



BTA AAS

Annual report

for 2009

Contents

	Page
Information about the Company	3
Management Report	4
Statement of management responsibility	6
Financial statements:	
Statement of Comprehensive Income	7
Statement of Financial Position	9
Statement of Cash Flow	11
Statement of changes in Equity	12
Notes to the financial statements	13
Auditors' Report	73

Information about the Company

Name of company	<i>BTA AAS</i>
Legal status	<i>Insurance Joint Stock Company</i>
Number, place and date of registration	<i>40003159840, was registered in Riga, Latvia, in 1993 as a Joint Stock Insurance Company.</i>
Address	<i>Kr.Valdemāra 63, Riga</i>
Board members and their positions	<i>Gints Dandzbergs – Chairman of the Board Jeļena Alfejeva – Member of the Board Agris Dambeniēks – Member of the Board Jānis Lucaus - Member of the Board from</i>
Council members and their positions	<i>Pauls Dandzbergs – Chairman of the Council Andrejs Galanders – Member of the Council Marts Dandzbergs – Member of the Council</i>
Reporting year	<i>01.01.2009 – 31.12.2009</i>
Information on shareholders	<i>Residents of Latvia</i>
Auditors	<i>KPMG Baltics SIA Vesetas iela 7 Riga, LV-1013 Licence No 55</i>

Management Report

Management report for the annual report for 2009

2009 in the history of Latvian economics was the year of revealing mistakes made during the previous years, at the same time it was the period for reviewing the operational pattern of every company and its readiness to change. The insurance market was also affected by significant changes in 2009. After 17 years of continuous development when each new year brought new clients and increased volumes of business, in the last year, the non-life insurance market faced a dramatic decrease in written insurance premiums – by 28% in comparison with 2008. However, the Company continues to service and pay claims for the policies sold during the “rich years”. Although the claims paid have reduced in absolute value, this reduction is comparatively smaller than that of the premiums. Compared to 2008, the amount of claims paid in the non-life insurance market decreased by 12.9% and amounted to LVL 155.6 million in 2009.

Under such circumstances, clients are likely to appreciate the reliability and financial stability of the insurer more than ever. During the reporting year, BTA has retained its customer base, although in line with the overall market trends the amount of gross premiums of BTA decreased by nearly 34% which eventually slightly decreased the market share BTA – to 23.2%.

The activities of BTA are based on two critical elements – understanding the clients' needs and attempting to foresee trends on the insurance market. Last year, the primary targets of clients included saving money, comparing prices and making justified expenses. In response to the clients' needs, BTA has changed its services and pricing in order to meet the needs of a wider range of clients. As a result, the number of policies sold has decreased only by 10.5%, which demonstrates that BTA insurance services are relevant and demanded in the market.

BTA was actively working on improving the availability of services, maintaining an extensive sales network and developing both remote sales processes and remote claims reporting using the Internet and telecommunication technologies. The research carried out by independent media at the end of 2009 reveals that BTA is the most available insurance company in terms of claims reporting and reviewing. As the activity of clients outside Latvia is increasing, BTA offers a full range of insurance services in the Baltics countries. The key focus in the future will be common servicing standards, development of common supporting infrastructure and maintaining flexibility in the client relationships.

Client support service has been operating for more than three years, enabling BTA clients to receive advice in the case of an insurance occurrence and answers to their questions related to insurance.

A key element in the BTA personnel management is constant improvement of staff competency. The Company organized appropriate staff training which helped achieve the operational results reflected in this annual report. The Company's operations in Latvia, Lithuania and Estonia have significantly facilitated the exchange of experience and improvement of staff competencies.

In 2009, gross written premiums of BTA amounted to LVL 48.28 million and net earned premiums amounted to LVL 53.83 million. In 2009 the Company paid claims in the amount of LVL 32.27 million and net claims incurred amounted to LVL 34.27 million. Loss ratio has increased by 5.5 base points compared to the previous year, amounting to 63.7%. Regardless of the decrease of net operating expenses by LVL 2.27 million in absolute value, in proportion to earned premiums the net operating expenses have increased from 27.9% in 2008 to 30.3% in 2009. In order to decrease this ratio, the Company will focus on it also in the next reporting periods.

Financial stability of the Company is evidenced by several indices. One of the main indices is the amount of technical reserves which jointly with the reinsurance cover and capital ensures the financial stability of the insurer. BTA is the leading insurer in Latvia also in respect of the amount of technical reserves – net technical reserves in 2009 amount to LVL 37.95 million. Although the risks connected with changes in the currency policy have decreased significantly, BTA traditionally maintains a consistently increasing share of EUR denominated investments. As a result of the above principle, at the end of 2009 EUR denominated investments covered 65% of the technical reserve. The reinsurance policy of BTA has not undergone significant changes in 2009 and the structure of reinsurance agreements and the main partners have largely remained the same. In order to decrease the risk concentration with one reinsurer, the number of reinsurers has slightly increased in the most critical obligatory agreements and risks are transferred mainly to companies with credit rating A.

Management Report

BTA is the first among top three companies in Latvia with respect to the largest non-life insurance segments such as motor own damage, motor compulsory third party liability insurance and health insurance.

The financial result of BTA operations in the last year was a profit LVL 4 032 094 that after tax amounts to LVL 3 223 270 which is one of the best indices in the insurance industry in Latvia.

In view of the upcoming implementation of Solvency II in 2012 and in order to secure further development of the Company, the Board recommends to retain at least 75% of the profit of the reporting year undistributed.

In 2009, BTA purchased the shares of UAB BTA Draudimas, increasing its investment in the company to 79.87%. In January 2010, the Company acquired the remaining shares consequently increasing its investment to 100% of shares in one of the leading insurers in Lithuania.

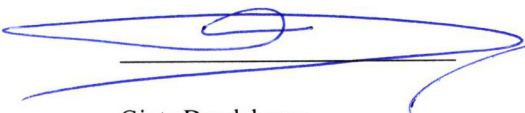
Forecasts for 2010 are based on expected stabilization of the Latvian economy and, consequently, the financial sector, which in the second half of the year is expected not only to act as an intermediary in payments but as a provider of borrowings for productive investments. We are expecting further decrease in the insurance market, as well as increased competition among insurers to divide market segments with comparatively good loss ratios. In 2010, BTA is planning to maintain the amount of premiums close to that of the previous year and stabilize cost indices. Investment income is likely to decrease as a result of decreasing lat interest rates; however, positive revaluation income is expected from state bonds.

During the reporting year, BTA was in compliance with the requirements of the Commercial Law.

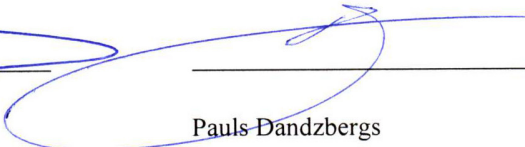
No events have occurred since the year end that according to the Board of BTA may have a significant impact on the financial statement presentation.

We would like to extend our gratitude to all BTA clients, cooperation partners and shareholders for successful cooperation and support, as well as to the staff of the BTA for their investment in the stability and further growth of the Company.


We wish success to everyone in their further activities.



Gints Dandzbergs
Chairman of the Board



Pauls Dandzbergs
Chairman of the Council



Agris Dambeniaks
Member of the Board

31 March 2010

Statement of management responsibility

The insurance joint stock company BTA in 2009 was led by a board of directors consisting of four board members. The Company regularly informed the Council about the processes in the Company and provided all the necessary explanations.

The management assumes the responsibility for the preparation of the accounting records, compliance in the process of booking transactions with the regulating norms applicable to accounting, safekeeping of the assets of the insurance company, as well as the prevention of fraud and other dishonest activities.

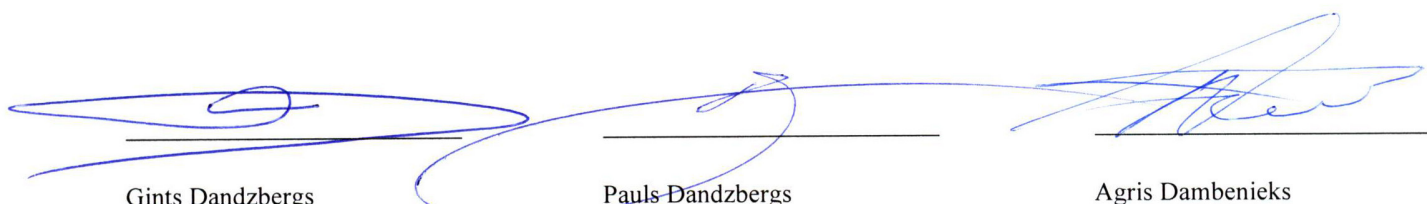
The management is responsible for the preparation of the Company's annual report for 2009 which reflects BTA activities in the period from January 1, 2009 to 31 December 2009.

The management of the Company confirms that the present annual report has been prepared in accordance with the effective legislation norms, the International Financial Reporting Standards as adopted by the European Union, and the requirements of the Financial and Capital Market Commission. The annual report also gives a true and fair view of the insurance company's financial position at the year-end, as well as a true and fair view of the operating results and cash flows of the Company during the reporting year.

The Company's annual report has been prepared based on prudent decisions and assumptions of the management.

The management confirms that the legislative requirements of the Republic of Latvia have been complied with and that the financial statements have been prepared in accordance with the going concern principle.

The management is not aware of any significant events after the year-end, which are not reflected in this annual report and that might have an impact on the further activities of the insurance company and the assessment of the annual report.



Gints Dandzbergs
Chairman of the Board

Pauls Dandzbergs
Chairman of the Council

Agris Dambenieks
Member of the Board

31 March 2010

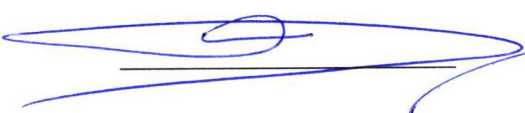
Statement of Comprehensive Income for 2009

	Notes	2009 LVL	2008 LVL
Earned premiums			
Written premiums			
Gross written premiums	5	47 918 343	72 537 305
Reinsurers' share in written premiums	5	(3 954 480)	(3 562 089)
<i>Net written premiums</i>	5	43 963 863	68 975 216
Change in unearned premium and unexpired risk technical reserves			
Gross change	7	10 005 672	(2 838 757)
Reinsurers' share	7	(145 019)	516 645
<i>Change in net unearned premium and unexpired risk technical reserves</i>	7	9 860 653	(2 322 112)
Net earned premiums	6	53 824 516	66 653 104
Other technical income, net	8	84 554	298 050
Premium refunds		-	(4 920)
Incurred claims, net			
Paid claims, net			
Gross claims paid	9	(32 266 250)	(38 205 739)
Paid claims		(32 334 179)	(39 321 286)
Loss adjustment expenses		(1 812 885)	(2 056 244)
Recovered losses		1 880 814	3 171 791
Reinsurers' share of claims paid	9	922 993	1 001 771
<i>Net paid claims</i>	9	(31 343 257)	(37 203 968)
Change in outstanding claim technical reserve			
Change in gross outstanding claim technical reserve	10	(3 388 064)	925 549
Reinsurers' share	10	462 883	(2 494 933)
<i>Change in net outstanding claim technical reserve</i>	10	(2 925 181)	(1 569 384)
Net incurred claims	11	(34 268 438)	(38 773 352)
Operating expenses/ income			
Client acquisition costs	12	(5 004 526)	(7 464 909)
Change in deferred client acquisition costs	13	(1 334 232)	553 009
Administrative expenses	14	(9 982 311)	(11 631 552)
Depreciation and amortisation	25, 26, 27	(426 497)	(422 788)
Reinsurance commission income, net	15	397 466	444 222
Change in unearned reinsurance commission	16	41 052	(55 310)
Net operating expenses		(16 309 048)	(18 577 328)
Other technical expenses, net	17	(727 863)	(550 973)

Statement of Comprehensive Income for 2009

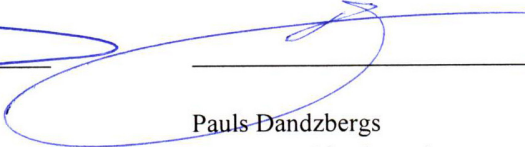
	Notes	2009 LVL	2008 LVL
Investment management charges	18	(87 057)	(189 738)
Interest income and dividend income, net	19	2 239 149	2 064 803
Profit/ (loss) from financial assets and liabilities at fair value through profit or loss, net	20	633 518	(1 575 639)
Loss on foreign currency fluctuation		(91 711)	(81 378)
Revaluation of investment property	26	(712 396)	(154 359)
Impairment loss	21	(359 911)	(2 178 679)
Other expenses, net	22	(193 219)	(168 400)
		4 032 094	6 761 191
Profit before tax			
Income tax expense	23	(808 824)	(1 339 998)
Net profit for the year		3 223 270	5 421 193
Other comprehensive income			
Revaluation of land and buildings		(875 653)	25 559
Deferred tax effects on revaluation of land and buildings		131 348	(3 833)
Other comprehensive income for the year		(744 305)	21 726
Total comprehensive income for the year		2 478 965	5 442 919

The accompanying notes on pages 13 to 72 form an integral part of these financial statements.

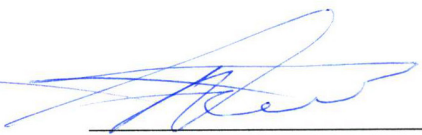


Gints Dandzbergs
Chairman of the Board

31 March 2010



Pauls Dandzbergs
Chairman of the Council



Agris Dambeniaks
Member of the Board

Statement of Financial Position as at 31 December 2009

Assets	Notes	2009 LVL	2008 LVL
<u>Receivables against shareholders for unpaid share capital</u>	39	244 634	-
<u>Land and buildings</u>	26	3 593 417	3 956 424
<u>Property and equipment</u>	25	396 907	530 965
<u>Intangible assets</u>	27	85 567	98 046
<u>Investment property</u>	26	2 388 863	3 072 278
Investment in subsidiary	28	3 334 392	-
Investments in associates	29	245 981	491 963
Investments at fair value through profit or loss			
Shares and other non-fixed income securities	30	3 160 742	2 993 405
Debt securities and other fixed income securities	30	21 072 463	16 378 069
<i>Total investments at fair value through profit or loss</i>		24 233 205	19 371 474
Available-for-sale financial assets			
Shares and other non-fixed income securities	31	185 740	769 854
Deposits with banks	32	13 273 367	17 634 389
<u>Total financial investments</u>		41 272 685	38 267 680
Loans and receivables			
Loans			
Mortgage loans		3 743 299	5 763 452
Other loans		2 404 820	2 558 589
<i>Total loans issued</i>	33	6 148 119	8 322 041
Receivables			
Receivables from direct insurance activities			
Due from policy holders		5 927 097	10 014 437
Due from intermediaries		1 351 340	1 707 335
<i>Total receivables from direct insurance activities</i>	34	7 278 437	11 721 772
Receivables from reinsurance activities	35	540 812	510 564
Other receivables	36	1 003 946	938 719
Prepaid income tax	42	341 053	-
<i>Total receivables</i>		9 164 248	13 171 055
<u>Total loans and receivables</u>		15 312 367	21 493 096
Accrued income and deferred expenses			
Deferred client acquisition costs	13	1 770 959	3 105 191
Other accrued income and deferred expenses		277 263	266 171
<u>Total accrued income and deferred expenses</u>		2 048 222	3 371 362
Reinsurance contract assets			
Reinsurers' share in unearned premiums technical reserves	7	1 454 338	1 599 357
Reinsurers' share in outstanding claim technical reserve	10	3 637 995	3 175 112
<u>Total assets from reinsurance contracts</u>		5 092 333	4 774 469
<u>Cash</u>	37	546 743	1 227 021
Total assets		70 981 738	76 791 341

The accompanying notes on pages 13 to 72 form an integral part of these financial statements.

Statement of Financial Position as at 31 December 2009

Equity and liabilities	Notes	2009 LVL	2008 LVL
Equity			
Share capital	39	10 000 000	6 000 000
Share premium	39	7 219 103	1 219 103
Revaluation reserves	39	1 737 280	2 481 585
Equalisation reserve		26 491	26 491
Reserve capital and other reserves		720 088	698 895
Retained earnings:			
Retained earnings from prior years		256	4 182 733
Current year profit		3 223 270	5 416 986
<u>Total equity</u>		<u>22 926 488</u>	<u>20 025 793</u>
Liabilities			
Technical reserves			
Technical reserves for unearned premiums and unexpired risks	7	23 125 885	33 131 557
Outstanding claim technical reserves	10	19 915 733	16 527 669
<u>Total technical reserves</u>		<u>43 041 618</u>	<u>49 659 226</u>
<u>Subordinated liabilities</u>	40	-	1 053 152
Creditors			
Direct insurance creditors			
Due to policy holders		473 158	762 170
Due to intermediaries		669 190	794 093
<i>Total direct insurance creditors</i>		<u>1 142 348</u>	<u>1 556 263</u>
Reinsurance creditors	43	1 855 798	1 126 765
Income tax liabilities	42	-	971 744
Taxes and social contributions	42	241 618	295 266
Other creditors	44	534 308	833 271
<u>Total creditors</u>		<u>3 774 072</u>	<u>4 783 309</u>
<u>Deferred tax liabilities</u>	41	459 685	459 304
<u>Provisions</u>	46	502 013	491 643
<u>Unearned reinsurance commission income</u>	16	277 862	318 914
<u>Total liabilities</u>		<u>48 055 250</u>	<u>56 765 548</u>
Total equity and liabilities		<u>70 981 738</u>	<u>76 791 341</u>

The accompanying notes on pages 13 to 72 form an integral part of these financial statements.

