 051
Unearned reinsurance commissions	22 563	24 077
Accruals for consulting services	20 568	-
Accruals for audit expenses	17 584	17 730
Accruals for utilities and cleaning services	32 390	29 590
Accruals for IT services	29 261	30 000
Accruals for transport expenses	17 100	18 000
Accruals for other expenses	405 666	376 426
Other deferred income	477	1 791
	<b>1 463 235</b>	<b>2 514 268</b>

**31. OTHER CREDITORS**

	<b>31.12.2012</b>	<b>31.12.2011</b>
Liability for Group entities	1 015 132	44 016
Commissions payable	376 289	352 319
Straight payable	317 231	215 621
Personnel	276 556	299 115
Liability to Finance and Capital Market Commission	66 299	65 629
Liability for payments to Motor Insurers' Bureau of Latvia	21 909	25 521
Other creditors	72 296	33 728
	<b>2 145 712</b>	<b>1 035 949</b>

**32. DIVIDENDS PER SHARE**

No dividend payment is planned to be proposed at the Annual Shareholders' Meeting. In 2011 dividends in total LVL 5 210 315 or LVL 1.12 per share have been paid to the shareholders of AAS BALTA.

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**AAS BALTA****FINANCIAL STATEMENTS FOR 2012**(all amounts in Latvian Lats)

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**NOTES TO THE FINANCIAL STATEMENTS (continued)****33. MANDATORY PAYMENTS**

Types of mandatory payments made during the year:

	<b>2012</b>	<b>2011</b>
Motor Insurers' Bureau of Latvia	121 832	146 658
Finance and Capital Market Commission	235 369	251 378
	<u><b>357 201</b></u>	<u><b>398 036</b></u>

**34. RESULTS OF THE CEDED REINSURANCE**

	<b>2012</b>	<b>2011</b>
Reinsurers' share in premiums (see Note 4)	(1 423 041)	(1 389 459)
Reinsurers' share in changes in unearned premiums (see Note 5)	32 426	46 068
Reinsurers' share in claims (see Note 9)	801 760	452 859
Reinsurers' share in changes in provision for claims (see Note 10)	(520 466)	565 463
Reinsurers' commission income (see Note 8)	43 449	33 437
<b>Net result of ceded reinsurance activities:</b>	<u><b>(1 065 872)</b></u>	<u><b>(291 632)</b></u>

**35. RELATED PARTY TRANSACTION**

A party is related to the Company if:

- (a) directly, or indirectly through one or more intermediaries, the party:
  - controls, is controlled by, or is under common control with, the Company (this includes parents, subsidiaries and fellow subsidiaries);
  - has an interest in the Company that gives it significant influence over the Company; or
  - has joint control over the Company;
- (b) the party is an associate (as defined in IAS 28 Investments in Associates) of the Company;
- (c) the party is a joint venture in which the Company is a venturer;
- (d) the party is a member of the key management personnel of the Company or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

The Parent company of the Company is Royal &Sun Alliance Insurance PLC (UK). The ultimate parent company of the Company is RSA (UK). Codan (Denmark) and Lietuvos Draudimas (Lithuania) are subsidiaries 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***Reinsurance and fronting insurance*

	<b>2012</b>	<b>2011</b>
<b>RSA:</b>		
Fronting insurance premiums	(282 454)	(201 675)
Reinsurance premiums ceded	(65 496)	(102 244)
Fronting insurance commissions received	26 552	21 133
Fronting insurance claims	243 624	66 887
Change of fronting insurance unearned premium reserve	16 204	24 081
Change of fronting insurance deferred client acquisition costs	178	786
Change of fronting insurance claim reserve	(69 270)	(38 363)
	<u><b>(130 662)</b></u>	<u><b>(229 395)</b></u>

**Codan AS:**

Reinsurance premiums ceded	(144 327)	(161 836)
Reinsurance commissions paid	(6 403)	(11 903)
Reinsurance commissions received	7 595	16 702
Change of reinsurance deferred client acquisition costs	6 819	109
Change of reinsurance paid to reinsurance intermediaries	(5 500)	1 577

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

*Other transactions*

	<b>2012</b>	<b>2011</b>
<b>RSA:</b>		
Management consulting services	(977 514)	(1 156 669)
IT consultation	(50 737)	(13 367)
Other services	(59 483)	(14 342)
Training for employees	-	(26 557)
Cost compensation	143 885	60 956
	<u>(943 849)</u>	<u>(1 149 979)</u>
<b>Codan Forsikring AS Esti filiaal:</b>		
Cost compensation	31	-
	<u>31</u>	<u>-</u>
<b>Direct:</b>		
Income from consultation	-	220
	<u>-</u>	<u>220</u>

