



BTA AAS

Annual report

for 2007

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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</i>
Address	<i>Kr.Valdemāra 63, Riga</i>
Board members and their positions	<i>Gints Dandzbergs – Chairman of the Board Aivars Neimanis – First Vice President Jānis Maļinovskis - Vice President Jeļena Alfejeva – Vice President Agris Dambeniēks – Chief Accountant Marts Dandzbergs – Director of Development Department, till 22.11.07 Andrejs Galanders – Finance Director, till 22.11.07</i>
Council members and their positions	<i>Pauls Dandzbergs – Chairman of the Council, from 26.04.07 Andrejs Galanders – Member of the Council, from 22.11.07 Marts Dandzbergs – Member of the Council, from 26.04.07 Aleksandrs Rimars – Chairman of the Council, till 26.04.07 Pauls Dandzbergs – Member of the Council, till 26.04.07 Viktors Para – Member of the Council, till 26.04.07 Oļegs Kolosovs – Member of the Council, till 26.04.07 Antons Ikaunieks – Member of the Council, till 26.04.07 Natālija Nikolajeva – Member of the Council, till 22.11.07 Igoris Pavlovs – Member of the Council, till 22.11.07 Sergejs Rimars – Member of the Council, till 22.11.2007</i>
Reporting year	<i>01.01.2007 – 31.12.2007</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 2007

2007 was a year of change in the insurance market of Latvia when insurance companies had to adapt to the volatile market conditions, adjust prices and increase the efficiency which resulted in improved financial ratios. The insurance market continued to grow and the non-life insurance sector in 2007 experienced a 48% growth in the gross premiums compared to 2006.

During 2007, BTA achieved its goal from 1996 - to become the largest insurance company in Latvia by the amount of gross premiums, technical reserves and total assets.

The insurance joint stock company BTA (hereinafter BTA) developed more rapidly than the overall insurance market and increased its market share to 24.1%.

BTA worked on improving their products and services, making them simpler and more accessible to the clients, carried out significant work in the improvement of internal processes, including claims administration. Significant investments were made to increase the claims administration capacity which enabled the Company to decrease the timeframe for claims decision-making. The amount of claims with the administration term exceeding that set by the BTA Board decreased by 29%.

In terms of client service improvements, in 2007 BTA expanded the territory of BTA Car service operation to cover accident sites also on the outskirts of Riga.

The client informative support service has operated for over a year which allows BTA clients to receive actual and prompt assistance in the case of insurance event and on other issues topical for the clients in relation to the insurance, and at the moment it is the only service offering of this kind in Latvia.

With respect to the insurance operations, one must note that the amount of written premiums before obligatory deductions for compulsory MTPL insurance was 65 million LVL and compared to 2006 it is a 24 million LVL increase. Claims paid by BTA amounted to 29 million LVL which is a 54% increase over 2006.

Total claims incurred during 2007 amounted to LVL 28,397,332; as a result the level of claims has decreased from 65.26% in 2006 to 62.75% of earned premiums in 2007. Compared to 2006, the amount of claims incurred has increased by 9,815,281 LVL or 52.8%.

BTA continues to apply a prudent and well-considered policy of creating technical reserves and reinsuring accepted risks. In 2007, net technical reserves increased by 15,870,938 LVL and amounted to LVL 40,993,261; which represents a 63.17% increase during the year making it a significant precondition for stable operation of the company in the insurance market and its ability to protect the interests of policyholders.

The above factors have resulted in the growth of operations and improved financial position.

The financial result of BTA operations in the last year was a profit 4,727,267 LVL (profit before tax). Operating activities generated a 2,157,759 LVL profit before tax, while investing activities generated a profit of 2,569,508.

In view of the insurance market trends and BTA objectives for 2008, the Board suggests to the shareholders that the profit of 2007 be retained undistributed and capitalized to ensure further growth of BTA.

In order to simplify daily operations in 2008 the Company plans to introduce new and universal insurance regulations which will promote flexible addressing of changes in the market and maintaining a common approach to the key issues.

BTA has implemented, and will continue to do so taking into account changes in the legislation, an option to purchase policies online. In 2007, the Company introduced a new travel insurance program, and in 2008 the Company will introduce new online programs for compulsory motor third party liability, property and other lines of insurance. The Company plans to continue to customize its approach to each individual client to be able to set accurate prices for insurance services taking into account the client's insurance history.

2008 forecasts of BTA take into account a potential decline in the pace of development of the Latvian economy and increased competition due to the entry of new market players. The above has been considered whilst preparing the 2008 budget. However, management believes that the budget is realistic given the BTA team.

Management Report

In 2008, BTA plans to achieve gross premium increase by 24% and increase profit from operating activities. The Company will continue to focus on improving profitability of certain lines of insurance. Special attention will be paid to the loss making compulsory MTPL insurance.

In reply to the potential increase in the exposure to insurance risks connected with the potential slowdown of the economic development, BTA has signed a special reinsurance agreement for 2008 which will protect the portfolio of BTA if there is a significant increase in the number of cases where the loss amount exceeds 25,000 EUR for one insured event.