Gints Dandzbergs
Chairman of the Board

Pauls Dandzbergs
Chairman of the Council


Agris Dambeniēks
Member of the Board

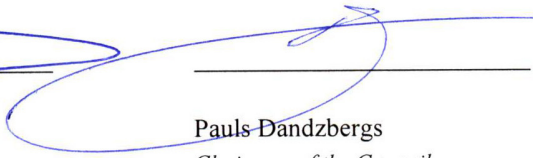
31 March 2010


Statement of Cash Flow for the year ended 31 December 2009

	Notes	2009 LVL	2008 LVL
Cash flow from insurance activities			
Premiums received in direct insurance		45 694 362	69 103 401
Claims paid in direct insurance		(30 990 092)	(36 972 970)
Payments received from reinsurers		1 095 259	467 427
Payments made to reinsurers		(2 840 853)	(1 616 580)
Payments received in assumed reinsurance		622 901	228 830
Payments made for assumed reinsurance		(32 836)	(131 542)
Income tax paid	42	(1 989 892)	(1 050 812)
Obligatory payments	38	(689 469)	(836 745)
Payments to employees		(7 571 355)	(8 435 654)
Payments to intermediaries		(2 158 473)	(2 546 424)
Other payments made		(5 564 246)	(7 013 750)
Other payment received		876 124	913 836
Total cash flow from insurance activities		(3 548 570)	12 109 017
Cash flow from investing activities			
Acquisition of investments:		(135 929 125)	(164 786 579)
Disposal of investments:		135 258 992	150 047 581
Investment income received		2 102 051	1 589 995
Dividends received		3 130	18 974
Total cash flow from investing activities		1 435 048	(13 130 029)
Cash flow from financing activities			
Proceeds in increase in shares		3 612 593	-
Dividends paid		(4 225 930)	-
Total cash flow from financing activities		(613 337)	-
Cash and cash equivalent net decrease		(2 726 859)	(1 021 012)
Effect of exchange rate fluctuations on cash and cash equivalents held		(22 516)	(23 060)
Cash and cash equivalent at the beginning of the year		7 332 849	8 376 921
Cash and cash equivalent at the end of the year	37	4 583 474	7 332 849

The accompanying notes on pages 13 to 72 form an integral part of these financial statements.


Gints Dandzbergs
Chairman of the Board


Pauls Dandzbergs
Chairman of the Council


Agris Dambeniaks
Member of the Board

31 March 2010

Statement of changes in Equity for 2009

	Share capital LVL	Share premium LVL	Revalua- tion reserve LVL	Equalisa- tion reserve	Reserve capital and other reserves LVL	Retained earnings LVL	Profit for the reporting year LVL	Total Equity LVL
31.12.2007	6 000 000	1 219 103	2 459 859	22 284	698 895	179 454	4 003 279	14 582 874
Increase in equalisation reserve	-	-	-	4 207	-	-	(4 207)	-
Transfer of retained earnings	-	-	-	-	-	4 003 279	(4 003 279)	-
Profit for the reporting year	-	-	-	-	-	-	5 421 193	5 421 193
Other comprehensive income								
Increase in revaluation reserve land and buildings	-	-	25 559	-	-	-	-	25 559
Deferred tax effects on revaluation of land and buildings	-	-	(3 833)	-	-	-	-	(3 833)
31.12.2008	6 000 000	1 219 103	2 481 585	26 491	698 895	4 182 733	5 416 986	20 025 793
Issued shares in the reporting year	4 000 000	6 000 000	-	-	-	-	-	10 000 000
Increase in reserve capital and other reserves	-	-	-	-	21 193	(21 193)	-	-
Dividends	-	-	-	-	-	(9 578 270)	-	(9 578 270)
Transfer of retained earnings	-	-	-	-	-	5 416 986	(5 416 986)	-
Profit for the reporting year	-	-	-	-	-	-	3 223 270	3 223 270
Other comprehensive income								
Increase in revaluation reserve land and buildings	-	-	(875 653)	-	-	-	-	(875 653)
Deferred tax effects on revaluation of land and buildings	-	-	131 348	-	-	-	-	131 348
31.12.2009	10 000 000	7 219 103	1 737 280	26 491	720 088	256	3 223 270	22 926 488

The accompanying notes on pages 13 to 72 form an integral part of these financial statements.

Gints Dandzbergs
Chairman of the Board

Pauls Dandzbergs
Chairman of the Council

Agris Dambenieks
Member of the Board

31 March 2010

Notes to the financial statements

(1) General information

(a) Principal activities

Insurance Joint Stock Company BTA AAS (hereinafter the “Company”) offers a wide range of non-life insurance to legal entities and individuals in the following insurance lines:

- motor own damage insurance (CASCO);
- compulsory motor third party liability (CMTPL);
- health;
- property (fire risks);
- property (other risks);
- travel accident;
- general third party liability;
- various financial risks;
- cargo;
- personal accident insurance;
- railway;
- marine;
- guarantees; and
- motor voluntarily third party liability.

The head office is located in Riga, Kr. Valdemara iela 63, Latvia. Insurance services are offered through the network of branches, agencies and sales points in Latvia and abroad.

(b) Shareholders

The Company was registered in Riga, Latvia, in 1993 as a Joint Stock Insurance Company. Shareholders of the Company are residents of Latvia – 1 legal entity and 10 individuals.

The Company has a 79.78% interest in a subsidiary, BTA Draudimas UAB, legal address – Verkiu 29-18, Vilnius, Lithuania (2008: 19.99%).

(c) Investment in associate and subsidiary

The Company has a 24.5% interest in an associated company, OOO KROHA, Gagarina 74 -76A, Kaliningrad, Russian Federation (2008: 49%).

The Company also has branches abroad. The legal address of the branch in Estonia is Peterburi tee 2F, Tallinn 11415 and Lithuania, legal address - Verkiu 29-18, Vilnius. The financial results of the branch are included in the operational results of the Company.

The financial statements were approved by the Board of Directors on 31 March 2010. The financial statements will be approved by the annual shareholders’ meeting which has the power to amend the authorised financial statements.

(2) Basis of preparation

(a) Statement of compliance

The accompanying financial statements have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) as adopted by the European Union.

The financial statements are also compliant with the regulations of the Financial and Capital Market Commission of Latvia (“FCMC”) in force as at the reporting date.

The Company also prepares consolidated financial statements for the same period in accordance with IFRS as adopted by the European Union.

(b) Functional and Presentation Currency

The amounts presented in these financial statements are in Latvian lats (LVL), the monetary unit of the Republic of Latvia and the functional currency of the Company, unless otherwise stated.

Notes to the financial statements

(c) Reporting period

Reporting period includes 12 months from January 1, 2009 to December 31, 2009.

(d) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following items which are carried at fair value: derivatives, financial assets and liabilities designated at fair value through profit or loss, available-for-sale instruments (except those whose fair value cannot be reliably estimated), investment property and land and buildings that are re-valued periodically.

Consistent accounting principles have been applied to the financial years disclosed in these financial statements, except as described below.

(3) Significant accounting policies

3.1 Changes in accounting policies

New standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 January 2009, and which the Company has applied:

- IAS 1(revised), 'Presentation of financial statements'. The revised standard requires the presentation of items of income and expenses (that is 'non-owner changes in equity') separately from owner changes in equity. All 'non-owner changes in equity' are shown in a statement of comprehensive income. Owner changes in equity are shown in equity.

Management elected to present one combined statement of comprehensive income under this standard.

Comparative information has been re-presented so that it also is in conformity with the revised standard.

Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

- Amendments to IFRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2009) aim at requiring enhanced disclosures about fair value measurements and liquidity risk associated with financial instruments. These amendments have been adopted by the Company to the extent applicable to the Company's operations. Comparative information has been re-presented so that it also is in conformity with the revised standard.

Other mandatory new standards for were not relevant to the company

New standards and interpretations not yet adopted

A number of a new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2009, and have not been applied in preparing these financial statements:

Revised IFRS 3 Business Combinations (effective for annual periods beginning on or after 1 July 2009) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. As the revised Standard should not be applied to business combinations prior to the date of adoption, the revised Standard is expected to have no impact on the financial statements of the Company with respect to business combinations that occur before the date of adoption of the revised Standard.

Amended IAS 27 Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2009) requires the term minority interest to be replaced by non-controlling interest, which is defined as "the equity in a subsidiary not attributable, directly or indirectly, to a parent". The revised Standard also amends the accounting for non-controlling interest, the loss of control of a subsidiary, and the allocation of profit or loss and other comprehensive income between the controlling and non-controlling interest. The management has not yet determined the impact these changes will have on the Company's financial statements.

Amendment to IAS 39, Financial Instruments: Recognition and Measurement – Eligible Hedged Items (effective for annual periods beginning on or after 1 July 2009): clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. In designating a hedging relationship the risks or portions must be separately identifiable and reliably measurable; however, inflation cannot be designated, except in limited

Notes to the financial statements

circumstances. The amendments to IAS 39 are not relevant to the Company's financial statements as the Company does not apply hedge accounting.

IFRIC 12 Service Concession Agreements (effective for annual financial statements for periods beginning on or after 1 January 2008, as issued by IASB; but effective for periods on or after 1 April 2009, as adopted by EU) applies to service concession operators that are private sector entities operating under public-to-private service concession arrangements. This interpretation explains how to account for the obligations undertaken and rights received in service concession arrangements. As the Company does not operate under service concession agreements, this Interpretation does not have any impact on the Company's results of operations and financial position.

IFRIC 15 Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009, as issued by IASB, but effective for annual periods beginning on or after 1 January 2010, as adopted by EU): IFRIC 15 clarifies that revenue arising from agreements for the construction of real estate is recognised by reference to the stage of completion of the contract activity in the following cases: the agreement meets the definition of a construction contract in accordance with IAS 11.3, the agreement is only for the rendering of services in accordance with IAS 18 (e.g., the entity is not required to supply construction materials); and the agreement is for the sale of goods but the revenue recognition criteria of IAS 18.14 are met continuously as construction progresses. In all other cases, revenue is recognised when all of the revenue recognition criteria of IAS 18.14 are satisfied (e.g., upon completion of construction or upon delivery). IFRIC 15 is not relevant to the Company's financial statements as the Company does not provide real estate construction services or develop real estate for sale.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008, as issued by IASB, but effective for annual periods beginning on or after 1 July 2009, as adopted by EU): the Interpretation explains the type of exposure that may be hedged, where in the group the hedged item may be held, whether the method of consolidation affects hedge effectiveness, the form the hedged instrument may take and which amounts are reclassified from equity to profit or loss on disposal of the foreign operation. IFRIC 16 is not expected to be applicable to the Company's financial statements.

IFRIC 17 Distributions of Non-cash Assets to Owners (effective prospectively for annual periods beginning on or after 1 July 2009, as issued by IASB, but effective prospectively for annual periods beginning on or after 1 November 2009, as adopted by EU): the Interpretation applies to non-reciprocal distributions of non-cash assets to owners acting in their capacity as owners. In accordance with the Interpretation a liability to pay a dividend shall be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity and shall be measured at the fair value of the assets to be distributed. The carrying amount of the dividend payable shall be remeasured at each reporting date, with any changes in the carrying amount recognised in equity as adjustments to the amount of the distribution. When the dividend payable is settled the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable shall be recognised in the statement of comprehensive income. As the Interpretation is applicable only from the date of application, it will not impact on the financial statements for periods prior to the date of adoption of the interpretation. Further, since it relates to future dividends that will be at the discretion of the shareholders it is not possible to determine the effects of application in advance.

IFRIC 18 Transfers of Assets from Customers (effective prospectively for annual reports beginning on or after 1 July 2009, as issued by IASB, but effective prospectively for annual periods beginning on or after 1 November 2009, as adopted by EU): the Interpretation provides clarification and guidance on the accounting for transfers of items of property, plant and equipment from customers, or cash to acquire or construct an item of property, plant and equipment. As the Interpretation is applicable only from the date of application, it will not impact on the financial statements for periods prior to the date of adoption of the interpretation.

Amendment to IAS 32 Financial instruments: Presentation – Classification of Rights Issues (effective for annual periods beginning on or after 1 February 2010) clarifies how to account for certain rights when the issued instruments are denominated in a currency other than the functional currency of the issuer. If such instruments are issued pro rata to the issuer's existing shareholders for a fixed amount of cash, they should be classified as equity even if their exercise price is denominated in a currency other than the issuer's functional currency. The amendment is not relevant to the Company's financial statements as the Company has not issued such instruments at any time in the past.

Notes to the financial statements

3.2 Foreign currency, foreign currency transactions

Foreign exchange transactions including transactions of the foreign branches are translated to lats in accordance with the exchange rate set by the Bank of Latvia on the date of the respective transaction. Monetary assets and liabilities, including off-balance-sheet assets and liabilities denominated in foreign currencies are retranslated into lats in accordance with the exchange rate set by the Bank of Latvia on the last date of the reporting period. Non monetary assets and liabilities denominated in foreign currency that are measured at fair value or cost are translated at the exchange rate as at the date fair value or cost was determined.

Profit or loss relating to fluctuations in the exchange rate on assets and liabilities denominated in a foreign currency are recognised as profit or loss in the period in which the fluctuation occurs.

Foreign exchange rates for the key currencies at the end of the reporting period were the following (LVL vs 1 unit of foreign currency):

	31.12.2009	31.12.2008
EUR	0.702804	0.702804
USD	0.4980	0.4950
EEK	0.0449	0.0449
LTL	0.2040	0.2030
PLN	0.1690	0.1710
RUB	0.0164	0.0171

3.3 Insurance contracts

(a) Classification of insurance contracts

An insurance contract signed by the insurer is classified as an insurance contract only if it transfers a significant insurance risk from the policy holder to the insurer. All contracts concluded are classified as non-life insurance contracts and the Company does not conclude any investment contracts.

Non-life insurance contracts include the following contracts:

- in which the insurer assumes substantial insurance risk on behalf of the other contracting party – the policy holder, by agreeing to compensate losses to the policy holders if a certain unexpected future event (insured occurrence) has been previously agreed, which adversely impact the policy holder. An unexpected future event is considered to be a situation when at the time of signing the insurance contract is not known:
 1. whether the insured occurrence will occur;
 2. when it will occur;
 3. how much the insurer will have to pay if it occurs.
- in which the insured event is the discovery of a loss during the term of the contract, even if the loss arises from an event that occurred before the inception of the contract
- in which the insured event is an event that occurred during the term of the contract, even if the resulting loss is discovered after the end of the contract term.
- which comprise events, which have already occurred, but whose financial impact is not yet fixed. For example, reinsurance contracts that protect direct insurance from the adverse development of claims already reported by the policy holder.
- which require or permit payment in kind, i.e., the insurer directly replaces a stolen thing rather than compensates the claim to the policy holder in money.
- which stipulate a fixed charge services, in which the service level depends on an unexpected event. Fixed charge services are based on the number of expected equipment malfunctions, but it cannot be fixed on whether some specific equipment will not function.
- in which one insurer (reinsurer) compensates the losses of one or several contracts closed with other insurers (cedents).

Notes to the financial statements

Recognition and evaluation of insurance contracts

A contract, which is deemed to be an insurance contract, remains an insurance contract, until all rights and liabilities are paid off or their validity period has expired. A contract, if in form and substance an insurance contract, may not be requalified to another contract.

When classifying insurance contracts for accounting purposes, the basis is the substance of transfer of insurance risk and common signs of possible risk. For example:

- insurance of persons against personal accidents
- travel insurance
- insurance against property damage or thefts
- motor vehicle insurance
- general third party liability (TPL) insurance

Each of these contract groups may be divided in more detail by taking into account the substance of the transferred insurance risk.

(b) Insurance premium and premium income

Written premiums include the amounts, which are due for the insurance contracts signed during the reporting year, that have come into force in the reporting year irrespective whether these premiums have been received or not. Premiums written are decreased by premiums cancelled during the reporting period. Premiums are disclosed gross of commission payable to intermediaries and exclude taxes and levies based on premiums.

The earned portion of premiums received is recognised as revenue. Premiums are earned from the date of attachment of risk, over the indemnity period, based on the pattern of risks underwritten. The unearned portion of premiums is recognised as a technical reserve.

Outward reinsurance premiums are recognised as an expense in accordance with the pattern of reinsurance service received and the portion of reinsurance expenses attributable for future periods are recognised as assets under the reinsurance part of the unearned premium reserve.

Premium refunds

Premium refunds represent a proportion of premium that becomes contractually refundable to policy holders in the event that no claims are made under the respective insurance contract.

(c) Unearned premium and unexpired risk reserves

Unearned premium reserves (UPR)

Unearned premium reserves represent the proportion of premiums written which relate to the period of risk subsequent to the accounting year. Reserves are calculated for each insurance policy under the 365- day Pro Rata Temporis method based on the period in force for a particular policy.

Unexpired risk reserve (URR)

A reserve is made for unexpired risks arising from the general insurance contracts where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the reporting period end date exceeds the unearned premiums reserve in relation to such policies after the deduction of any deferred acquisition costs. The reserve for unexpired risks is calculated by reference to the classes of business which are managed together, after taking into account the future investment return on investments held to back the unearned premiums and unexpired claims reserve.

(d) Claims incurred

Claims incurred from insurance activities are claims attributable to the reporting period and consist of claims paid in the financial year, the corresponding claim handling expenses (loss adjustment expenses) and changes in the claim reserves. Claims paid are decreased by the amount of losses recoverable through cession or sales of salvage, or subrogation.

Notes to the financial statements

(e) Outstanding claim technical reserves

An outstanding claim technical reserve comprise reserves for the Company's estimate of the ultimate cost of settling all claims incurred but unpaid at the period end date whether reported or not, and the related internal and external claims handling expenses. Reserves for non-life claims outstanding are not discounted, with the exception of annuities which may arise from third part liability insurance.

Reported but not settled claims reserve (RBNS)

The RBNS claims reserve is calculated on a case-by-case basis by the Company's loss adjusters for claims reported and not yet settled (including loss adjustment expenses) as at the reporting date.

Incurred but not reported claims reserve (IBNR)

IBNR is calculated in respect of claims incurred but not reported prior to the end of the reporting period.

The IBNR reserve is calculated using statistical methods (triangulation, coefficient methods or modifications thereof) for the following lines of insurance:

- motor own damage insurance;
- property insurance (fire risks);
- property insurance (other risks);
- personal accident insurance;
- travel accident insurance;
- general third party liability;
- cargo insurance;
- various financial risks;
- health insurance

A combined triangulation and loss rate method was used in the calculation of the IBNR reserve for motor compulsory third party liability.

Where available statistics are considered to be insufficient, IBNR reserve is calculated as a percentage of premiums (5-10%) written in last 12 months for the following lines of business:

- marine insurance;
- voluntary motor third party liability insurance;
- marine third party liability insurance;
- guarantees;
- railway insurance;
- aircraft insurance;
- aircraft third party liability insurance;
- credit risk insurance.

(f) Equalisation reserve

An equalisation reserve is established in order to seek to equalise the future loss ratio in an insurance line where the loss ratio may be significantly different from year to year, as a result of future claims. Equalization reserve is a component of Company's equity and is accounted for as an allocation of equity.

(g) Reinsurance

Assumed reinsurance

An assumed reinsurance contract is a type of insurance contract where the insurance risk is assumed from another insurer. Consequently, all references to insurance contracts refer also to reinsurance assumed.

Ceded reinsurance

The Company cedes reinsurance in the normal course of business for the purpose of limiting its potential net loss through the diversification of its risks. Assets, liabilities and income and expense arising from ceded reinsurance contracts are presented separately from the related assets, liabilities, income and expense from

Notes to the financial statements

the related insurance contracts because the reinsurance arrangements do not relieve the Company from its direct obligations to its policyholders.