**b) Balances with related parties**

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

	<b>31.12.2012</b>	<b>31.12.2011</b>
Fronting insurance claims reserves with RSA	468	69 739
Fronting insurance claims with RSA	7 740	71 216
Fronting insurance premiums RSA	(45 744)	(59 505)
Fronting insurance unearned premium reserve	69 932	53 728
Fronting insurance deferred client acquisition costs	(229)	(407)
Recovered loss amounts with Lietuvos Draudimas	-	146
Reinsurance with Codan AS	(4 961)	(71 398)
Receivables from Lietuvos Draudimas	-	254
Receivables from RSA	83 435	57 835
Liabilities to RSA	(1 015 133)	(44 016)
	<u>(904 492)</u>	<u>77 592</u>

**c) Key management remuneration**

In year 2012 the Company has paid remuneration to the Board of Directors in the amount of LVL 598 thousand (2011: LVL 553 thousand).

**36. CONTINGENT LIABILITIES AND COMMITMENTS**

**a) General claims**

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

**b) Litigation**

The Company, like all other insurers, is subject to litigation in the normal course of its business. As at 31 December 2012 there were 31 (31.12.2011: 38) open legal claims against the Company amounting to LVL 2 110 thousand (31.12.2011: LVL 1 973 thousand). The management is of the opinion that no material unprovided losses will be incurred.

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**AAS BALTA****FINANCIAL STATEMENTS FOR 2012**

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**NOTES TO THE FINANCIAL STATEMENTS** (continued)**e) Capital commitments**

The Company does not have any capital commitments as at 31 December 2012.

The Company does not have any non-cancellable operating leases as at 31 December 2012, these can usually be terminated at one to six months notice. Total minimal commitment for lease payments as at 31 December 2012 amounts to LVL 64 thousand (31.12.2011: LVL 75 thousand).

**d) Tax contingency**

The local tax authorities have power to examine tax position of the Company for the previous 3 years (5 years for transfer pricing). The Company's Management believes that the outcome of tax authority's examination would not result in a material impact on the Company's results and operations or financial position.

**37. INSURANCE RISK MANAGEMENT**

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

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

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

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

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

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

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

**Types of insurance contracts*****Motor third party liability insurance.***

It is a compulsory insurance type, whose policy conditions and indemnification rules are prescribed by the Motor Third Party Liability Insurance Act and other related legislation. Insurance premiums for motor third party liability are determined individually for each customer based on 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.

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**AAS BALTA****FINANCIAL STATEMENTS FOR 2012**

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**NOTES TO THE FINANCIAL STATEMENTS** (continued)

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.

The indemnity limit for the medical treatment and repatriation costs of passenger is limited to 100 thousand 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 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.

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**AAS BALTA****FINANCIAL STATEMENTS FOR 2012**

(all amounts in Latvian Lats)

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**NOTES TO THE FINANCIAL STATEMENTS (continued)***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 indemnities along with proper management the risk from this product is small.

Concentration by industry

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

Reinsurance contracts

The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance assets.

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

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

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

Sensitivity to insurance risk

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

Concentration by territory

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

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**FINANCIAL STATEMENTS FOR 2012**

(all amounts in Latvian Lats)

**NOTES TO THE FINANCIAL STATEMENTS** (continued)

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

<b>Year 2012</b>	<b>Latvia</b>	<b>OECD countries</b>	<b>Other countries</b>	<b>Total</b>
<b>Financial assets</b>				
Financial investments at fair value through profit or loss	7 114	10 890	-	18 004
Loans	15	-	-	15
Term deposits with banks	6 162	-	-	6 162
Insurance and reinsurance debtors	5 812	386	-	6 198
Reinsurers' share of outstanding claims reserve	-	4 624	-	4 624
Cash and cash equivalents	1 448	-	-	1 448
Other debtors and accrued income	297	114	-	411
<b>Total financial assets</b>	<b>20 848</b>	<b>16 014</b>	<b>-</b>	<b>36 862</b>
<b>Financial liabilities</b>				
Outstanding claims reserve	(14 363)	-	-	(14 363)
Creditors and accrued expense	(3 948)	(1 364)	-	(5 312)
<b>Total financial liabilities</b>	<b>(18 311)</b>	<b>(1 364)</b>	<b>-</b>	<b>(19 675)</b>
<b>Net financial assets as at 31 December 2012</b>	<b>2 537</b>	<b>14 650</b>	<b>-</b>	<b>17 187</b>
<b>Year 2011</b>				
	<b>Latvia</b>	<b>OECD countries</b>	<b>Other countries</b>	<b>Total</b>
<b>Financial assets</b>				
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
<b>Total financial assets</b>	<b>15 572</b>	<b>22 752</b>	<b>31</b>	<b>38 355</b>
<b>Financial liabilities</b>				
Outstanding claims reserve	(14 301)	-	-	(14 301)
Creditors and accrued expense	(3 518)	(1 595)	(7)	(5 120)
<b>Total financial liabilities</b>	<b>(17 819)</b>	<b>(1 595)</b>	<b>(7)</b>	<b>(19 421)</b>
<b>Net financial assets / (liabilities) as at 31 December 2011</b>	<b>(2 247)</b>	<b>21 157</b>	<b>24</b>	<b>18 934</b>