Reinsurance assets include the recoveries due from reinsurance companies in respect of claims paid and the reinsurance share in the technical insurance reserves.

The reinsurance share of the incurred but not reported claims technical provision in the case of non-proportional or proportional facultative reinsurance contracts are not recognised for ceded reinsurance contracts as the reinsurance asset cannot be reliably measured.

Reinsurance commissions and profit participations include commissions received or receivable from reinsurers and profit participations based on the reinsurance contracts. Non-life reinsurance commissions are deferred in a manner consistent with the deferral of acquisition costs in non-life insurance.

(h) Client acquisition costs

Client acquisition costs include commissions paid to intermediaries and other expenses related to the acquisition of insurance policies.

Deferred client acquisition costs, primarily consisting of intermediary commissions are deferred to the extent that they are recoverable out of future margins and are recognised as expenses over the life of the insurance policies.

(i) Allocation of administration expenses among insurance types

The allocation of administrative expenses to claims costs, client acquisition costs and investment costs is made according to the Company's policy, which is based on the expenses incurred in different cost centres.

Administration expenses, which are not directly referred to in a specific type of insurance, are distributed among types of insurance in proportion to the volume of the premiums written.

(j) Liability adequacy test

Management assesses at each reporting date the adequacy of its recognised insurance liabilities using current estimates of future cash flows arising from its insurance contracts, and comparing those estimated future cash flows against the carrying amount of liabilities after the deduction of the deferred acquisition costs.

If the liability adequacy test shows a deficiency in the carrying amount of liabilities, the deficiency is recognised as a loss for the financial year first by reducing the deferred acquisition costs and then by setting aside additional unexpired risk reserves.

The liability adequacy test is applied by lines of business to the gross amounts of reserves, i.e. the effect of reinsurance is not taken into account.

(k) Insurance receivables and payables

Amounts due to and from policyholders, agents and reinsurers are financial instruments and are included in insurance receivables and payables, and not in insurance contract provisions or reinsurance assets.

3.4 Financial instruments

(a) Classification

At inception, all financial instruments are classified into one of the following categories:

Financial instruments at fair value through profit or loss are financial assets or liabilities that are acquired or incurred principally for the purpose of selling or repurchasing in the near term; or that are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or that are a derivative (except for a derivative that is a designated and effective hedging instrument); or that are upon initial recognition, designated by the entity as at fair value through the profit or loss. These include groups of financial assets designated at fair value through profit and loss which are managed and performance evaluated on a fair value basis, in accordance with the Company's documented investment strategy and information about the group internally on that basis is provided to key management personnel.

Notes to the financial statements

Available-for-sale assets are financial assets classified at inception as available for sale or assets other than classified as held for trading, held to maturity or loans and receivables. Available for sale instruments include short term investments and certain debt and equity securities. Generally, this category is assigned by the Company to financial assets that are held for an indeterminate period of time and may be sold based on liquidity or interest rate needs, or as a result of changes in exchange rates and share prices.

Held-to-maturity financial instruments are non-derivative financial assets with fixed or determinable payments and a fixed maturity with respect to which the Company has a positive intent and ability to hold to maturity. The Company did not classify any financial instruments to this category in 2009 (2008: nil).

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables include loans, term deposits with banks and debtors in the statement of financial position. Insurance receivables are classified in this category.

Financial liabilities carried at amortised cost represent financial liabilities of the Company other than financial instruments designated at fair value through profit or loss. This category includes due to creditors balances.

Derivative financial instruments

The Company uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Company does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments are initially recognised in the statement of financial position and subsequently stated at their fair value. Fair values are obtained from quoted market prices or discounted cash flow models as appropriate. All derivatives are carried as assets when their fair value is positive and as liabilities when negative.

Changes in the fair value of derivatives are included in net gains and losses on financial instruments designated at fair value through profit or loss.

The Company has no embedded derivatives in its insurance contracts as at 31 December 2009 and 2008 respectively.

(b) Recognition and derecognition

Financial instruments are recognised when the Company becomes a party to the contractual rights of the instrument. All regular way purchase and sales of financial assets are recognised in the statement of financial position on the transaction date representing the date when the financial asset is delivered. In the period between the dates of transaction and settlement, the Company accounts for the changes in the fair value of the received or transferred asset based on the same principles used for any other acquired asset of the respective category.

Financial assets are derecognised when the rights to receive cash flows from the financial asset have expired or where the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

(c) Initial and subsequent measurement

Financial instruments are initially measured at fair value and except for financial instruments at fair value through profit or loss include directly attributable transaction costs.

Subsequent to initial measurement, all financial assets and liabilities designated at fair value through profit or loss and all available for sale financial assets are measured at fair value except those instruments for which no reliable fair value measurement is possible. In this case, such instruments are carried at cost less transaction expenses and impairment.

All financial liabilities other than financial instruments designated through profit or loss, loans and receivables, deposits with banks and held to maturity assets are measured at amortised cost using the effective interest rate method. All instruments are subject to revaluation when impaired. Short term receivables and payables are not discounted.

Notes to the financial statements

Profit or loss arising from changes to the fair value of financial instruments designated through profit or loss is recognised in the statement of comprehensive income. Differences arising from changes to the fair value of available for sale financial instruments are recognised through other comprehensive income, except of impairment which is recognised in statement of comprehensive income.

(d) Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The fair value of financial instruments that have a quoted market price in an active market is determined based on the quoted price on the reporting date or the last working date of the respective market. Where reference to an active market for a financial instrument is not possible, discounted cash flows techniques are used or other measurement models available in the respective market provided if the use of such models may ensure a reliable estimate of the fair value.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimate and the discount rate is a market rate related to the reporting period end date for a financial instrument with similar terms and conditions. Where a pricing model is used, inputs are based on market related measures at the reporting period end date.

The fair value of non-exchange-traded derivatives is estimated at the amount that the Company would receive or pay to terminate the contract at the reporting period end date taking into account the current market conditions and the current creditworthiness of the counterparties.

Fair value for all financial instruments carried at fair value was measured based on market price.

(e) Subsidiary

A subsidiary is an enterprise controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Investments in subsidiary are valued at cost less any impairment losses.

(f) Investments in associates

Associates are those entities in which the Company has significant influence, but no control, over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20 to 50 percent of the voting power of another entity. The Company's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. Since the Company prepare consolidated financial statements, in the Company's separate financial statements investment in associate is measured at cost.

(g) Sale of assets under agreements to repurchase (repo agreements)

Transactions of asset sales with repurchase are recognised as financing transactions. If the Company is involved in these transactions as a seller of assets, then it continues to recognise the sold assets in its statement of financial position using the same accounting principles as for the assets of its own. The funds received as a result of sale are recognised as liabilities towards the mentioned purchaser of the assets.

If the Company is involved in the asset sales transaction with repurchase as a purchaser, then the purchased assets are not recognised in the Company's statement of financial position, but the purchase price paid as a result of transaction is recognised as a claim against the seller of assets. Interest income or expenses as a result of transactions are recognised in the profit or loss statement during the operation of respective contract.

Notes to the financial statements

3.5 Impairment

(a) Financial assets

At each reporting period end date the Company assesses whether there is objective evidence that the financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

The Company considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are individually assessed for impairment. All individually significant assets which are not assessed as impaired are then collectively assessed for any impairment that has been incurred but not yet identified at the reporting period end date.

Insurance receivables that are overdue are reversed against premium income once the policy is cancelled. No impairment allowances are recognised in respect of amounts that have not yet become due if no portion of the premium is taken to income.

Other debtors are stated at the recoverable amount. Impairment allowances are recognised on doubtful receivables.

(b) Non financial assets

Non financial assets, other than deferred taxes and deferred acquisition costs, are assessed at each reporting date for any indications of impairment. In the presence of such evidence, the Company estimates the recoverable amount of the related asset. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognised in the statement of comprehensive income and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.6 Property and equipment

Property and equipment are disclosed at cost less accumulated depreciation and impairment. Depreciation is calculated using a linear method over the entire useful life of the respective asset in order to write their value down to the residual value at the end of the useful life based on the following rates:

Office equipment	20% per year
Computers, electrical equipment	35% per year
Vehicles	20% per year
Buildings for own use	5% per year

Buildings used for the Company's operating activities are initially stated at cost less depreciation. Later buildings for own use are carried at a revalued amount, being its fair value at the date of revaluation (deemed cost) less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The increase of value resulting from revaluation is recognised under "Revaluation reserve" in other comprehensive income. Valuations are carried out by independent valuers.

Maintenance costs of property, plant and equipment are recognised as profit or loss as incurred. Costs of capital repairs of property and equipment (leasehold improvements) are added to the value of the respective asset and written off over the useful lifetime of the asset. Capital repair costs on leased property, plant and equipment are written off on a straight line basis during the shorter of the useful lifetime of the capital repairs and the period of lease.

Notes to the financial statements

Profit or loss from disposal of property and equipment is calculated as the difference between the book value of the asset and income generated from sale, and reflected as profit or loss in the comprehensive income statement when disposed.

Depreciation methods, useful lives and residual values are reviewed annually.

3.7 Intangible assets

Software licences

Software licences are capitalised. Software licences are recorded at cost including acquisition and implementation costs less accumulated amortisation and impairment. Amortisation is calculated using the linear method over the entire useful life of the respective asset in order to write their value down to the estimated residual value at the end of the useful life based on a 20% per year rate.

3.8 Investment property

Land and buildings held either to earn rental income or for capital appreciation or both are classified as investment property and are measured at fair value, with any change therein recognised in the profit or loss statement.

The fair values are based on market values, being the estimated amount at which a property could be exchanged on the date of valuation between a willing buyer and willing seller in an arm's length transaction after proper marketing. An external independent valuation expert, having a recognised professional qualification and experience, values each investment property in order to reflect market conditions at the reporting period end date.

Transfers to or from investment property are made when there is a change in use.

When an item of property, plant and equipment is transferred to investment property following a change in its use, any differences arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is recognised directly in other comprehensive income if it is a gain. Upon disposal of the item the gain is transferred to retained earnings. Any loss arising in this manner is recognised in the statement of comprehensive income immediately.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment and its fair value at the date of reclassification becomes its deemed cost for subsequent accounting.

3.9 Repossessed assets

As part of the normal course of business the Company occasionally takes possession of property that originally was pledged as security for a loan. When the Company acquires (i.e. gains a full title to) a property in this way, the property's classification follows the nature of its intended use by the Company. When the Company is uncertain of its intentions with respect to property that it has repossessed, those properties are classified as investment property.

Repossessed assets are valued at lower of cost and net realizable value

3.10 Leases

The Company as lessor

Rental income from an investment property leased out under an operating lease is recognised on a straight-line basis over each lease term.

The Company as lessee

Operating lease payments are recognised in the statement of comprehensive income on a straight-line basis over the lease term. Discounts received are recognised in the statement of comprehensive income as a significant part of the total lease expenses.

The Company does not have assets under a finance lease (2008: nil).

3.11 Corporate income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income.

Notes to the financial statements

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date (15% 2009 and 2008), and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying value of assets and liabilities in the financial statements (financial reporting purposes) and the amounts used for tax purposes. These differences have mainly occurred from the different depreciation rates of property and equipment applied, which are used for tax accounting and financial accounting and provisions made. Deferred tax has been recognised by applying the statutory tax rate 15%.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are not discounted.

3.12 Cash and cash equivalents

In the cash flow statement cash and cash equivalents comprise cash in hand, demand deposits, overnight deposits and term deposits with banks with the initial maturity term less than three months. In the cash flow statement, cash flows are presented using the direct method.

3.13 Dividends

Dividends are reflected as an appropriation of retained earnings in the period in which they are declared.

3.14 Related parties

Related parties are defined as shareholders of the Company, members of the Board and the Supervisory Council, their close relatives and companies in which board members, council members and senior management have a significant influence or control.

3.15 Employee benefits

Short term employee benefits, including salaries and social security contributions, bonuses and vacation benefits are included in net operating expenses on an accrual basis as the services are provided. The Company pays fixed social security contributions to State Social Fund on behalf of its employees during the employment period in accordance with local legal requirements and will have no obligations to pay further contributions relating to employee services in respect of retired employees.

3.16 Provisions

A provision is recognised if, as a result of a past event, the company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

3.17 Subordinated liabilities

Subordinated liabilities are financial liabilities for which it has been contracted that in case of liquidation, bankruptcy, forced settlement or other settlement, they will be settled only after claims of other creditors have been discharged, but before claims of share holders of the Company are satisfied.

Subordinated liabilities are recognised initially at fair value net of transaction costs incurred and subsequently carried at amortised cost. The amortised cost of subordinated debt is the amount at which the financial liability was measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation of any difference between that initial amount and the maturity amount.

Critical accounting estimates and judgement in applying accounting policies

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Although these estimates are based on management's best knowledge of current events and actions, the actual results ultimately may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to the accounting estimates are recognised in the period, in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Notes to the financial statements

Key sources of estimation uncertainty:

Insurance technical reserves

The nature of the business makes it difficult to predict with certainty the likely outcome of any particular claim and the ultimate cost of notified claims. Each notified claim is assessed on a separate, case-by-case basis with due regard to the claim circumstances, information available from loss adjusters and the historical evidence of the size of similar claims. Case estimates are reviewed regularly and are updated as and when new information arises. The provisions are based on information currently available. However, the ultimate liabilities may vary as a result of subsequent developments. The provision estimation difficulties also differ by class of business due to claim complexity, the volume of claims and the individual severity of claims, determining the occurrence date of a claim, and reporting lags.

The most significant assumption is related to the provisioning of incurred-but-not-reported reserves ("IBNR") Sufficiency of insurance technical reserves is monitored regularly through claims reserves run-off analysis and liability adequacy test, performed for each line of business.

Valuation of financial instruments

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described above. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. As a result, the Company evaluates such instruments at cost less impairment.

The table below analysis financial instruments carried at fair value, by valuation method. Financial assets are measured by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. Main asset classes included in this category are financial assets for which the fair value is obtained via pricing vendors or binding broker quotes and assets for which the fair value is determined by reference to indices:

	2009	2008
	Published price quotations	Published price quotations
Financial assets	24 233 205	19 371 474
Investments at fair value through profit or loss		
<i>Shares and other non-fixed income securities</i>	<i>3 160 742</i>	<i>2 993 405</i>
<i>Debt securities and other fixed income securities</i>	<i>21 072 463</i>	<i>16 378 069</i>

Available-for-sale investments are carried at cost, refer to note 31.

Impairment of financial instruments

The determination of impairment indication is based on comparison of the financial instrument's carrying value and fair value. Due to downturns in the financial and capital markets, the market price is not always a reliable source for impairment indication. The Company uses valuation models based on quoted market prices of similar products.

For the purposes of impairment loss measurement, the Company's management makes estimates of any expected changes in future cash flows from a specific financial instrument based on analysis of financial position of the issuer of the financial instrument.

As at 31 December 2009, for all financial instruments carried at fair value the fair value was measured based on market prices quoted in active markets.

Valuation of investment property and buildings for own use

Investment property is stated at its fair value with all changes in fair value recorded to profit and loss.

Notes to the financial statements

Buildings used for the Company's operating activities are carried at a revalued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluation result is attributed to other comprehensive income unless impairment should be recognized.

When measuring the fair value of the investment property and buildings for own use, the management relies on external valuations and assesses the reliability of such valuation in light of the current market situation.

Impairment of loans and receivables

There are a number of significant risks and uncertainties inherent in the process of monitoring financial assets and determining if impairment exists. These risks and uncertainties include the risk that the Company's assessment of an issuer's ability to meet all of its contractual obligations will change based on changes in the credit characteristics of that issuer and the risk that the economic outlook will be worse than expected or have more of an impact on the issuer than anticipated. Also, there is a risk that new information obtained by the Company or changes in other facts and circumstances will lead the Company to change its investment decision. Any of these situations could result in a charge against the statement of comprehensive income in a future period to the extent of the impairment charge recorded.

Recognition of provisions

Provisions are established when it is probable that a past event has given rise to a present obligation or loss and the amount can be reasonably estimated. Management exercises judgement in evaluating the probability that a loss will be incurred. The estimate of the amount of a loss requires management judgement in the selection of a proper calculation model and the specific assumptions related to the particular exposure.

(4) Risk and risk management

4.1 Risk and risk management

The business of insurance represents the transfer of risk from the policy holder to the insurer and management of this risk. The largest risks result from accepting insurance risk, choosing the reinsurance cover and fulfilling obligations with respect to signed insurance contracts. In addition, the insurer is also exposed to investment risks incurred when the insurer has to cover technical reserves with assets invested in various financial instruments, market risk, credit risk, liquidity risk and operational risk.

The Company's management has identified risks and developed the management of these risks. Risk management is carried out in accordance with the Company's Board decision.

All risks have been divided by the Company's management into the following major groups:

- Insurance risks
- Financial risks
- Operating risks

Each of these groups is divided into subgroups, which identify the risks that might impact any operating direction. Performance plans have been developed for each of the risks, which should be performed in order to minimise and avoid the risk occurrence possibility.

4.2 Insurance risks and risk management

Insurance risk is the most significant risk faced by the Company in day-to-day activities.

(a) Underwriting strategy

The Company's underwriting strategy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks over a number of years and, as such, it is believed that this reduces the variability of the outcome.

The underwriting strategy is set out in an annual business plan that sets out the classes of business to be written and the industry sectors to which the Company is prepared to expose itself. This strategy is cascaded down to individual underwriters through detailed underwriting authorities that set out the limits that any one underwriter can write by line size, class of business and industry in order to enforce appropriate risk selection within the portfolio. The term of non-life contracts may be up to 5 years; however, contracts are

Notes to the financial statements

usually annual in nature and the underwriters have the right to refuse prolongation or renewal or to change the terms and conditions of the contract at prolongation or renewal.

The calculation of the tariffs and prices on insurance products reflects current market conditions and covers the most probable assumptions necessary for the adjustment of future results, aiming to significantly mitigate financial risks.

Adherence to the underwriting authorities is being monitored by management on an on-going basis. Those transactions requiring special authorisation are subject to the special attention of the Company's Board of Directors.

(b) Basic product features

The terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts are set out below. In addition, the following gives an assessment of the Company's main products and the ways in which it manages the associated risks.

Casco insurance

The insurance indemnifies for losses which arise from damage to, destruction or loss of vehicle. Several additional insurance covers may also be purchased which are related to the insured vehicle. Casco insurance rates are determined on the basis of the bonus-malus system, which decreases the insurance premium upon the absence of losses and increases the insurance premium upon the occurrence of losses. The sums insured very rarely exceed the limit of LVL50,000. The largest losses arise from the theft of vehicles and destruction.

Motor third party liability insurance.

This insurance is a compulsory insurance, whose policy conditions and indemnification rules are prescribed by the Motor Third Party Liability Insurance Act and other regulations. For determining the rates of motor third party liability insurance, a bonus-malus system is used which reduces the insurance premium upon the absence of losses and increases the insurance premium upon the existence of losses

MTPL insurance covers bodily injury claims and property claims in Latvia as well as claims caused abroad by insured motorists under the Green Card system.

Most of the motor third party liability insurance indemnities are 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 the long term also as annuities.

Even if from previous statistics the claims have been notified rather promptly and can be settled without delay, the situation can change and claims arising from motor third party liability insurance are classified as 'long-tail' classes where the ultimate claim cost takes longer to determine.

The key risks associated with this product are underwriting risk, competitive risk, and claims experience risk. Calculating a premium commensurate with the risk for these policies will be subjective, and hence risky. Insurance risk is managed primarily through sensible pricing, product design, risk selection, appropriate investment strategy, rating and reinsurance. The Company therefore monitors and reacts to changes in the general economic and commercial environment in which it operates.

Health insurance

The health insurance product is offered to companies who purchase health insurance for their employees. Health insurance indemnifies against expenses such as doctor visits, hospital expenses, medication expenses.

The Company monitors and reacts to changes in the prices for medical services, monitors the claim ratios on employer's bases and adjusts prices accordingly each year when renewal takes place.

Property insurance

The risks covered by property insurance include fire risk, pipe leakage explosion, burglary and robbery, and storm risk. When insuring home assets, liability insurance can also be purchased.

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

Notes to the financial statements

The most frequently occurring risks for home property include pipe leakages and fire. Larger losses result most often from fire.

Generally, claims in the property insurance line are notified promptly and can be settled without delay. Property business is therefore classified as 'short-tail', contrasted with the 'long-tail' classes where the ultimate claim cost takes longer to determine.

The key risks associated with this product are underwriting risk, competitive risk, and claims experience risk.

Underwriting risk is the risk that the Company does not charge premiums appropriate for the different properties it insures. For private property insurance, it is expected that there will be large numbers of properties with similar risk profiles. However, for commercial business this may not be the case. Many commercial property proposals comprise a unique combination of location, type of business, and safety measures in place. Calculating a premium commensurate with the risk for these policies will be subjective, and hence risky.

Property classes are exposed to the risk that the insured will make false or invalid claims, or exaggerate the amount claimed following a loss. This largely explains why economic conditions correlate with the profitability of the property insurance line of business. Insurance risk is managed primarily through pricing, independent assessment of property under international standards, product design, risk selection and reinsurance. The Company therefore monitors and reacts to changes in the general economic and commercial environment in which it operates.

(c) Insurance risk concentration

Within the insurance process, concentrations of risk may arise where a particular event or series of events could impact heavily upon the Company's liabilities. Such concentrations may arise from a single insurance contract or through a small number of related contracts, and relate to circumstances where significant liabilities could arise.

The Company's management is aware that there is an insurance concentration risk. Risk concentration may occur as a result of different coincidences and regularities. Most often risk concentration is observed in a specific type of insurance in which private persons are insured; e.g. personal accident insurance when a group of persons suffers from a personal accident and all of these persons have been insured in the Company. In property insurance, risk concentration might occur if one densely populated area experiences any of the exposures (e.g. fire), which may easily transfer from one property to another one and this action cannot be avoided.

In addition, the management is aware that the possible risk concentration can be in one company or an economic area in total, for which several risks are insured. When insuring such risks, an obligatory precondition is the assessment of the company's financial position and capacity, as well as identifying how large financial liabilities can arise, how large the liabilities are that are already held by the Company and what it can afford. When evaluating financial risks, the tendencies of economic growth and the risks that might impact this area are studied.

In order to minimise losses that might be incurred in case of a risk concentration, the Company uses reinsurance – by reinsuring both proportionally, as well as non-proportionally. When placing reinsurance, the Company's share in the risk is fixed both for one object, as well as for one event, in which losses may be caused simultaneously for several objects. Such risks are reinsured in practically all types of insurance. The reinsurance policy, to which the Company adheres, has been approved by the Board.

The Company's key methods in managing these risks are two-fold. Firstly, the risk is managed through appropriate underwriting. Underwriters are not permitted to underwrite risks unless the expected profits are commensurate with the risks assumed. Secondly, the risk is managed through the use of reinsurance. The Company purchases reinsurance coverage for various classes of its liability and property business. The Company assesses the costs and benefits associated with the reinsurance programme on an ongoing basis.

The Company sets out the total aggregate exposure that it is prepared to accept in relation to the concentrations of risk. It monitors these exposures both at the time of underwriting a risk, and on a monthly basis by reviewing reports which show the key aggregations to which the Company is exposed. The Company uses a number of modelling tools to monitor aggregation in order to measure the effectiveness of the reinsurance programmes and the net exposure to which the Company is exposed. A number of additional stress and scenario tests are run using these models during the year.

Notes to the financial statements

Exposure to various business lines and the key concentrations identified are:

Insurance type	Total insured	Reinsurance	Net retention	Number of contracts in force	Average amount insured
	amount	amount	(after reinsurance)		
	LVL	LVL	LVL		
Motor own damage insurance	425 580 399	-	425 580 399	44 210	9 626
Voluntary motor third party liability	1 800 000	-	1 800 000	36	50 000
Health insurance *	209 061 491	-	209 061 491	77 790	2 688
Property insurance*	7 036 584 282	3 998 628 476	3 037 955 806	60 236	50 434
Various financial risks	116 703 623	67 616 972	49 086 651	2 761	17 779
Cargo insurance *	132 272 468	90 420 995	41 851 473	80	523 143
General third party liability	402 700 844	264 439 412	138 261 432	6 333	21 832
Personal accident insurance *	225 918 935	15 646 177	210 272 758	14 069	14 946
Travel accident insurance	484 402 865	181 889 912	302 512 953	33 088	9 143
Marine insurance	20 858 233	17 354 771	3 503 462	56	62 562
Marine third party liability insurance	604 271	543 843	60 428	7	8 633
Railway insurance *	69 784 357	64 739 887	5 044 470	24	210 186
Compulsory motor third party liability **	-	-	55 141 439 597	196 148	281 122
Aircraft third party liability insurance	1 050 716 291	1 006 814 859	43 901 432	69	636 253
Aircraft insurance	9 004 736	8 566 623	438 113	42	10 431
Credit insurance	8 494 454	2 648 692	5 845 762	105	55 674
Guarantee insurance	45 220 471	26 996 681	18 223 790	404	45 108
Total	10 239 707 720	5 746 307 300	4 493 400 420	435 458	-

* in one contract several objects/ persons can be covered

** gross insurance risk is unlimited. Losses in excess of EUR400,000 are covered by reinsurance.

(d) Catastrophes

The Company's management is aware that catastrophe risks are possible. In our geographical conditions these risks are most connected with meteorological phenomena: storms, floods, nature disasters (hail, snow, ice, etc.). Large fires and earthquakes are unlikely, but they may occur. The most characteristic catastrophes are floods and storms. In order to minimise the impact of catastrophe risk on the Company, reinsurance is used. Reinsurance is done both proportionally, as well as non-proportionally. In addition, facultative reinsurance is purchased for large risks. The Company has developed methodology for fixing retention. It depends on many factors and the historical statistical information in each product group. According to management, the measures taken sufficiently reduce the impact of catastrophe risk on the Company.

Notes to the financial statements

(e) Insurance risk management

In order to restrict insurance risk, the Company has developed different control and management mechanisms. For all insurance types, insurance terms and conditions have been developed, which are binding both for the Company, as well as for the customers. Methodologies have been developed for all insurance types, which should be followed when fixing the risk and the risk degree, which is assumed by the Company. The Company has established a Risk Underwriting Institution, in which there are employees who are liable for development of a specific insurance type, insurance terms and conditions and risk assessment methods. In addition, limits have been fixed, up to which each of the employees is allowed to make a decision about risk underwriting. When fixing limits, the hierarchy principle is observed; the higher the position, the higher risk may be underwritten.

Irrespective of the steps detailed above and risks being managed, the Company's management is aware that there is a risk that the insurance risk might not be qualitatively assessed and an incorrect decision may be made. In addition, there is a risk that the insurance indemnity will be insufficient for the losses caused or the claims case will be administered for an extended amount of time.

In order to minimise such risks, the Company has developed and uses the quality management system, which describes all processes and reserves that are carried out in the Company during the insurance administration process and the claims regulation procedures. It has been identified when and in what circumstances certain types of procedures should be observed. Quality measurements can be carried out in any process and identify whether this process is being carried out in accordance with the Company's interests and described processes. The measurements of these processes are the responsibility of the Quality Management Department, which regularly provides information to the Company's management about the process management in the Company. As a result of these measurements, the management can make an adequate decision to minimise the risk that is connected with the insurance processes.

(f) Liabilities adequacy test

The Company has assessed its insurance liabilities shown in the statement of financial position on 31 December 2009 by the liability adequacy test ("LAT").

A liability adequacy test is carried out by lines of business at each reporting date and assess whether recognised insurance liabilities less deferred acquisition costs are adequate using current estimates of future cash flows under its insurance contracts. Current estimates of future cash flows are best estimates without risk margin. If the assessment indicates liabilities are inadequate in the light of the established future cash flow, the deficiency is recognised in profit or loss. Expected cash flows relating to claims and expenses are estimated by reference to the experience, adjusted for significant individual losses which are not expected to recur.

Notes to the financial statements

The test is performed by lines of business each comprising a group of insurance contracts with similar risk profiles. Sufficiency of technical reserves by LAT test as at 31 December 2009 is showed in following table:

	LVL thousand	Year					
		2010	2011	2012	2013	2014	2015
Undiscounted future cash flow from expected claims and claim handling costs	25 137	16 401	3 627	2 201	1 610	916	384
Undiscounted future cash flow from expected claims and claim handling costs including 2% inflation for year 2010	25 802	16 564	3 737	2 313	1 734	1 016	439
Present value of future cash flow using refinancing rate of 4% p.a. (Bank of Latvia)	23 388	16 242	3 523	2 097	314	851	360
DAC as at 31 December 2009	1 771						
Expected administration expenses	8 287						
Total expected outflow	33 446						
Total gross technical reserve as at 31 December 2009	(43 042)						
LAT surplus as at 31 December 2009	(9 596)						

LAT results as presented above are based on an aggregated basis (ie. for the whole portfolio). URR, on the other hand, is created based on liability adequacy testing for individual lines of business. As a result, URR is created even if the above aggregate LAT result is a surplus. Refer to Note 7 for further details.

General assumptions and sensitivity analysis

The liabilities arising from insurance contracts are determined based on the estimated future cash flows. Such cash flows include claims paid and loss adjustment expenses.

These liabilities are subject to sensitivities.

	Adjusted LAT surplus	Surplus according LAT test (base scenario)	Change
	LVL thousand	LVL thousand	%
Changes in LAT result as at 31 December 2009			
Due to changes in refinancing rate used determining present value of future cash flow:			
Using 3 % instead of 4% p.a.	8 953	9 596	(7)
Using 5 % instead of 4% p.a.	10 170	9 596	6
Due to changes in expected decrease in administration expenses used determining expected outflow			
Decrease by 70% instead of decrease by 60%	12 859	9 596	34
Decrease by 50% instead of decrease by 60%	4 850	9 596	(50)
Due to increase of loss ratio in all business lines by 5% in the year 1	7 083	9 596	(26)

Notes to the financial statements

(g) Claims development

Information on the claims development has been provided in order to illustrate the insurance risk to which the Company is subject. The claim table discloses a comparison of cumulative payments to date and the development of technical reserves made for these insurance claims by accident year.

Excesses or deficits indicated in each column should be evaluated separately by ignoring other columns because such corrections made in the prior years may be included as part of the corrections made during the prior years.

The recalculated technical reserves and the cumulative deficit or excess, which is indicated in the enclosed table, may subsequently vary due to changes in different factors.

Although the information provided in the table reflects the estimates of historical unpaid claims made in the prior years, the users of these financial statements should avoid extrapolation of past remains or deficits in respect to the balance of unpaid losses of this period. Management considers evaluation of technical reserves as at 31 December 2009 as adequate.

Claim development analysis, LVL thousand

	2004 and before	Year of insurance event occurrence					Total
		2005	2006	2007	2008	2009	
Estimate of cumulative claims at end of accident year	13 262	14 890	22 561	38 518	39 723	33 563	33 563
- one year later	13 590	12 891	22 027	35 201	39 051		39 051
- two years later	12 804	12 917	22 200	35 955			35 955
- three years later	12 505	13 033	22 829				22 829
- four years later	12 596	13 627					13 627
- five years later	13 384						13 384
Cumulative payments to date	12 555	12 888	21 944	31 722	36 077	23 307	138 493
Outstanding claims reserves at 31.12.2009	829	739	885	4 233	2 974	10 256	19 916

(h) Sensitivity analysis assumption made for general business

Process used to determine the assumptions

The process used to undertake sensitivity analysis on the assumptions used is intended to result in neutral estimates of the most likely or expected outcome. The sources of data used as inputs for the assumptions are internal, using detailed studies that are carried out annually. The assumptions are checked to ensure that they are consistent with observable market prices or other published information. There is more emphasis on current trends, and where in early years there is insufficient information to make a reliable best estimate of claims development, prudent assumptions are used.

The estimated amount of IBNR could be influenced by inflation, the risk that significantly large claims will be reported with delay, seasonality of the reporting of claims and other risks.

Sixty-two per cent of IBNR as at 31 December 2009 consists of the following lines of business: compulsory motor TPL, guarantees and property (fire and catastrophes) insurance. Considering the current market situation, the Company believes that the most volatile assumption is inflation. The table below presents the change in IBNR as at 31 December 2009 in the case if the annual inflation used in the IBNR estimation would change as a result of a 3% change in inflation.

LVL thousand	IBNR if projected annual		
Line of business	IBNR, as at 31.12.2009	inflation increased by 3%	IBNR without annual inflation
Compulsory motor TPL	5 694	5 990	5 482
Property (fire and catastrophes)	319	322	141

Notes to the financial statements

The main assumption used in the calculation of technical reserves is a stable claims statistic. Management expect that development of claims in the future will have the same pattern as in the past. Reserves are not discounted and management did not apply regress recovery possibility in any lines.

The nature of the business makes it very difficult to predict with certainty the likely outcome of any particular claim and the ultimate cost of notified claims. Each notified claim is assessed on a separate case by case basis, with due regard to the claim circumstances, information available to loss adjusters and the historical evidence of the size of similar claims. Case estimates are reviewed regularly and are updated as and when new information arises. The provisions are based on the information currently available. However, the ultimate liabilities may vary as a result of subsequent developments or if catastrophic events occur. The impact of many of the items affecting the ultimate costs of the loss is difficult to estimate. The provision estimation difficulties also differ by class of business due to differences in the underlying insurance contract, claim complexity, the volume of claims and the individual severity of claims, determining the occurrence date of a claim, and reporting lags.

For most of the risks, the costs of outstanding IBNR reserves are estimated using a range of statistical methods such as the Chain Ladder methods. Such methods extrapolate the development of paid and incurred claims, average cost per claims and ultimate claim numbers for each accident year based upon observed development of earlier years and expected loss ratios.

The key methods, which are used and have remained unchanged from prior years, are:

- chain ladder methods, which use historical data to estimate the paid and incurred to date proportions of the ultimate claim cost;
- development factors methods to evaluate the unknown number of insured events at any given point of time;
- expected loss ratio methods, which use the Company's expectation of the loss ratio for a class of business.

The actual method or blend of methods used varies by line of business and observed historical claims development.

To the extent that these methods use historical claims development information, they assume that the historical claims development pattern will occur again in the future. There are reasons why this may not be the case, which, insofar as they can be identified, have been allowed for by modifying the methods. Such reasons include:

- changes in processes that affect the development / recording of claims paid and incurred (such as changes in claim reserving procedures);
- economic, legal, political and social trends (resulting in different than expected levels of inflation);
- changes in mix of business;
- random fluctuations, including the impact of large losses.

In 2009, the chain ladder methods which are used to calculate the costs of outstanding IBNR reserves were modified to include inflation, which was decreased as compared to previous year because of current situation in the Latvian economy.

LVL'000	IBNR based on previous method as at 31.12.2009	Current IBNR, as at 31.12.2009	Effect of change in assumptions, %
Line of business			
Accident insurance	106	86	(19)
Health insurance	2 167	2 189	1
Casco insurance	488	567	16
Cargo insurance	4	5	25
Property (fire and catastrophes)	372	319	(14)
Property (other)	13	19	46
General liability insurance	79	121	53
Financial loss insurance	4	5	25
Assistance insurance	52	53	2
Compulsory motor TPL	4 420	5 695	29
Other	122	122	-
Total	7 827	9 181	17

Notes to the financial statements

IBNR provisions are estimated at a gross level.

Changes in assumptions used for estimation of MTPL claim reserves

During 2009, the Company introduced changes in estimating the bodily injury claims to be covered from MTPL policies. As a result of no access of data in 2008 or before, IBNR for bodily injuries was estimated together with MTPL property claims based on claims reported to the Company. IBNR estimates on the potential claims for bodily injuries have a material impact on the obligatory MTPL insurance in Latvia with respect to the insurance period 2007 to 2009. Based on own market statistics and that of the MTPL insurance market, the Company has established an IBNR reserve for bodily injuries claims amounting to LVL 1 876 thousand in addition to its IBNR reserve calculated via triangulation. Certain sensitive inputs were used also for assessing this IBNR reserve, and such inputs were subject to a sensitivity analysis with the results disclosed in the sensitivity tables.

The table below presents the change in IBNR for the direct and regress claims for bodily injury if proportion of long claims in portfolio increase from 15% to 16%, but other assumptions fixed.

IBNR, as at 31.12.2009 (based on 15%)	IBNR if proportion of long claims increase 16%	IBNR if proportion of long claims decrease 14%
1 876	1 975	1 777

The table below presents the change in IBNR for the bodily injury claims if period of long claims increase by 5 years, but other assumptions fixed.

IBNR, as at 31.12.2009 (based on 10 years)	IBNR if period of long claims increase by 5 years	IBNR if period of long claims decrease by 5 years
1 876	2 617	1 134

The IBNR reserve for bodily injuries claims will be reviewed and analysed on a regular basis, in consideration of new statistical information on newly reported claims.