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:**

	<b>2012</b>	<b>2011</b>
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

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**AAS BALTA****FINANCIAL STATEMENTS FOR 2012**(all amounts in Latvian Lats)

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**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).

**38. 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.

**38.1. 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:**

	<b>31.12.2012</b>	<b>31.12.2011</b>
Latvian government bonds	6 943 119	3 436 334
German government bonds	4 596 308	5 566 402
Austrian government bonds	-	386 475
Swedish government bonds	1 491 787	1 511 895
Netherland government bonds	-	1 244 453
Danish government bonds	1 305 467	1 317 517
Finish government bonds	-	1 767 511
Mortgage backed debt securities	-	818 768
Corporate bonds	3 667 417	5 662 203
Deposits with banks	6 161 594	5 348 135
Loans	14 878	14 878
Cash and cash equivalents	1 448 827	1 066 035
<b>Credit risk</b>	<b>25 629 397</b>	<b>28 140 606</b>



**AAS BALTA****FINANCIAL STATEMENTS FOR 2012**

(all amounts in Latvian Lats)

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

	<b>31.12.2012</b>	<b>31.12.2011</b>
Unearned premium reserve, reinsurers' share	200 511	168 085
Outstanding claims reserve, reinsurers' share	4 624 094	4 103 628
Reinsurance debtors	386 087	299 264
Receivables due from policyholders	5 667 862	5 207 855
Receivables due from intermediaries	143 581	141 816
Other debtors	410 793	461 446
<b>Maximum credit risk</b>	<b><u>37 062 325</u></b>	<b><u>38 522 700</u></b>

**b) Reinsurance risk breakdown by key counterparties**

<b>Reinsurer</b>	<b>2012</b>	<b>S&amp;P</b>	<b>2011</b>	<b>S&amp;P</b>
	Receivables arising from reinsurance operations	Rating	Receivables arising from reinsurance operations	Rating
Swiss Re Group	1 428 042	A+	1 157 566	A+
Munich Re Group	1 169 666	AA-	995 738	AA-
Hannover Re	654 155	AA-	547 033	AA-
SCOR Global P&C	364 907	A+	294 781	A
Caisse Centrale de Reassurances	282 046	A++	240 808	AAA
GeneralCologne Re	266 027	AA+	330 339	AA+
ACE Tempest Re Europe	185 821	AA-	157 487	A+
Liberty Syndicate, Cologne	185 821	A+	157 487	A+
ALD Re	159 460	NR	173 683	NR
Odyssey America Reinsurance Corporation	151 125	A-	124 122	A-
Sirius International Insurance Corporation	144 161	A-	101 569	A-
R + V	102 554	AA-	81 725	A+
RSA	78 140	A	194 683	A
Lansforsakringar Sak, Other	26 604 12 163	A- -	13 956 -	A- -
<b>Reinsurance risk</b>	<b><u>5 210 692</u></b>		<b><u>4 570 977</u></b>	

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

<b>Year 2012</b>	<b>AAA</b>	<b>AA</b>	<b>A</b>	<b>Less than BBB</b>	<b>Non rated</b>	<b>Total</b>
Government bonds	3 170	4 224	-	6 943	-	14 337
Corporate bonds		2 619	457	591	-	3 667
Term deposits with banks*	-	-	6 162	-	-	6 162
Loans	-	-	-	-	15	15
<b>Total investment assets</b>	<b><u>3 170</u></b>	<b><u>6 843</u></b>	<b><u>6 619</u></b>	<b><u>7 534</u></b>	<b><u>15</u></b>	<b><u>24 181</u></b>
<b>Year 2011</b>	<b>AAA</b>	<b>AA</b>	<b>A</b>	<b>Less than BBB</b>	<b>Non Rated</b>	<b>Total</b>
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
<b>Total investment assets</b>	<b><u>7 509</u></b>	<b><u>7 870</u></b>	<b><u>7 426</u></b>	<b><u>4 255</u></b>	<b><u>15</u></b>	<b><u>27 075</u></b>

\*- for local banks without credit rating, parent company credit rating is used.