4.3 Financial risks and risk management

The Company is exposed to financial risks due to operations with financial instruments. Financial risks include market risk, which includes price, interest rate and currency risks, credit risk and liquidity risk. Below is a description of each of these financial risks and a summary of the methods used by the Company to manage these risks. Exposure to those risks arises in the normal course of the Company's business.

The Company's financial assets and liabilities, including investments, deposits with banks, loans, insurance receivables and reinsurance assets, are exposed to financial risk as follows:

- Market risk: changes to the market situation may adversely impact the insurer's assets and/or liabilities, investments may be impaired, and return on assets decreased. Market risk includes interest rate risk, equity price risk and currency risk;
- Credit risk: failure of a counterparty to fulfil a contractual obligation may cause financial losses to the Company,
- Liquidity risk: under certain adverse conditions for the insurer, the insurer may be forced to sell assets at a lower price than their fair value in order to be able to settle liabilities.

(a) Market risks

All financial instruments and positions are subject to market risk, the risk that future changes in market conditions may make an instrument more or less valuable. The Company is subject to potential investment risks by incurring losses from financial assets, financial liabilities, reinsurance and insurance contractual liabilities as the result of changes in interest rates, currency exchange rates and changes in price of equity instruments.

In order to restrict investment risk, investments are made in different financial instruments. When choosing financial instruments, the requirements of the insurance company and the law on supervision of insurance companies are observed.

Notes to the financial statements

When carrying out investing activities, the employees of AAS BTA Financial Department are guided according to the approved Investment establishment procedure, which regulates many issues related to control and the minimisation of investments risk.

The reduction of investments risk is carried out in two ways – firstly, by diversifying the investments portfolio, and secondly, by analysing the specific asset before the purchase of this asset and following the available information on this asset.

The Company manages market risks by investing most of the investments in markets and investments with high ratings.

Investment analysis by ratings as at 31.12.2009:

Agency	Ratings	Shares and other listed equity instruments	Mortgage bonds	Investment funds	Listed debt securities	Government bonds	Available-for-sale securities	Total
Fitch Ratings	A	-	-	-	371 358	-	-	371 358
	A-	-	-	-	578 505	583 355	-	1 161 860
	A+	-	-	-	731 446	-	-	731 446
	AA	-	-	-	372 426	-	-	372 426
	AA-	-	-	-	838 964	-	-	838 964
	AA+	-	-	-	185 184	299 273	-	484 457
	AAA	-	-	-	-	4 047 839	-	4 047 839
	BBB-	-	-	-	31 872	100 209	-	132 081
	BBB	-	-	-	372 165	-	-	372 165
	BBB+	-	-	-	390 453	-	-	390 453
Moody's	A1	-	-	-	358 565	146 350	-	504 915
	A2	-	-	-	58 448	72 646	-	131 094
	Aa2	-	-	-	505 000	-	-	505 000
	Aa3	-	-	-	545 888	-	-	545 888
	Baa2	-	930 622	-	-	-	-	930 622
	Baa3	-	-	-	-	4 156 522	-	4 156 522
	C	-	-	-	2108	-	-	2 108
Standard & Poor's	A	-	-	-	388 588	-	-	388 588
	A-	-	-	-	196 815	-	-	196 815
	A+	-	-	-	587 346	-	-	587 346
	AA	-	-	-	486 448	-	-	486 448
	AA-	571 274	-	-	426 439	-	-	997 713
	AA+	90 425	-	-	-	-	-	90 425
	AAA	-	-	-	-	2 296 544	-	2 296 544
	BB-	-	-	-	141 193	-	-	141 193
	BBB	-	-	-	96 092	-	-	96 092
	BBB-	-	-	-	38 411	-	-	38 411
BBB+	-	-	-	226 769	-	-	226 769	
No rating		340 882	444 141	2 158 161	64 479	-	185 740	3 193 403
Total		1 002 581	1 374 763	2 158 161	7 994 962	11 702 738	185 740	24 418 945

Notes to the financial statements

i) Currency risk

Currency risk: adverse changes to the currency exchange rate may cause loss to the Company

Some insurance risks are denominated in foreign currencies. The Company's policy is to restrict the currency risk with respect to known and expected transactions in foreign currencies. Currency risk management is based on investments in the respective currencies. The local currencies on the Company's operational market – Latvia, Lithuania and Estonia are pegged to EUR which decreases currency risk. This peg could change as a result of macroeconomic policy. Profit or loss is mainly sensitive only to changes in USD rates and is evaluated as low. The Company is not engaged in any speculative transactions that may increase the currency risk.

The Company is gradually increasing the share of EUR denominated investments. As a result of the above principle, at the end of 2009 EUR denominated investments covered one third of the technical reserves in LVL. Although this policy has an adverse effect on the return on investment, it will be continued in 2010 in order to limit the potential impact of any changes in the government policy regarding the currency.

The split of assets and liabilities by currencies as at year end were as follows:

31 December 2009

	LVL	EUR	USD	EEK	Other	Total
Investments and cash						
Investments in associates	-	245 981	-	-	-	245 981
Investments in subsidiary	3 334 392	-	-	-	-	3 334 392
Shares and other non-fixed income securities	-	2 967 626	147 702	45 414	-	3 160 742
Debt securities and other fixed income securities	6 122 770	14 538 899	239 124	-	171 670	21 072 463
Available-for-sale financial assets	185 740	-	-	-	-	185 740
Deposits with banks	2 406 943	6 457 279	663 871	3 045 510	699 764	13 273 367
Mortgage loans	2 772 497	870 548	100 254	-	-	3 743 299
Other loans	455 470	1 859 448	89 902	-	-	2 404 820
Receivables	8 623 436	540 812	-	-	-	9 164 248
Cash and cash equivalents	314 054	44 137	160 296	23 489	4 767	546 743
Total financial assets	24 215 302	27 524 730	1 401 149	3 114 413	876 201	57 131 795
Technical reserves, net						
Technical reserves for unearned premiums and unexpired risks, net	14 685 055	3 033 449	90 308	2 860 709	1 002 026	21 671 547
Outstanding claim technical reserves, net	12 481 797	1 563 157	212 221	1 458 353	562 210	16 277 738
Total technical reserves, net	27 166 852	4 596 606	302 529	4 319 062	1 564 236	37 949 285
Creditors	1 918 274	1 855 798	-	-	-	3 774 072
Technical reserves, net and creditors	29 085 126	6 452 404	302 529	4 319 062	1 564 236	41 723 357
Open currency position	(4 869 824)	21 072 326	1 098 620	(1 204 649)	(688 035)	15 408 438

Notes to the financial statements**31 December 2008**

	LVL	EUR	USD	EEK	Other	Total
Investments and cash						
Investments in associates	491 963	-	-	-	-	491 963
Shares and other non-fixed income securities	-	2 777 721	187 265	28 419	-	2 993 405
Debt securities and other fixed income securities	6 823 296	9 299 158	255 615	-	-	16 378 069
Available-for-sale financial assets	769 854	-	-	-	-	769 854
Deposits with banks	9 611 999	3 665 517	1 573 390	2 700 598	82 885	17 634 389
Mortgage loans	3 313 329	2 317 960	132 163	-	-	5 763 452
Other loans	1 024 735	1 499 797	34 057	-	-	2 558 589
Receivables	10 246 392	1 436 901	274 999	1 212 763	-	13 171 055
Cash	950 400	183 994	48 574	38 124	5 929	1 227 021
Total financial assets	33 231 968	21 181 048	2 506 063	3 979 904	88 814	60 987 797
Technical reserves, net						
Technical reserves for unearned premiums and unexpired risks, net	25 024 032	2 696 809	307 121	3 473 249	30 989	31 532 200
Outstanding claim technical reserves, net	11 070 776	600 827	346 067	1 314 209	20 678	13 352 557
Total technical reserves, net	36 094 808	3 297 636	653 188	4 787 458	51 667	44 884 757
Creditors	2 603 392	2 179 917	-	-	-	4 783 309
Technical reserves, net and creditors	38 698 200	5 477 553	653 188	4 787 458	51 667	49 668 066
Open currency position	(5 466 232)	15 703 495	1 852 875	(807 554)	37 147	11 319 731

The currency of other balance sheet items not disclosed in table above is denominated in LVL.

An analysis of the sensitivity of the Company's comprehensive income to changes in the foreign currency exchange rates based on positions existing as at 31 December 2009 and 2008 and a simplified scenario of a 5% change in EUR and USD to LVL exchange rates is as follows (in LVL thousand):

	2009	2008
	Comprehensive income	Comprehensive income
5% appreciation of EUR against LVL	1 053	897
5% depreciation of EUR against LVL	(1 053)	(897)
5% appreciation of USD against LVL	55	93
5% depreciation of USD against LVL	(55)	(93)

Notes to the financial statements

ii) Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Company takes a long or short position in a financial instrument.

An analysis of the sensitivity of the Company's comprehensive income to changes in securities prices based on positions existing as at 31 December 2009 and 2007 and a simplified scenario of a 5% change in all securities prices is as follows:

	2009 LVL'000	2008 LVL'000
	Comprehensive income	Comprehensive income
5% increase in securities prices	1 221	1 010
5% decrease in securities prices	(1 221)	(1 010)

iii) Interest rate risk

Measures for management of the interest rate risk in the Company are based on the assessment of the impact of the interest rate risk on the Company's financial indices. The Company does not have significant interest bearing liabilities and a significant share of interest bearing assets are at a fixed interest rate. Therefore, the Company is not exposed to a significant interest rate risk and to the effects of fluctuations in interest rates resulting from different maturity or interest repricing profile of the Company's interest bearing assets and liabilities.

The following tables present the Company's financial assets analysed according to repricing periods determined as the earlier of the remaining contractual maturity and the contractual repricing. The interest rate repricing profile of the Company's assets as at year end:

31 December 2009

	Within 6 months	6-12 months	1-2 years	3-5 years	Over 5 years	Non- interest bearing	Total	Of which subject to fixed rates
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
Financial assets								
Investments at fair value through profit or loss	2 027 613	4 857 899	2 523 516	8 870 057	3 495 805	2 458 315	24 233 205	21 072 463
Available-for-sale financial assets	-	-	-	-	-	185 740	185 740	-
Deposits with banks	9 045 723	3 790 218	225 648	211 778	-	-	13 273 367	13 273 367
Loans issued	1 489 675	2 775 223	556 137	1 254 152	72 932	-	6 148 119	6 148 119
Receivables	-	-	-	-	-	9 164 248	9 164 248	-
Cash and cash equivalents	533 606	-	-	-	-	13 137	546 743	530 606
Total financial assets	13 096 617	11 423 340	3 305 301	10 335 987	3 568 737	11 821 440	53 551 422	41 024 555

Notes to the financial statements

31 December 2008

	Within 6 months LVL	6-12 months LVL	1-2 years LVL	3-5 years LVL	Over 5 years LVL	Non- interest bearing LVL	Total LVL	Amounts subject to fixed rates LVL
Financial assets								
Investments at fair value through profit or loss	1 386 694	3 314 801	3 338 531	4 784 402	4 264 338	2 282 708	19 371 474	16 378 069
Available-for-sale financial assets	-	-	-	-	-	769 854	769 854	-
Deposits with banks	11 387 870	5 812 309	406 644	27 566	-	-	17 634 389	17 634 389
Loans issued	1 968 390	2 366 131	1 156 140	114 980	2 716 400	-	8 322 041	8 322 041
Receivables	-	-	-	-	-	13 171 055	13 171 055	-
Cash and cash equivalents	1 217 144	-	-	-	-	9 877	1 227 021	1 217 144
Total financial assets	15 960 098	11 493 241	4 901 315	4 926 948	6 980 738	16 233 494	60 495 834	43 551 642

Average effective interest rates as applicable for selected interest bearing financial instruments were as follows:

	2009	2008
Bonds	4.18%	4.88%
Deposits	9.17%	6.87%
Loans	2.97%	2.97%

Interest rate sensitivity analysis

An analysis of the sensitivity of the net income for the year and equity as a result of changes in fair value of financial assets available for sale and fair value through profit or loss due to changes in the interest rates based on positions existing as at 31 December 2009 and 2008 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves is as follows (in LVL thousand):

	2009		2008	
	Net income	Equity	Net income	Equity
100 bp parallel increase	(595)	(595)	(329)	(329)
100 bp parallel decrease	595	595	329	329

The above analysis assumes all financial assets are held one year from the reporting period end date.

(b) Liquidity risks

In accordance with the approved investment establishment procedure methodology, the employees of AAS BTA Financial Department are obligated to ensure that at least 30% of the assets required for the technical reserve cover would be placed in high liquidity investments.

High liquidity investments are deemed to be the following assets:

- 1) claims on demand to credit institutions;
- 2) other claims to solvent credit institutions (term deposits, etc.) whose remaining repayment term does not exceed 30 days, and deposits with another term if the agreement stipulates an option to withdraw money before the due date (less the amount of contractual penalty for preterm withdrawal of deposits if such is provided);
- 3) investments in securities if they have a constant, unrestricted market, i.e., they can be sold in a short time without considerable losses or can be used as a collateral for receipt of loan.

Notes to the financial statements

The tables below shows the allocation of the Company's assets and liabilities to maturity groups based on the time remaining from the reporting period end date to the maturity dates as at 31 December 2009 and as at 31 December 2008:

31 December 2009

	Up to 12 months LVL	From 1 to 5 years LVL	Over 5 years LVL	No fixed maturity LVL	Total LVL
Assets					
Land and buildings	-	-	-	3 593 417	3 593 417
Property and equipment	-	-	-	396 907	396 907
Unpaid share capital	244 634	-	-	-	244 634
Intangible assets	-	-	-	85 567	85 567
Investment property	-	-	-	2 388 863	2 388 863
Investment in subsidiary	-	-	-	3 334 392	3 334 392
Investments in associates	-	-	-	245 981	245 981
Investments at fair value through profit or loss	6 885 512	11 393 573 *	3 495 805 *	2 458 315 *	24 233 205
Available-for-sale financial assets	-	-	-	185 740	185 740
Deposits with banks	12 835 941	437 426	-	-	13 273 367
Loans issued	4 264 898	1 810 289	72 932	-	6 148 119
Receivables from direct insurance activities	7 278 437	-	-	-	7 278 437
Receivables from reinsurance activities	540 812	-	-	-	540 812
Other receivables	1 003 946	-	-	-	1 003 946
Prepaid income tax	341 053	-	-	-	341 053
Deferred client acquisition costs	1 770 959	-	-	-	1 770 959
Other accrued income and deferred expenses	277 263	-	-	-	277 263
Reinsurance contract assets	5 092 333	-	-	-	5 092 333
Cash and cash equivalents	546 743	-	-	-	546 743
Total assets taking into account maturity	41 082 531	13 641 288	3 568 737	12 689 182	70 981 738
Total assets taking into account liquidity	58 430 224	2 247 715	72 932	10 230 867	70 981 738
Equity and liabilities					
Equity	-	-	-	22 926 488	22 926 488
Technical reserves	33 860 242	9 181 376	-	-	43 041 618
Subordinated liabilities	-	-	-	-	-
Creditors	3 774 072	-	-	-	3 774 072
Deferred tax liabilities	-	-	-	459 685	459 685
Provisions	-	-	-	502 013	502 013
Unearned reinsurance commission income	277 862	-	-	-	277 862
Total equity and liabilities	37 912 176	9 181 376	-	23 888 186	70 981 738
Maturity gap on assets and liabilities	3 170 355	4 459 912	3 568 737	(11 199 004)	-
Maturity gap on assets and liabilities taking into account liquidity*)	20 518 048	(6 933 661)	72 932	(13 657 319)	-

*) While the above table reflects the liquidity risk, it is based on time to remaining contractual maturity. Investments classified as financial assets at fair value through profit and loss, are considered as highly liquid financial assets and management has the ability to sell them earlier than the contractual date, thereby helping to manage its liquidity gap, if needed.

Notes to the financial statements

31 December 2008

	Up to 12 months LVL	From 1 to 5 years LVL	Over 5 years LVL	No fixed maturity LVL	Total LVL
Assets					
Land and buildings	-	-	-	3 956 424	3 956 424
Property and equipment	-	-	-	530 965	530 965
Intangible assets	-	-	-	98 046	98 046
Investment property	-	-	-	3 072 278	3 072 278
Investments in associates	-	-	-	491 963	491 963
Investments at fair value through profit or loss	4 701 494	10 639 581 *	1 747 690 *	2 282 709 *	19 371 474
Available-for-sale financial assets	-	-	-	769 854	769 854
Deposits with banks	17 200 179	434 210	-	-	17 634 389
Loans issued	4 334 521	1 271 120	2 716 400	-	8 322 041
Receivables from direct insurance activities	11 721 772	-	-	-	11 721 772
Receivables from reinsurance activities	510 564	-	-	-	510 564
Other receivables	938 719	-	-	-	938 719
Deferred client acquisition costs	3 105 191	-	-	-	3 105 191
Other accrued income and deferred expenses	-	266 171	-	-	266 171
Reinsurance contract assets	4 774 469	-	-	-	4 774 469
Cash and cash equivalents	1 227 021	-	-	-	1 227 021
Total assets taking into account maturity	48 513 930	12 611 082	4 464 090	11 202 239	76 791 341
Total assets taking into account liquidity	63 183 909	1 971 501	2 716 400	8 919 530	76 791 341
Equity and liabilities					
Equity	-	-	-	20 025 793	20 025 793
Technical reserves	44 246 100	5 413 126	-	-	49 659 226
Subordinated liabilities	-	1 053 152	-	-	1 053 152
Creditors	4 783 309	-	-	-	4 783 309
Deferred tax liabilities	-	-	-	459 304	459 304
Provisions	-	-	-	491 643	491 643
Unearned reinsurance commission income	318 914	-	-	-	318 914
Total equity and liabilities	49 348 322	6 466 278	-	20 976 740	76 791 341
Maturity gap on assets and liabilities	(834 392)	6 144 804	4 464 090	(9 774 502)	-
Maturity gap on assets and liabilities taking into account liquidity*)	13 835 587	(4 494 777)	2 716 400	(12 057 210)	-

*) While the above table reflects the liquidity risk, it is based on time to contractual maturity. Investments classified as financial assets at fair value through profit and loss, are considered as highly liquid financial assets and management has the ability to sell them earlier than the contractual date, thereby helping to manage its liquidity gap, if needed.

Notes to the financial statements

(c) Credit risk

The Company takes on exposure to credit risk which is the risk that a 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 regularly.

Impact from credit crisis, inactive real estate market

The past year has seen significant turmoil in the world's economic markets due to the defaults in the US sub-prime mortgages' market resulting in large asset write downs by financial institutions.

The Company has assessed the possible decrease of value for the collateral of issued loans taking into account the current market situation and has established allowances for loan amounts exceeding the value of collateral.

Exposure to credit risk is managed through the 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.

The current market value of collateral, where relevant, is regularly assessed by either independent appraisal companies or the Company's specialists.

Maximum credit risk

	2009		2008	
	Gross	Net	Gross	Net
Non-fixed income securities	3 160 742	3 160 742	2 993 405	2 993 405
Government bonds	11 702 738	11 702 738	11 564 081	11 564 081
Corporate bonds	7 994 962	7 994 962	3 183 523	3 183 523
Mortgage bonds	1 374 763	1 374 763	1 630 465	1 630 465
Available for sale financial assets	185 740	185 740	769 854	769 854
Deposits with banks	13 273 367	13 273 367	17 634 389	17 634 389
Loans	6 148 119	2 404 820	8 322 041	2 558 589
Due from policy holders	5 927 097	5 927 097	10 014 437	10 014 437
Due from intermediaries	1 351 340	1 351 340	1 707 335	1 707 335
Receivables from reinsurance activities	540 812	540 812	510 564	510 564
Other debtors	1 003 946	1 003 946	938 719	938 719
Reinsurers' share in outstanding claim technical reserve	3 637 995	3 637 995	3 175 112	3 175 112
Total	56 301 621	52 558 322	62 443 925	56 680 473

Credit risk arises on the direct insurance amounts receivable and the reinsurance amounts receivable and is the risk the counterparty defaults on the payment of the amount due.

Insurance receivables

Direct insurance amounts receivable are monitored by management on a periodic basis and policies are cancelled if appropriate notification has been provided to the policy holder and the amounts due are not paid.

Notes to the financial statements

Carrying amounts versus estimated fair values

The carrying amounts of financial assets and liabilities, together with the estimated fair values shown in the statement of financial position, are as follows:

LVL	31 December 2009		31 December 2008	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial Assets				
Investments at fair value through profit and loss	24 233 205	24 233 205	19 371 474	19 371 474
Deposits with banks	13 273 367	13 084 555	17 634 389	17 598 018
Loans issued	6 148 119	5 993 985	8 322 041	7 912 731
Receivables from direct insurance activities	7 278 437	7 278 437	11 721 772	11 721 772
Receivables from reinsurance operations	540 812	540 812	510 564	510 564
Other receivables	1 003 946	1 003 946	938 719	860 271
Cash and cash equivalents	546 743	546 743	1 227 021	1 227 021
Financial liabilities				
Subordinated liabilities	-	-	1 053 152	1 003 233
Creditors	3 774 072	3 774 072	4 783 309	4 783 309

Reinsurance

The Company reinsures a portion of the risks it underwrites in order to control its exposures to losses and protect capital resources. The Company buys facultative and Excess-of-Loss ("XL") based reinsurance to reduce the net exposure and not to exceed the actual margin of solvency. The Company also buys reinsurance treaties for the main lines of its business that protect the Company from any cumulative losses that may arise from multiple claims resulting from the same event or occurrence.

From 2008, BTA has introduced changes in the reinsurance policy to make it more conservative, i.e. reinsurers are now attracted not only for large risk insurance but additional cover is acquired for non-typical accumulations of common and rather small risks. For certain lines of business (CASCO, Railway, Cargo, equipment) XL treaties have been replaced by Priority Aggregate XL treaty.

Ceded reinsurance contains credit risk, and such reinsurance recoverables are reported after deductions for known insolvencies and uncollectible items. The Company monitors the financial condition of reinsurers on an ongoing basis and reviews its reinsurance arrangements periodically.

Reinsurance is carried out with world-known reinsurance companies with a sound reputation.

When carrying out reinsurance, the ratings of a reinsurance company are generally not lower than the Standard & Poor's evaluation BBB- (or analogous assessment of another international rating agency). Practically all reinsurance is carried out in reinsurance companies whose rating is not lower than the Standard & Poor's assessment A.

Reinsurance companies cover their liabilities in the time period of up to 30 days. Reinsurance agreements also provide cases when upon the insurance indemnity exceeding a certain amount, the reinsurance claim is paid immediately.

Notes to the financial statements

During 2009 and 2008, there have been no cases where a reinsurance company has not met its liabilities to the Company.

Rating	2009		
	Reinsurance debtors	Reinsurer's share on written premiums	Reinsurer's share on claims paid
AAA-, AAA, AAA+	-	29 245	-
AA-, AA, AA+	506 141	1 689 377	661 860
A-, A, A+	-	1 681 823	259 433
BBB-, BBB, BBB+	-	214 096	1 700
No rating	34 671	339 939	-
TOTAL	540 812	3 954 480	922 993

Rating	2008		
	Reinsurance debtors	Reinsurer's share in written premiums	Reinsurer's share in claims paid
AAA-, AAA, AAA+	-	157 123	-
AA-, AA, AA+	496 109	2 057 843	621 210
A-, A, A+	-	940 733	148 412
BBB-, BBB, BBB+	-	163 522	222 483
No rating	14 455	242 868	9 666
TOTAL	510 564	3 562 089	1 001 771

The effect of reinsurance arrangements is that the Company for each insurance risk has the following own retention for the main lines of insurance:

	Maximum own retention by event
Cargo	425 000 EUR
Property	425 000 EUR
General TPL	200 000 EUR
Compulsory motor TPL	400 000 EUR

4.4 Operating risks and risk management

The Company has determined that customers should receive high quality service. The most significant risk in the provision of these services has been defined to be qualified and knowledgeable employees representing the Company. In order to attract and keep middle and top level qualified employees in the Company, the top Company has implemented a competitive salary and motivation system thus achieving a very high retention on the top and middle management level. Retention levels are high also for the specialists' level (88%) and lowest level specialists (73%). The Company has established its training centre, which is engaged in raising the employees' qualification. A knowledge base has been established, which is available to the employees and can be used in day-to-day activities.

In the management's opinion, the risk that any of the employees may intentionally or unintentionally influence the technical result of an insurance line of business by fixing an unreasonably low price or granting unreasonably high discounts has been minimised. When fixing the price, the methodologies should be strictly followed, but deviations are necessary in connection with the market situation and such deviations should be approved by top management. A discount policy is fixed by the Company's Board and no deviations from this policy are permitted.

Notes to the financial statements

A significant tool in ensuring the efficiency of these activities is the information system (IS). The Company's management pay much attention to ensure that these systems work and comply with up-to-date requirements. The Company has an IT Department whose assignment it is to ensure and maintain a stable and safe environment in the Company's IS. The activities of the Department are regulated by IS security regulations, which have been developed in accordance with the legislation requirements. IS systems should ensure constant performance and it should comply with the employees' and clients' requirements. Deviations from performance are not permitted and it should be ensured 24 hours a day. If necessary, the waiting time has been defined which is necessary for renewal of performance if damage to the equipment or information has occurred. This time may not exceed 12 hours.

4.5 Capital adequacy requirements and Capital management

According to the requirements of the „Law on Insurance Companies and their Supervision”, in order to ensure the stability of the insurer's financial activities, the insurance company should constantly have at its disposal own funds, which should be equal or larger than a determined solvency margin. The solvency margin is defined as the larger of the amounts calculated based on written premiums or claims paid and the result cannot be smaller than the adjusted solvency margin of the prior year or the minimum amount of a guarantee fund announced by the Finance and Capital Market Commission of Latvia (FCMC)

	31.12.2009	31.12.2008
	LVL	LVL
Solvency margin based on premiums written	9 578 021	11 372 455
Solvency margin based on claims	5 643 870	4 664 267
Solvency margin at the end of the previous reporting period	11 372 455	9 134 796
Adjusted solvency margin at the end of the previous reporting period	11 372 455	9 134 796
Minimum guarantee fund (EUR)	3 200 000	3 200 000
EUR exchange rate set by the Bank of Latvia at the end of the reporting period	0.702804	0.7028
Minimum guarantee fund (LVL)	<u>2 248 973</u>	<u>2 248 973</u>
Solvency margin (The largest amount)	<u>11 372 455</u>	<u>11 372 455</u>

	31.12.2009	31.12.2008
	LVL	LVL
Equity and solvency compliance		
Capital for capital adequacy (own funds)	<u>15 047 190</u>	<u>12 950 522</u>
Solvency margin	<u>11 372 455</u>	<u>11 372 455</u>
Capital adequacy surplus	<u>3 674 735</u>	<u>1 578 067</u>

Own funds for solvency margin purposes are set without reference to audited profit of the reporting year which amounts to LVL 3 223 270 (2008: LVL 5 421 193). The effect of including net profit:

	31.12.2009	31.12.2008
	LVL	LVL
Capital for capital adequacy including audited profit for the year	<u>18 270 460</u>	<u>18 367 509</u>
Solvency margin	<u>11 372 455</u>	<u>11 372 455</u>
	<u>6 898 005</u>	<u>6 995 054</u>

In accordance with FCMC normative regulation of 22 May 2009 No 64 “Regulations on the Procedure for the Calculation of the Adjusted Required Solvency Margin and the Adjusted Available Solvency Margin for the Insurance Company or Reinsurance Company Subject to the Supplementary Supervision and Providing Information on Intra-Group Transactions of the Insurance or Reinsurance Group Subject to the Supplementary Supervision”, the Company prepares a Statement of adjusted solvency norm and adjusted equity as at 31 December 2009. Adjusted equity as at 31 December 2009 is sufficient to cover adjusted solvency norm.

Notes to the financial statements

The insurer's own funds are also directly related to the insurer's risk assuming ability, which is characterised by the proportion of own funds against the major insurer's statement of financial position and profit or loss ratios. The proportion of own funds against insurance premiums written and insurance claims paid characterises the insurer's ability to manage different insurance risks, but the proportion against the technical reserves characterises the insurer's ability to overcome losses, which may occur in the event that a mistake has occurred in the calculation of technical reserves.

	2009 LVL	Coverage by own funds	2008 LVL	Coverage by own funds
Own funds	15 047 190	-	12 950 522	-
Incurring claims, net	34 268 438	44%	38 773 352	33%
Earned premiums, net	53 824 516	28%	66 653 104	19%
Technical reserves total, net	37 949 285	40%	44 884 757	29%
Investments	41 272 685	36%	38 267 680	34%

Notes to the financial statements

(5) Net written premiums

	2009 LVL			2008 LVL		
	Gross written premiums	Reinsurer's share in premiums	Net written premiums	Gross written premiums	Reinsurer's share in premiums	Net written premiums
CASCO	13 040 554	(215 853)	12 824 701	25 946 886	(109 463)	25 837 423
CMTPL *	12 961 555	(467 864)	12 493 691	17 405 053	(408 301)	16 996 752
Health insurance	9 738 896	-	9 738 896	14 362 016	-	14 362 016
Property insurance	5 441 827	(854 139)	4 587 688	7 639 912	(889 780)	6 750 132
Travel accident insurance	1 578 452	(34 962)	1 543 490	2 168 360	(52 138)	2 116 222
General third party liability	1 276 024	(492 416)	783 608	1 589 803	(475 115)	1 114 688
Various financial risks	696 782	(377 198)	319 584	1 327 333	(828 262)	499 071
Guarantee insurance	693 206	(467 246)	225 960	347 176	(161 868)	185 308
Voluntary motor third party liability	562 116	(459 561)	102 555	(538)	-	-538
Credit insurance	447 407	(64 809)	382 598	95 361	(60 304)	35 057
Cargo insurance	439 021	(86 773)	352 248	542 849	(50 554)	492 295
Personal accident insurance	433 458	(5 172)	428 286	391 354	(4 596)	386 758
Aircraft third party liability insurance	203 373	(167 727)	35 647	109 251	(92 646)	16 605
Marine insurance	181 133	(134 173)	46 960	202 127	(181 109)	21 018
Aircraft insurance	126 709	(115 705)	11 004	282 503	(237 273)	45 230
Railway insurance	93 756	(7 216)	86 540	124 552	(7 704)	116 848
Marine third party liability insurance	4 074	(3 666)	407	3 307	(2 976)	331
	47 918 343	(3 954 480)	43 963 863	72 537 305	(3 562 089)	68 975 216

* The Company makes obligatory deductions in accordance with the law "On compulsory motor third party liability" and the related Cabinet of Ministers regulations. Gross written premiums on motor third party liabilities insurance are shown net of the obligatory deductions LVL 358,467 (2008: LVL 552,658).

Gross written premiums include 913 TLVL (2008: 301 TLVL) of assumed reinsurance.

Notes to the financial statements

Gross premiums from direct insurance business and reinsurance assumed are underwritten in following countries:

Country	2009 LVL	2008 LVL
Latvia	39 103 053	64 637 685
European Economic Area countries	8 815 290	7 899 620
Total	47 918 343	72 537 305

According to the law On Motor Vehicles Third Party Liability Obligatory Insurance and the related Cabinet Regulations, the Company makes the following obligatory deductions from gross premiums written in this insurance type:

Cofinancing of the activities of the Latvian Motor Vehicle Insurance Bureau:	LVL 0.25 per contract + LVL 2 500
For the Guarantee Fund and the Interests Protection Fund:	According to a special calculation by taking into account the time of contract activity and the insured motor vehicle
For the Road Traffic Safety Fund:	2% from gross written premium

Notes to the financial statements**(6) Net earned premiums**

	2009			2008		
	LVL			LVL		
	Gross earned premiums	Reinsurer's share in premiums	Net earned premiums	Gross earned premiums	Reinsurer's share in premiums	Net earned premiums
CASCO	19 659 570	(215 853)	19 443 717	25 908 169	(109 463)	25 798 706
CMTPL	13 825 922	(467 864)	13 358 058	17 521 146	(408 301)	17 112 845
Health insurance	11 079 708	-	11 079 708	13 465 029	-	13 465 029
Property insurance	6 642 081	(918 750)	5 723 331	6 572 167	(847 660)	5 724 507
General third party liability	1 492 239	(572 026)	920 213	1 284 019	(320 808)	963 211
Travel accident insurance	1 615 012	(34 962)	1 580 050	2 082 979	(52 138)	2 030 841
Various financial risks	968 342	(571 928)	396 414	918 627	(519 399)	399 228
Cargo insurance	404 581	(55 965)	348 616	549 475	(126 039)	423 436
Personal accident insurance	465 318	(4 982)	460 336	368 794	(4 085)	364 709
Marine insurance	187 211	(159 533)	27 678	200 081	(173 340)	26 741
Marine third party liability insurance	3 845	(3 467)	378	3 183	(2 809)	374
Railway insurance	113 051	(7 216)	105 835	79 746	(27 802)	51 944
Voluntary motor third party liability	364 509	(459 561)	(95 052)	(577)	-	(577)
Aircraft third party liability insurance	247 859	(201 310)	46 549	235 268	(171 909)	63 359
Aircraft insurance	125 169	(113 042)	12 127	126 004	(97 914)	28 090
Credit insurance	249 636	(49 551)	200 085	98 380	(59 871)	38 509
Guarantee insurance	479 962	(263 489)	216 473	286 058	(123 906)	162 152
	57 924 015	(4 099 499)	53 824 516	69 698 548	(3 045 444)	66 653 104

Notes to the financial statements**(7) Technical reserves for unearned premiums and unexpired risks**

	Gross LVL	Reinsurer share LVL	Net LVL
Balance at 31 December 2007	30 292 800	(1 082 712)	29 210 088
<i>Written premiums</i>	72 537 305	(3 562 089)	68 975 216
<i>Premiums earned</i>	(69 698 548)	3 045 444	(66 653 104)
Changes during year	2 838 757	(516 645)	2 322 112
Balance at 31 December 2008	33 131 557	(1 599 357)	31 532 200
<i>Written premiums</i>	47 918 343	(3 954 480)	43 963 863
<i>Premiums earned</i>	(57 924 015)	4 099 499	(53 824 516)
Changes during year	(10 005 672)	145 019	(9 860 653)
Balance at 31 December 2009	23 125 885	(1 454 338)	21 671 547

	2009 LVL		2008 LVL	
	Gross	Net	Gross	Net
Unearned premium reserve	22 072 716	20 618 378	33 054 221	31 454 864
Unexpired risk reserve	1 053 169	1 053 169	77 336	77 336
	23 125 885	21 671 547	33 131 557	31 532 200

(8) Other technical income

	2009 LVL	2008 LVL
Compensation from policy cancellation	36 939	50 107
Profit share on reinsurance agreements	-	30 596
Agent fee from other insurance companies	47 615	217 347
	84 554	298 050

The Company is acting as an agent when paying out insurance claims on behalf of other non-resident companies. The Company does not accept insurance risks and receives full reimbursement of claims paid on behalf of other insurance companies. The Company receives an agent fee for the services.

Notes to the financial statements

(9) Net paid claims

	2009 LVL			2008 LVL		
	Gross claims paid	Reinsurer's share in claim	Net claims paid	Gross claims paid	Reinsurer's share in claim	Net claims paid
CASCO	(10 424 900)	490 658	(9 934 242)	(14 189 200)	315 028	(13 874 172)
CMTPL	(6 181 036)	-	(6 181 036)	(10 294 604)	6	(10 294 598)
Health insurance	(12 742 852)	-	(12 742 852)	(10 501 186)	-	(10 501 186)
Property insurance	(1 729 527)	173 144	(1 556 383)	(1 812 949)	189 309	(1 623 640)
General third party liability	(266 913)	60 361	(206 552)	(151 829)	23 513	(128 316)
Travel accident insurance	(299 567)	2 801	(296 766)	(268 026)	-	(268 026)
Various financial risks	(274 188)	97 507	(176 681)	(59 543)	-	(59 543)
Cargo insurance	(102 127)	53 819	(48 308)	(293 853)	197 998	(95 855)
Personal accident insurance	(175 851)	642	(175 209)	(160 600)	-	(160 600)
Marine insurance	(5 337)	2 729	(2 608)	(99 038)	39 238	(59 800)
Railway insurance	(4 247)	2 027	(2 220)	1 391	773	2 164
Voluntary motor third party liability	25	-	25	-	-	-
Aircraft insurance	(950)	-	(950)	(238 619)	202 112	(36 507)
Credit insurance	(56 468)	36 247	(20 221)	(7 117)	4 181	(2 936)
Aircraft third party liability insurance	-	-	-	(43 818)	8 700	(35 118)
Guarantee insurance	(829)	3 058	2 229	(86 748)	20 913	(65 835)
Marine third party liability insurance	(1 483)	-	(1 483)	-	-	-
	(32 266 250)	922 993	(31 343 257)	(38 205 739)	1 001 771	(37 203 968)

Gross claims paid include:

	2009 LVL	2008 LVL
Paid claims	(32 334 179)	(39 321 286)
Loss adjustment expenses	(1 812 885)	(2 056 244)
<i>Allocated from Administrative expenses*</i>	(1 209 133)	(1 295 693)
Recovered losses	1 880 814	3 171 791
	(32 266 250)	(38 205 739)

*Loss adjustment expenses allocated from admin expenses include salary and social contributions dealing with claims handling.