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**AAS BALTA****FINANCIAL STATEMENTS FOR 2012**(all amounts in Latvian Lats)

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**NOTES TO THE FINANCIAL STATEMENTS** (continued)**38.2. 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):

<b>Year 2012</b>	<b>Without maturity</b>	<b>Up to 12 months</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Financial assets</b>					
Financial investments at fair value through profit or loss	-	2 907	12 278	2 819	18 004
Loans	-	15	-	-	15
Term deposits with banks	-	6 162	-	-	6 162
Insurance and reinsurance debtors	-	6 198	-	-	6 198
Cash and cash equivalents	1 448	-	-	-	1 448
Reinsurers' share of outstanding claims reserve	-	1 403	2 302	919	4 624
Other debtors and accrued income	-	411	-	-	411
<b>Total financial assets</b>	<b>1 448</b>	<b>17 096</b>	<b>14 580</b>	<b>3 738</b>	<b>36 862</b>
<b>Financial liabilities</b>					
Outstanding claims reserve	-	(7 540)	(4 639)	(2 184)	(14 363)
Creditors and accrued expense	-	(5 312)	-	-	(5 312)
<b>Total financial liabilities</b>	<b>-</b>	<b>(12 852)</b>	<b>(4 639)</b>	<b>(2 184)</b>	<b>(19 675)</b>
<b>Net financial assets as at 31 December 2012</b>	<b>1 448</b>	<b>4 244</b>	<b>9 941</b>	<b>1 554</b>	<b>17 187</b>
<b>Year 2011</b>					
<b>Financial assets</b>					
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
<b>Total financial assets</b>	<b>1 066</b>	<b>16 669</b>	<b>19 665</b>	<b>955</b>	<b>38 355</b>
<b>Financial liabilities</b>					
Outstanding claims reserve	-	(7 103)	(6 079)	(1 119)	(14 301)
Creditors and accrued expense	-	(5 120)	-	-	(5 120)
<b>Total financial liabilities</b>	<b>-</b>	<b>(12 223)</b>	<b>(6 079)</b>	<b>(1 119)</b>	<b>(19 421)</b>
<b>Net financial assets / (liabilities) as at 31 December 2011</b>	<b>1 066</b>	<b>4 446</b>	<b>13 586</b>	<b>(164)</b>	<b>18 934</b>

**38.3. 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.

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**AAS BALTA****FINANCIAL STATEMENTS FOR 2012**(all amounts in Latvian Lats)

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**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:

	<b>2012</b>	<b>2011</b>
German government debt securities	0.2%	1.1%
Austrian government debt securities	-	1.1%
Swedish government debt securities	0.1%	0.7%
Latvian government debt securities	2.3%	3.2%
Netherland government debt securities	-	0.8%
Danish government debt securities	0.1%	1.0%
Finish government debt securities	-	0.4%
Other corporate debt securities	0.6%	1.6%
Mortgage backed debt securities	-	5.0%
Deposits with banks	0.8%	2.0%
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 follows:

		<b>2012</b>	<b>2011</b>
Market interest rate and impact on fair value	+1 percent point	(437 336)	(416 165)
	-1 percent point	356 012	408 738

**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.

**AAS BALTA**  
**FINANCIAL STATEMENTS FOR 2012**

(all amounts in Latvian Lats)