Notes to the financial statements

(10) Outstanding claim technical reserve

	Gross LVL	Reinsurer share LVL	Net LVL
Statement of financial position 31 December 2007	17 453 218	(5 670 045)	11 783 173
<i>Claims incurred during the period</i>	<i>37 280 190</i>	<i>1 493 162</i>	<i>38 773 352</i>
<i>Claims paid</i>	<i>(38 205 739)</i>	<i>1 001 771</i>	<i>(37 203 968)</i>
Changes during year	(925 549)	2 494 933	1 569 384
Statement of financial position at 31 December 2008	16 527 669	(3 175 112)	13 352 557
<i>Claims incurred during the period</i>	<i>35 654 314</i>	<i>(1 385 876)</i>	<i>34 268 438</i>
<i>Claims paid</i>	<i>(32 266 250)</i>	<i>922 993</i>	<i>(31 343 257)</i>
Changes during year	3 388 064	(462 883)	2 925 181
Statement of financial position at 31 December 2009	19 915 733	(3 637 995)	16 277 738

	2009 LVL		2008 LVL	
	Gross	Net	Gross	Net
RBNS	10 734 357	7 096 362	10 040 632	6 865 520
IBNR	9 181 376	9 181 376	6 487 037	6 487 037
	19 915 733	16 277 738	16 527 669	13 352 557

Notes to the financial statements**(11) Claims incurred**

	2009 LVL			2008 LVL		
	Gross claims incurred	Reinsurer's share in claim	Net claims incurred	Gross claims incurred	Reinsurer's share in claim	Net claims incurred
CASCO	(9 455 592)	235 150	(9 220 442)	(14 108 025)	668 321	(13 439 704)
CMTPL	(8 062 568)	(52)	(8 062 620)	(11 543 159)	(351)	(11 543 510)
Health insurance	(13 484 673)	-	(13 484 673)	(11 605 147)	-	(11 605 147)
Property insurance	(2 655 974)	(41 910)	(2 697 884)	(1 437 450)	289 631	(1 147 819)
General third party liability	(93 887)	7 592	(86 295)	(397 006)	68 715	(328 291)
Travel insurance	(237 147)	(20 752)	(257 899)	(411 198)	23 562	(387 636)
Financial risks	(224 786)	101 428	(123 358)	(50 942)	9 873	(41 069)
Cargo insurance	(175 103)	162 166	(12 937)	440 313	(524 610)	(84 297)
Personal accident	(169 812)	(11 115)	(180 927)	(226 411)	11 757	(214 654)
Marine insurance	(927 429)	863 530	(63 899)	2 078 797	(2 007 432)	71 365
Railway insurance	(32)	113	81	53 358	(38 334)	15 024
Voluntary motor third party liability	25	-	25	(779)	-	(779)
Aircraft insurance	510	-	510	(60 841)	35 610	(25 231)
Credit insurance	(137 764)	86 671	(51 093)	40 003	(30 466)	9 537
Aircraft third party liability insurance	(708)	(3)	(712)	44 213	(20 351)	23 862
Guarantee insurance	(29 374)	3 058	(26 316)	(95 070)	20 913	(74 157)
Marine third party liability insurance	-	-	-	(846)	-	(846)
	(35 654 314)	1 385 876	(34 268 438)	(37 280 190)	(1 493 162)	(38 773 352)

(12) Client acquisition costs

	2009 LVL	2008 LVL
Commission paid to intermediaries	4 857 217	7 299 131
Commission paid for reinsurance	-	276
Salaries to agents	147 309	165 502
	5 004 526	7 464 909

Notes to the financial statements

(13) Change in deferred client acquisition costs

	<u>LVL</u>
Statement of financial position at 31 December 2007	<u>2 552 182</u>
<i>Written commissions</i>	7 464 909
<i>Deferred commissions allocated to statement of comprehensive income</i>	(6 911 900)
Changes during year	<u>553 009</u>
Statement of financial position at 31 December 2008	<u>3 105 191</u>
<i>Written commissions</i>	5 004 526
<i>Deferred commissions allocated to statement of comprehensive income</i>	(6 338 758)
Changes during year	<u>(1 334 232)</u>
Statement of financial position at 31 December 2009	<u>1 770 959</u>

(14) Administrative expenses

	2009	2008
	LVL	LVL
Salaries and social contribution expenses	7 264 216	8 263 517
Allocated to loss adjustment expenses	(1 209 133)	(1 295 693)
Changes in provisions for unused vacations	(47 242)	126 231
Changes in provisions for bonuses	52 612	-
Changes in other provisions	5 000	-
Office expenses and rent	697 829	869 310
Post and communication expenses	450 351	414 960
Transportation	502 142	627 607
Advertisement and public relations	283 040	549 901
FCCM/Interests Protection Fund	359 316	319 450
Representation	100 961	195 944
Business trips	139 316	128 214
Staff training	42 516	24 414
Other expenses	1 341 387	1 407 697
	<u>9 982 311</u>	<u>11 631 552</u>

According to the Latvian legislation 0.190% (2008: 0.118%) of gross premiums in the MTLP line and 0.488% (2008: 0.306%) of gross premiums in other lines of insurance should be transferred to the FCCM. Payments to the Interests Protection Fund should be made amounting to 1% of premiums paid by private person policyholders for certain lines of insurance.

The allocation of administrative expenses to claims handling costs is based on personell expenses incurred in claims handling department.

Notes to the financial statements

Administrative expenses allocated by insurance types:

	2009	2008
	LVL	LVL
CASCO	4 381 993	4 715 722
CMTPL	2 621 561	3 208 311
Health insurance	984 932	1 732 496
Property insurance	1 100 694	1 078 244
General third party liability	190 473	202 840
Travel accident insurance	322 344	375 510
Various financial risks	55 209	64 451
Cargo insurance	58 090	59 097
Personal accident insurance	118 131	92 874
Marine insurance	5 353	5 123
Marine third party liability insurance	91	69
Railway insurance	18 967	8 608
Voluntary motor third party liability	2 883	82
Aircraft insurance	16 207	11 029
Credit insurance	32 706	5 987
Aircraft third party liability insurance	9 335	9 436
Guarantee insurance	63 342	61 673
	9 982 311	11 631 552

(15) Reinsurers' commission income

	2009	2008
	LVL	LVL
Reinsurers' commission	397 466	432 239
Retrocession commission	-	11 983
	397 466	444 222

(16) Change in unearned reinsurance commission

	LVL
Statement of financial position at 31 December 2007	263 604
<i>Written commissions</i>	(444 222)
<i>Deferred commissions allocated to profit or loss</i>	499 532
Changes during year	55 310
Statement of financial position at 31 December 2008	318 914
<i>Written commissions</i>	(397 466)
<i>Deferred commissions allocated to profit or loss</i>	356 414
Changes during year	(41 052)
Statement of financial position at 31 December 2009	277 862

(17) Other technical expenses

	2009	2008
	LVL	LVL
Impairment allowance for receivables from direct insurance and reinsurance operations	408 895	387 899
Expenses related to distribution of policies of other insurers	1 985	4 530
Other	316 983	158 544
	727 863	550 973

Notes to the financial statements

(18) Investment management charges

	2009	2008
	LVL	LVL
Transaction commissions	(48 843)	(60 810)
Management charges	(38 214)	(128 928)
	<u>(87 057)</u>	<u>(189 738)</u>

(19) Interest income and dividend income, net

	2009	2008
	LVL	LVL
Interest income from financial assets at fair value through profit or loss	930 626	606 530
Rental income from investment property	39 380	70 380
Interest income from deposits with credit institutions	997 819	1 047 746
Dividends from investments held as available for sale	3 130	18 974
Interest on loans	268 194	321 173
	<u>2 239 149</u>	<u>2 064 803</u>

(20) Profit/ (loss) from financial assets and liabilities at fair value through profit or loss, net

	2009	2008
	LVL	LVL
Change in the value securities other than derivatives	641 333	(1 605 071)
Net realised and unrealised profit/(loss) on derivatives	(12 130)	55 663
Impact of exchange rate fluctuations on the value of stocks and other securities	4 315	(26 231)
	<u>633 518</u>	<u>(1 575 639)</u>

(21) Impairment loss

	2009	2008
	LVL	LVL
Decrease in allowances for bad debts, other than insurance debts	51 650	6 421
Increase in allowances for loans	(411 561)	(2 185 100)
	<u>(359 911)</u>	<u>(2 178 679)</u>

(22) Other income/ expenses, net

	2009	2008
	LVL	LVL
Gifts to staff	(63 869)	(14 160)
Donations	(138 253)	(176 838)
Membership fees	(4 565)	(3 902)
Real estate tax	(34 780)	(34 662)
Other expenses	(19 564)	(31 954)
Income from fines	-	5 736
Other income	67 812	87 380
	<u>(193 219)</u>	<u>(168 400)</u>

Notes to the financial statements

(23) Income tax expense

	2009	2008
	LVL	LVL
Current tax	677 095	1 588 300
Deferred tax	131 729	(248 302)
	808 824	1 339 998

	2009	2008
	LVL	LVL
Profit before tax	4 032 094	6 761 191
Theoretical tax using the 15% rate	604 814	1 014 179
Expenses not deductible for tax purposes	319 400	472 395
Donations	(115 390)	(146 576)
Tax expenses	808 824	1 339 998

Income declared by the Estonian branch is taxable in Latvia.

(24) Reinsurance cession result

	2009	2008
	LVL	LVL
Reinsurance premiums	(3 954 480)	(3 562 089)
Changes in reinsurers' share in unearned premiums reserve	(145 019)	516 645
Reinsurers' share in claims paid	922 993	1 001 771
Changes in reinsurers' share in reserve for outstanding claims	462 883	(2 494 933)
Reinsurance commissions and profit participation	397 466	444 222
Change in unearned reinsurance commissions	41 052	(55 310)
Total reinsurance cession result	(2 275 105)	(4 149 694)

(25) Property and equipment

	Vehicles	Other property and equipment	Total
	LVL	LVL	LVL
Cost			
31.12.2007	12 504	1 242 624	1 255 128
Purchased	-	293 039	293 039
Disposed	(12 504)	(267 878)	(280 382)
31.12.2008	-	1 267 785	1 267 785
Purchased	-	86 612	86 612
Disposed	-	(14 674)	(14 674)
31.12.2009	-	1 339 723	1 339 723
Accumulated depreciation			
31.12.2007	(12 504)	(772 358)	(784 862)
Depreciation for the year	-	(232 186)	(232 186)
Depreciation on disposed assets	12 504	267 724	280 228
31.12.2008	-	(736 820)	(736 820)
Depreciation for the year	-	(220 545)	(220 545)
Depreciation on disposed assets	-	14 549	14 549
31.12.2009	-	942 816	942 816
Statement of financial position at 31.12.2008	-	530 965	530 965
Statement of financial position at 31.12.2009	-	396 907	396 907

Notes to the financial statements

(26) Land and buildings and Investment property

	Land and Building LVL	Investments Property LVL
Deemed cost 31.12.2007	3 604 164	3 821 837
<i>of which revaluation prior to 01.01.2008</i>	2 893 952	2 973 850
Revaluation recognized in other comprehensive income	25 559	-
Revaluation through profit or loss	-	(154 395)
Adjustment for depreciation on revalued buildings	(219 800)	-
Transfer from investment property	595 200	(595 200)
31.12.2008	4 005 123	3 072 278
<i>of which revaluation prior to 01.01.2009</i>	2 919 511	2 819 491
Purchased	697 000	26 000
Revaluation recognized in other comprehensive income	(875 653)	-
Revaluation through profit or loss	(2 981)	(709 415)
Adjustment for depreciation on revalued buildings	(146 095)	-
Transfer from investment property	-	-
31.12.2009	3 677 394	2 388 863
<i>of which revaluation prior to 01.01.2010</i>	2 040 877	2 110 076
Accumulated depreciation		
31.12.2007	(87 920)	-
Depreciation	(180 579)	-
Adjustment for depreciation on revalued buildings	219 800	-
31.12.2008	(48 699)	-
Depreciation	(181 373)	-
Adjustment for depreciation on revalued buildings	146 095	-
31.12.2009	(83 977)	-
Statement of financial position 31.12.2008	3 956 424	3 072 278
Statement of financial position 31.12.2009	3 593 417	2 388 863

The last revaluation was performed by an independent certified valuer in May 2009 and was based on comparative market prices. Management have assessed updated information about changes in market prices and concluded that the fair value of property as at reporting period end date is not materially different from the value as at date of valuations which agrees to its carrying amount as at reporting period end date.

(27) Intangible assets

	Computer programs and licences LVL	Total
Cost		
31.12.2008	155 172	155 172
Purchased	12 100	12 100
31.12.2009	167 272	167 272
Accumulated amortisation		
31.12.2008	(57 126)	(57 126)
Amortisation for the year	(24 579)	(24 579)
31.12.2009	81 705	81 705
Statement of financial position 31.12.2008	98 046	98 046
Statement of financial position 31.12.20089	85 567	85 567

Notes to the financial statements

(28) Investment in subsidiary

In 2009, the Company from related parties acquired an additional 59.79% of the share capital of BTA Draudimas, a Lithuanian insurance company. After this acquisition, the Company's investment amounts to 79.78% of share capital of BTA Draudimas.

Purchase price was set based on the value of equity which according to management's assessment is close to fair value of shares as at acquisition date.

31.12.2008	-
Purchased	2 590 278
Transfer from available-for-sale financial assets	744 114
31.12.2009	3 334 392

In 2010 at the date of these financial statements the Company has acquired 100% of share capital of BTA Draudimas.

(29) Investments in associates

On 14 December 2007, the Company acquired a 49% interest in the KROHA OOO, a company incorporated in Russia at a cost of EUR 700,000 (LVL 491,963). Its business is mainly construction business. Its legal address is Gagarina 74 -76A, Kaliningrad, Russia. Shares of the associated company are not quoted. Based on limited information available management believes that the purchase price reflects the fair value of the Company's share of net assets of the investment as at the purchase date.

The carrying amount of the investment includes goodwill arising from intangible assets of associated company not recognised in associates individual financial statements. The entire carrying amount of the investment has been tested for impairment estimating current value of future cashflows resulting into no impairment as at 31 December 2009.

The Company has disposed part of investment in the KROHA OOO (50% or LVL 245 982) during the year 2009 and it is considering selling remaining share in the nearest future.

31.12.2008	491 963
Disposed (cash received)	(245 982)
31.12.2009	245 981

(30) Investments at fair value through profit or loss

Non-fixed income securities	2009		2008	
	LVL		LVL	
	Purchase value	Fair value	Purchase value	Fair value
Shares and other equity securities	1 032 110	1 002 582	1 057 380	936 529
Investments in investment funds	2 304 600	2 104 868	2 381 788	1 988 093
Other non-fixed income securities	48 900	53 292	63 112	68 783
	3 385 610	3 160 742	3 502 280	2 993 405

Notes to the financial statements

Fixed income securities	2009		2008	
	LVL		LVL	
	Purchase value	Fair value	Purchase value	Fair value
Debt securities issued or guaranteed by central governments or municipalities	12 126 732	11 702 738	12 064 617	11 564 080
Mortgage bonds	1 568 120	1 374 763	1 821 084	1 630 465
Debt securities and other securities with fixed income, which are included in a regulated market	8 081 225	7 994 962	3 506 708	3 183 524
	21 776 077	21 072 463	17 392 409	16 378 069

Investment portfolio of fixed income securities by geography:	2009	2008
	LVL	LVL
Latvia	6 271 218	7 444 276
Other European Union countries	13 260 775	8 243 438
USA	1 406 613	591 300
CIS	133 857	99 055
	21 072 463	16 378 069

(31) Available-for-sale financial assets

Equities classified as available-for-sale financial assets are shares in other companies which are not quoted. These are stated at cost as fair value is not possible to determine. Largest equities are following:

- As at 31 December 2008 the Company held 19.99% interest in Lithuanian insurance company BTA Draudimas UAB. During 2009, the Company acquired additional 59.79% shares and this investment is now recognised as an investment in subsidiary. Refer to note 28.
- As at December 31, 2009 the Company owns 19.50% interest in BTA Īpašumi SIA (2008: 19.50%), which is presented at cost of LVL179,490 (2008: LVL19,490).

	2009		2008	
	LVL		LVL	
	Gross	Net	Gross	Net
BTA Draudimas UAB	-	-	744 114	744 114
BTA Īpašumi	179 490	179 490	19 490	19 490
Other	13 000	6 250	13 000	6 250
	192 490	185 740	776 604	769 854

	2009	2008
	LVL	LVL
Allowance as at 31 December 2008	(6 750)	(11 750)
Writte-off	-	5 000
Allowance as at 31 December 2009	(6 750)	(6 750)

Notes to the financial statements

(32) Deposits with credit institutions

	2009	2008
	LVL	LVL
Investment maturity structure:		
With maturity not longer than 3 months	4 036 732	7 186 033
With maturity from 3 to 6 months	3 604 810	5 066 125
With maturity from 6 to 12 months	4 755 707	4 948 022
With maturity from 1 to 5 years	876 118	434 209
	13 273 367	17 634 389

(33) Loans

	2009	2008
	LVL	LVL
Structure of loan portfolio		
Amount of loan, gross	9 086 025	10 849 253
Impairment allowance	(2 937 906)	(2 527 212)
	6 148 119	8 322 041

	Gross LVL
Allowance as at 31 December 2007	(343 490)
Charge for the year	(2 199 667)
Recoveries	14 567
Written off	1 378
Allowance as at 31 December 2008	(2 527 212)
Charge for the year	(586 528)
Recoveries	174 967
Written off	867
Allowance as at 31 December 2009	(2 937 906)

The following table provides an analysis of the loan portfolio, net of impairment, by types of collateral as at 31 December 2009:

	2009		2008	
	Amortised cost	Fair Value	Amortised cost	Fair Value
Mortgage loans	3 743 299	3 686 780	5 763 452	5 533 048
Other loans	2 404 820	2 307 205	2 558 589	2 379 683
Total loans	6 148 119	5 993 985	8 322 041	7 912 731

Notes to the financial statements

	2009	2008
	LVL	LVL
Overdue mortgage loan		
Overdue more than 12 months	2 474 064	-
Overdue 3 to 12 months	-	-
Overdue up to 3 months	337 566	2 628 151
Not overdue mortgage loans	3 329 252	5 124 936
Impairment allowance	(2 397 583)	(1 989 635)
Mortgage loans	3 743 299	5 763 452
Overdue other loans		
Overdue more than 12 months	15 052	16 577
Overdue 3 to 12 months	9 180	-
Overdue up to 3 months	-	-
Not overdue other loans	2 920 911	3 079 589
Impairment allowance	(540 323)	(537 577)
Other loans	2 404 820	2 558 589
Total loans	6 148 119	8 322 041
Mortgage loans		
	2009	2008
	LVL	LVL
Mortgage loans:		
Loans to individuals	377 290	542 393
Loans to non-financial institutions	5 763 592	7 210 694
Impairment allowance	(2 397 583)	(1 989 635)
	3 743 299	5 763 452
Mortgage loans currency structure:	2009	2008
	LVL	LVL
EUR	870 548	2 317 960
LVL	2 772 497	3 313 329
USD	100 254	132 163
	3 743 299	5 763 452
Other loans		
	2009	2008
	LVL	LVL
Other loans:		
Loans to individuals	256 349	524 072
Loans to non-financial institutions	2 688 794	2 572 094
Impairment allowance	(540 323)	(537 577)
	2 404 820	2 558 589
Other loans currency structure:	2009	2008
	LVL	LVL
EUR	1 859 448	1 499 797
LVL	455 470	1 024 735
USD	89 902	34 057
	2 404 820	2 558 589

Notes to the financial statements

Loans with maturity more than 5 years as at 31 December 2009 were in amount of LVL1,327,084 (2008: LVL 1,012,309).

(34) Receivables from direct insurance activities

	2009	2008
	LVL	LVL
Due from policy holders	6 851 083	10 529 528
Due from intermediaries	1 376 468	1 732 463
Impairment allowance for bad debtors	(949 114)	(540 219)
	<u>7 278 437</u>	<u>11 721 772</u>

	Allowance for policy holders	Allowance for intermediaries	Total allowance for insurance debtors
	LVL	LVL	LVL
Allowance as at 31 December 2007	(134 551)	(17 769)	(152 320)
Impairment loss charge	(380 540)	(7 359)	(387 899)
Allowance as at 31 December 2008	(515 091)	(25 128)	(540 219)
Impairment loss charge	(408 895)	-	(408 895)
Allowance as at 31 December 2009	(923 986)	(25 128)	(949 114)

	2009	2008
	LVL	LVL
Other intermediaries	1 376 468	1 732 463
Allowances for doubtful debts	(25 128)	(25 128)
Intermediaries	1 351 340	1 707 335
Overdue receivables		
More than 3 months	494 238	718 153
Less than 3 months	1 063 417	1 040 313
Outstanding receivables not yet due	5 293 428	8 771 062
Allowances for doubtful debts	(923 986)	(515 091)
Policyholders	5 927 097	10 014 437
Total direct insurance debtors:	<u>7 278 437</u>	<u>11 721 772</u>

(35) Receivables from reinsurance activities

	2009	2008
	LVL	LVL
Reinsurer's	540 812	501 293
Assumed reinsurance	-	9 271
	<u>540 812</u>	<u>510 564</u>

Notes to the financial statements

(36) Other receivables

	2009	2008
	LVL	LVL
Employees	12 188	20 385
Advance payments	36 272	19 370
Other debtors	416 859	878 126
Outstanding balance from BTA Draudimas	560 211	94 072
Impairment allowance	(21 584)	(73 234)
	1 003 946	938 719

Other debtors in 2008 include an amount due from the sale of shares in BTA Draudimas of LVL 386 639 repaid in 2009.

	Gross
	LVL
Allowance as at 31 December 2007	(92 186)
Decrease of allowance	6 421
Written off	12 531
Allowance as at 31 December 2008	(73 234)
Decrease of allowance	(21 584)
Written off	73 234
Allowance as at 31 December 2009	(21 584)

(37) Cash and cash equivalents

	2009	2008
	LVL	LVL
Cash on hand	16 137	9 877
Current accounts with credit institutions	530 606	1 217 144
Cash on hand	546 743	1 227 021
Deposits with original maturity less than 3 months	4 036 731	6 105 828
Cash and cash equivalents	4 583 474	7 332 849

(38) Obligatory payments disclosed in cash flow statement

	2009	2008
	LVL	LVL
Transport Insurance Bureau	(319 395)	(505 968)
FCMC (Financial and Capital Market Commission)	(215 530)	(148 167)
Protection Fund	(154 544)	(182 610)
	(689 469)	(836 745)

Notes to the financial statements

(39) Capital and reserves

Share capital

The share capital of the Company at 31 December 2009 was LVL 10,000,000 and comprised of 100,000 shares and is fully paid (2008: LVL 6,000,000). Nominal value of one share was LVL100.

	2009		2008	
	Number of shares	LVL	Number of shares	LVL
Ordinary shares with voting rights	96 000	9 600 000	56 000	5 600 000
Preference shares without voting rights	4 000	400 000	4 000	400 000
	100 000	10 000 000	60 000	6 000 000

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company and rank equally with regard to the Company's residual assets. Holders of preference shares are entitled to receive dividends, but do not have voting rights. The holders of preference shares have preference over ordinary shareholders on the residual assets.

The rights to purchase preference shares are given to employees and the management of the Company by a decision of the shareholders' meeting.

	2009		2008	
	Number of shares	Shareholding	Number of shares	Shareholding
Company's shareholders:				
Transport Information Agency AS	9 578	9.58%	5 599	9.33%
Individuals, directly each owning less than 20%	90 422	90.42%	54 401	90.67%
	100 000	100%	60 000	100%

In 2009, BTA increased its share capital on three occasions, as follows:

Issue 10 - 10,000 ordinary shares with voting rights

Issue 11 - 3,600 ordinary shares with voting rights

Issue 12 - 26,400 ordinary shares with voting rights

Share premium of all shares issued in the reporting period amounted to LVL 150 per share. New share issues and related share premiums in 2008 and 2009 were as follows:

	2009 LVL	2008 LVL
Share capital	6 000 000	6 000 000
Share premium	1 219 103	1 219 103
January 1	7 219 103	7 219 103
Issued shares, paid in cash	3 612 593	-
Issued shares, paid by dividends not distributed	5 078 239	-
Interest payment on the subordinated loan	11 382	-
Issued shares converted from subordinated liabilities	1 053 152	-
Written but unpaid capital	244 634	-
December 31	17 219 103	7 219 103
Including:		
Share capital	10 000 000	6 000 000
Share premium	7 219 103	1 219 103

Notes to the financial statements

Revaluation reserve

The revaluation reserve relates to revaluations on property, plant and equipment used by the company for its own activities, net of deferred tax.

	2009	2008
	LVL	LVL
Land and buildings revaluation reserves	2 043 859	2 919 512
Deferred tax liabilities at 15%	(306 579)	(437 927)
	<u>1 737 280</u>	<u>2 481 585</u>
Balance at 31 December 2007	2 459 859	
Revaluation reserve increase	25 559	
Deferred tax from changes in revaluation reserve	(3 833)	
Balance at 31 December 2008	2 481 585	
Revaluation reserve decrease	(875 653)	
Deferred tax from changes in revaluation reserve	131 348	
Balance at 31 December 2009	<u>1 737 280</u>	

Equalisation reserve

The Company has established an equalisation reserve to cover unanticipated future random fluctuations of claim expenses around the expected value of claims for credit insurance contracts based on experience over a number of years.

Reserve capital and other reserves

According to decisions made by the shareholders, a part of the profit has been transferred to reserve capital and other reserves. These reserves are available for shareholders and there are no restrictions on those reserves.

Dividends

During 2009, the Company calculated and distributed dividends. Profit of 2008 and prior years was distributed in dividends. Part of dividends were converted to issued shares.

Distribution of dividends

Not distributed profit for 2008	5 416 986
Not distributed profit from periods before 2008	4 182 733
Total retained earnings as at 1 January 2009	9 599 719
Dividends paid in cash	(4 225 930)
Used to repay loans	(274 101)
Converted to issued shares	(5 078 239)
Retained earnings after dividend distribution	21 449
Transferred to other reserves	(21 193)
Retained earnings as at 31 December 2009	256

Average dividends paid per 1 share amounted to LVL 72.

Notes to the financial statements

(40) Subordinated liabilities

	2009 LVL	2008 LVL
Subordinated liabilities at 1 January	1 053 152	1 053 152
Increase in the year	-	-
Converted to issued shares	(1 053 152)	-
Subordinated liabilities at 31 December	-	1 053 152

In 2009, the amount of subordinated capital was transferred for issue 10 and issue 11 of shares.

(41) Deferred tax liabilities

	2009 LVL	2008 LVL
Deferred tax liability at 1 January	459 304	703 773
Deferred tax during the reporting period attributable to profit or loss	131 729	(248 302)
Deferred tax recognised in other comprehensive income	(131 348)	3 833
Deferred tax liability at 31 December	459 685	459 304

Deferred tax assets and liabilities include the following items:

	2009 LVL		2008 LVL	
	Assets	Liabilities	Assets	Liabilities
Property and equipment		(624 498)	-	(882 400)
Provisions	261 013	-	189 712	-
Temporary revaluation difference	-	(96 200)	233 384	-
Net result	-	(459 685)	-	(459 304)

(42) Taxes and social contributions

Tax type	Balance at 31.12.2008 LVL	Calculated in 2009 LVL	(Paid) in 2009 LVL	Balance at 31.12.2009 LVL
Income tax	971 744	677 095	(1 989 892)	(341 053)
Risk duty	292	2 183	(2 212)	263
Social contributions	160 963	1 829 152	(1 854 766)	135 349
Personal income tax	104 109	1 024 278	(1 058 246)	70 141
Property tax	-	34 780	(34 780)	-
VAT	15 556	83 872	(96 662)	2 766
Estonian branch tax	14 346	240 235	(221 482)	33 099
	1 267 010	3 891 595	(5 258 040)	(99 435)
Tax receivable	-			(341 053)
Tax payable	1 267 010			241 618

Notes to the financial statements

(43) Reinsurance creditors

	2009	2008
	LVL	LVL
Reinsurance companies	1 069 278	991 917
Reinsurance brokers	786 520	134 848
	1 855 798	1 126 765

	2009	2008
	LVL	LVL
Reinsurance creditors distributed by countries are as follows:		
European member countries	1 763 008	1 126 765
CIS, Central Asia	89 469	-
USA	3 321	-
	1 855 798	1 126 765

(44) Other creditors

	2009	2008
	LVL	LVL
Due to the Transport Insurance Bureau	45 540	82 981
Due to employees (remuneration)	168 207	181 169
Due to the Financial Capital and Market Commission	77 205	92 665
Prior year unpaid dividends	5	5
Other creditors	243 351	476 451
	534 308	833 271

(45) Related parties

Related parties are defined as shareholders of the Company, members of the Board and the Supervisory Council, their close relatives and companies in which they have significant influence or control.

A number of key management personnel, or their related parties, hold ownership in other entities that result in them having control or significant influence over the financial or operating policies of these entities.

The company has the following significant transactions with related parties:

During the course of operations the Company assumes and reinsures certain risks with its subsidiary BTA Draudimas UAB (till 10 December 2009 related party).

	2009	2008
	LVL	LVL
Received insurance premium for assumed reinsurance	1 052 989	275 938
Paid for commission	(50 027)	(14 077)
Paid claims	(30 889)	(108 738)
Paid insurance premium for ceded reinsurance	(223 324)	(195 268)
Received commission	84 742	206 096
Paid commission	(2 801)	(5 684)
Received interest	49 050	54 589

Notes to the financial statements

Loan balances issued to related parties:

	2009	2008
	LVL	LVL
Mortgage loans issued to the companies controlled by board and council members	1 937 742	3 389 530
Impairment allowance	(673 447)	(1 035 286)
Mortgage loans issued to the companies controlled by board and council members, net of bad debt allowances	1 264 295	2 354 244
Loans issued to Council and Board members	144 699	203 658
Impairment allowance	(42 148)	(42 148)
Other loans issued to Council and Board members, net	102 551	161 510
Other loans issued to the related parties	2 424 457	2 025 040
Impairment allowance	(521 377)	(521 439)
Other loans issued to other related companies, net	1 903 080	1 503 601
Loan balances issued to related parties, net	3 269 926	4 019 355

Other loans as at 31 December 2008 issued to related parties include subordinated loan to BTA Draudimas in amount of LVL 1,027,312 with maturity by year 2014 and 2015. The loan is subordinated after all creditors, but before shareholders. In December 2009, the Company ceded its claim rights on the loan to BTA Draudimas, the subsidiary, amounting to EUR 1 691 734 (LVL 1 188 957) to SIA G&Z Investment Advisors, a related party, and as specified in law informed the debtor on it in 2010. The agreement foresees that during the term of the ceded loan agreements the Company has rights to request the claim rights be ceded back to the Company.

Other receivables

Other receivables	64 097	415 622
Allowances for bad debts	-	(27 170)
Other receivables, net	64 097	388 452
Other payables	27 591	50 027

Certain Board and Council members of the Company have joined to the boards of the above borrowing companies in order to gain influence over the activities of these companies and to prevent usage of loans for purposes other than specified.

The collateral of mortgage loans issued to companies controlled by board and council members has been evaluated by an independent valuer at the date from 01.05.2009 till 30.09.2009.

The interest rate on loans issued according to agreements varies from 3% to 6%.

Information about other transactions with related parties:

A property maintenance agreement was signed and property provided for maintenance to a related party. Members of the management or their related parties acquire insurance products of the Company.

During the reporting period the Company acquired from related parties additional 60% shares of the Lithuanian insurance company BTA UAB and became the parent company of this Lithuanian insurance company holding 79.78% shares.

Notes to the financial statements**(46) Provisions**

	2009	2008
	LVL	LVL
Provision for staff bonuses	52 612	-
Provisions for unused employee vacations	444 401	491 643
Other provisions	5 000	-
	502 013	491 643

	Gross
	LVL
Provisions as at 31 December 2007	365 412
Paid	(365 412)
Increase of provisions	491 643
Provisions as at 31 December 2008	491 643
Paid	(491 643)
Increase of provisions	502 013
Provisions as at 31 December 2009	502 013

(47) Number of employees and information on branches

	2009	2008
Employees	717	805
Agents	159	168
	876	973

Insurance agents are persons who pursue insurance mediation on behalf of and in the interests of only one insurance company, but are not employees of the Company.

	2009	2008
Foreign country branches	2	1
Customer service centres abroad	3	6
Regional centres	6	6
Branches in Latvia	21	21
Customer service centres	21	22
Insurance policy selling points	49	58
	102	114

	2009	2008
Average number of employees	785	822
	785	822

Notes to the financial statements

	2009	2008
Head office	372	409
Branches:		
RC "Rīga"	75	138
RC "Latgale"	30	41
RC "Kurzeme"	29	37
RC "Vidzeme"	50	53
RC "Zemgale"	49	59
RC "Daugava"	42	30
Lithuania branch	1	
Estonian branch	69	38
	717	805

(48) Personnel expenses

	2009	2008
	LVL	LVL
Remuneration	5 941 339	6 798 220
Social contribution expenses	1 460 428	1 630 799
	7 401 767	8 429 019

Employees (included in administrative expenses)	7 264 216
Agents (included in client acquisition costs)	137 551
	7 401 767

(49) Information on the remuneration of the members of the Board of Directors and Supervisory Council

	2009	2008
Supervisory Council	69 733	83 678
Board of Directors	122 230	163 176
Social contribution expenses	46 102	48 469
	238 065	295 323

Remuneration to the Board and Council members includes rewards for their direct responsibilities because all members of the Board and Council are employees of the Company.

Notes to the financial statements

(50) Remaining maturities of insurance liabilities

	Gross	2009	Net	Gross	2008	Net
	liabilities	LVL	liabilities	liabilities	LVL	liabilities
	Reinsu-	rance	Gross	Reinsu-	rance	Net
	liabilities	liabilities	liabilities	liabilities	liabilities	liabilities
Unearned premium and unexpired risk technical reserves	23 125 885	(1 454 338)	21 671 547	33 131 557	(1 599 357)	31 532 200
Outstanding claim technical reserves	19 915 733	(3 637 995)	16 277 738	16 527 669	(3 175 112)	13 352 557
Total	43 041 618	(5 092 333)	37 949 285	49 659 226	(4 774 469)	44 884 757
Up to 1 year	33 860 242	(5 092 333)	28 767 909	44 246 100	(4 774 469)	39 471 631
1-5 years	9 181 376	-	9 181 376	5 413 126	-	5 413 126

(51) Operating leases

Non-cancellable operating lease rentals are payable as follows:

	31 December	31 December
	2009	2008
	LVL	LVL
Within one year	143 079	163 857
From 1 to 2	58 963	143 079
From 2 to 3	32 361	58 963
From 3 to 4	4 448	32 361
From 4 to 5	-	4 448
Total	238 851	402 708

(52) Off balance sheet items and contingent liabilities

General claims

In the normal course of the business the Company receives claims from policyholders. Management has reviewed such claims and believes that no material liabilities will arise from these cases other than already provided for.

Litigation

As at 31 December 2009 there were other no open legal claims against the Company.

Credit related commitments

As at 31 December 2009 the Company did not have off balance sheet credit related commitments.

Capital commitments

As at 31 December 2009 the Company did not have any capital commitments.



KPMG Baltics SIA
Vesetas iela 7
Riga LV 1013
Latvia

Phone +371 670 380 00
Fax +371 670 380 02
Internet: www.kpmg.lv

Independent Auditors' Report

To the shareholders of BTA AAS

Report on the Financial Statements

We have audited the accompanying financial statements of BTA AAS, which comprise the statement of financial position as at 31 December 2009, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory notes, as set out on pages 7 to 72.

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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of 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 our 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, we consider 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 systems. An audit also includes evaluating the appropriateness of accounting principles 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 opinion.

KPMG Baltics SIA, a Latvian limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ('KPMG International'), a Swiss entity.



Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the BTA AAS as at 31 December 2009, 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

In addition, our responsibility is to assess whether the accounting information included in the Management Report, as set out on pages 4 to 5, the preparation of which is the responsibility of management, is consistent with the financial statements. Our work with respect to the Management Report was limited to the aforementioned scope and did not include a review of any information other than drawn from the financial statements of the Company. In our opinion, the management report is consistent with the financial statements.

KPMG Baltics SIA
License No. 55

Ondrej Fikrle
Partner pp KPMG Baltics SIA
Riga, Latvia
31 March 2010

Inga Lipšane
Sworn Auditor
Certificate No 112

This report is an English translation of the original Latvian. In the event of discrepancies between the two reports, the Latvian version prevails.