**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):

<b>Year 2012</b>	<b>USD</b>	<b>EUR</b>	<b>GBP</b>	<b>LTL</b>	<b>LVL</b>	<b>Other</b>	<b>Total</b>
<b>Financial assets</b>							
Financial investments at fair value through profit or loss	-	11 061	-	-	6 943	-	18 004
Loans	-	-	-	-	15	-	15
Term deposits with banks	-	6 162	-	-	-	-	6 162
Insurance and reinsurance debtors	12	953	-	-	5 233	-	6 198
Cash and cash equivalents	124	311	-	-	1 013	-	1 448
Reinsurers' share of outstanding claims reserve	-	4 390	-	-	233	1	4 624
Other debtors and accrued income	-	26	-	-	385	-	411
<b>Total financial assets</b>	<b>136</b>	<b>22 903</b>	<b>-</b>	<b>-</b>	<b>13 822</b>	<b>1</b>	<b>36 862</b>
<b>Financial liabilities</b>							
Outstanding claims reserve	(6)	(5 167)	(61)	(35)	(9 047)	(47)	(14 363)
Creditors and accrued expense	-	(381)	(1 418)	-	(3 508)	(5)	(5 312)
<b>Total financial liabilities</b>	<b>(6)</b>	<b>(5 548)</b>	<b>(1 479)</b>	<b>(35)</b>	<b>(12 555)</b>	<b>(52)</b>	<b>(19 675)</b>
<b>Net financial assets / (liabilities) as at 31 December 2012</b>	<b>130</b>	<b>17 355</b>	<b>(1 479)</b>	<b>(35)</b>	<b>1 267</b>	<b>(51)</b>	<b>17 187</b>
<b>Year 2011</b>							
<b>Financial assets</b>							
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
<b>Total financial assets</b>	<b>122</b>	<b>27 412</b>	<b>-</b>	<b>-</b>	<b>10 814</b>	<b>7</b>	<b>38 355</b>
<b>Financial liabilities</b>							
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)
<b>Total financial liabilities</b>	<b>(7)</b>	<b>(5 432)</b>	<b>(1 245)</b>	<b>(8)</b>	<b>(12 622)</b>	<b>(107)</b>	<b>(19 421)</b>
<b>Net financial assets / (liabilities) as at 31 December 2011</b>	<b>115</b>	<b>21 980</b>	<b>(1 245)</b>	<b>(8)</b>	<b>(1 808)</b>	<b>(100)</b>	<b>18 934</b>

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 8.3% (2011: 6.5%) of Company's total net financial assets and liabilities.

**39. 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.

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**AAS BALTA****FINANCIAL STATEMENTS FOR 2012**(all amounts in Latvian Lats)

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**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):

	<b>31.12.2012</b>	<b>31.12.2011</b>
Minimum required capital	5 470	5 839
Regulatory capital held according to FCMC regulations	<u>12 309</u>	<u>14 040</u>
Solvency ratio (minimum required is 100%)	<b>225%</b>	<b>240%</b>

**40. 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):

	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>Total</b>
<b>Estimate of cumulative claims</b>												
At end of												
accident year	3 656	3 439	3 712	3 696	7 434	10 082	8 617	7 103	5 165	4 182	4 506	
1 year later	3 458	2 767	2 842	2 840	5 767	8 984	6 858	5 750	4 056	3 291		
2 years later	3 824	2 989	3 386	3 909	5 526	9 944	6 304	5 606	3 873			
3 years later	4 137	3 066	3 229	3 826	6 059	9 426	5 994	5 621				
4 years later	4 333	2 679	3 330	3 874	6 345	9 061	6 167					
5 years later	3 785	2 655	3 305	3 786	6 107	8 921						
6 years later	3 887	2 664	3 307	3 743	5 555							
7 years later	3 821	2 669	3 222	3 675								
8 years later	3 789	2 650	3 186									
9 years later	3 703	2 662										
10 years later	3 564											
<b>Claims paid</b>												
1 year later	3 110	2 457	2 610	3 308	4 537	7 446	4 508	4 178	2 764	2 492		
2 years later	190	118	299	126	329	351	241	252	54			
3 years later	107	33	104	90	199	110	189	299				
4 years later	40	9	46	4	53	21	254					
5 years later	47	8	80	8	47	54						
6 years later	36	4	6	12	13							
7 years later	30	1	30	21								
8 years later	14	-4	-2									
9 years later	-24	-1										
10 years later	-29											
<b>Cumulative claims paid</b>	<b>3 521</b>	<b>2 625</b>	<b>3 173</b>	<b>3 569</b>	<b>5 178</b>	<b>7 982</b>	<b>5 192</b>	<b>4 729</b>	<b>2 818</b>	<b>2 492</b>		
<b>CY (deficiency) / redundancy</b>	<b>140</b>	<b>-12</b>	<b>36</b>	<b>68</b>	<b>552</b>	<b>139</b>	<b>-173</b>	<b>-15</b>	<b>183</b>	<b>891</b>		<b>1 809</b>

**41. 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 2012.

## 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 9 to 45 of the accompanying annual report, which comprise the statement of financial position as of 31 December 2012, and the statement of comprehensive income, 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 2012, 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 set out on page 4-7 of the accompanying annual report for 2012 and have not identified any material inconsistencies between the financial information contained in the management report and the financial statements for 2012.

Deloitte Audits Latvia SIA  
Licence No. 43

Roberts Stūģis  
Member of the Board

Rīga, Latvia  
20 March 2013



  
Jeļena Miļčejenkova  
Certified auditor of Latvia  
Certificate No. 166