As part of operating activities, BTA is subject to various financial risks. A comprehensive risk management policy has been established, which comprises both the insurance risks, as well as risks arising from the Company's investment activities. Management and control functions of insurance risks are implemented into day-to-day operations of the Company through insurance risks underwriting methodologies, fixing of risk limits for underwritten exposures and reinsurance policy. Risks in connection with investments made by BTA are controlled in accordance with the Company's approved investment policy. BTA investment policy prescribes restrictions in respect of deals with one transaction partner, as well as restrictions in respect of credit ratings of securities purchased by the Company. Liquidity risk is decreased by investing at least 30% of the Company's investment assets into highly liquid financial instruments, as well as it is planned to match the cash flows between the insurance operations and the cash flows from investing activities. Market risks include interest rate risk, price risk and currency risk. In order to manage interest rate risks, a calculation of investment portfolio duration is made and the sensitivity towards changes in interest rates is calculated. Price risk is managed by means of fixing limits for investments into individual shares and investments in structured financial instruments linked to the stock market with guaranteed return of principal amount.

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, partners and shareholders for successful cooperation, as well as to the staff of the BTA for their investment in the stability and further growth of the Company.



Gints Dandzbergs
Chairman of the Board

Pauls Dandzbergs
Chairman of the Council

Agris Dambenieks
Member of the Board

18 April 2008

Statement of management responsibility

The insurance stock company BTA in 2007 was led by the Board of Directors in the composition of 7 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 preparation of accounting records, compliance of bookings of transactions with the regulating norms applicable to accounting, safekeeping of the assets of the insurance company, as well as fraud and other dishonest activities' prevention.

The management is responsible for the preparation of the Company's annual report for 2007, which reflects BTA activities in the period from January 1, 2007 to the end of the financial year.

The management of the Company confirms that the present annual report has been prepared in accordance with the effective legislation norms, International Financial Reporting Standards as adopted by the European Union, and the requirements of the Financial and Capital Market Commission, and it gives a true and fair view of the insurance company's financial position at the year-end, as well as gives 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 impact 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 Dambeniaks
Member of the Board

18 April 2008

Income Statement for 2007

	Notes	2007 LVL	2006 LVL
Earned premiums			
Written premiums			
Gross premiums			
Gross written premiums	4	64 338 596	40 021 987
Reinsurers' share in written premiums	4	(7 462 208)	(5 462 960)
<i>Net written premiums</i>	4	56 876 388	34 559 027
Change in unearned premium and unexpired risk technical reserves			
Gross unearned premium technical reserves	6	(11 643 419)	(5 680 247)
Reinsurers' share	6	23 001	(406 297)
<i>Change in net unearned premium and unexpired risk technical reserves</i>	6	(11 620 418)	(6 086 544)
Net earned premiums	5	45 255 970	28 472 483
Other technical income, net	7	438 874	361 270
Premium refunds		(2 190)	(9 187)
Incurred claims, net			
Paid claims, net			
Gross claims paid	8	(28 421 533)	(19 068 401)
Paid claims		(28 786 817)	(18 651 445)
Loss adjustment expenses		(1 268 442)	(1 191 107)
Recovered losses		1 633 726	774 151
Reinsurers' share of claims paid	8	4 274 721	2 890 622
<i>Net paid claims</i>	8	(24 146 812)	(16 177 779)
Change in outstanding claim technical reserve			
Change in gross outstanding claim technical reserve	9	(9 096 387)	(406 409)
Reinsurers' share	9	4 845 867	(1 997 862)
<i>Change in net outstanding claim technical reserve</i>	9	(4 250 520)	(2 404 271)
Net incurred claims	10	(28 397 332)	(18 582 050)
Operating expenses			
Client acquisition costs	11	(6 260 462)	(3 781 449)
Change in deferred client acquisition costs	12	1 057 203	422 041
Administrative expenses	13	(9 985 379)	(7 340 114)
Reinsurance commission income, net	14	1 035 914	453 238
Change in unearned reinsurance commission	15	(65 071)	(14 031)
Net operating expenses		(14 217 795)	(10 260 315)
Other technical expenses, net	16	(560 418)	(414 154)
Changes in equalization reserve		(5 646)	366 830

(continued)

Income statement for 2007

(continued)

	Notes	2007 LVL	2006 LVL
Investment management charges	18	(25 486)	(22 328)
Interest income and dividend income, net	19	1 620 077	852 493
Net realized profit of financial assets and liabilities not recognized at fair value through profit or loss statement	20	-	15 190
Gain/(loss) from financial assets and liabilities at fair value through profit or loss, net	21	(228 376)	(380 202)
Gain/(loss) on foreign currency fluctuation		(234 508)	(218 610)
Increase in value of investment properties	23	2 133 822	588 456
Depreciation and amortization		(353 704)	(259 779)
Net impairment gain /(loss)	22	(596 108)	42 481
Other income/ (expenses), net	24	(99 914)	(121 633)
Profit before tax		4 727 267	430 945
Income tax expense	25	(723 988)	(17 748)
Net profit for the reporting period		4 003 279	413 197

The accompanying notes on pages 13 to 58 form an integral part of these financial statements.

The Board of the Company approves for issue to the shareholders these financial statements on 18 April 2008, and the financial statements are signed on behalf of the Council and Board of the Company by:

Gints Dandzbergs
Chairman of the Board

Pauls Dandzbergs
Chairman of the Council

Agris Dambenieks
Member of the Board

Balance sheet as at 31 December 2007

Assets	Notes	2007 LVL	2006 LVL
<u>Plant and equipment</u>	27	470 266	477 373
<u>Land and buildings</u>			
Owner occupied		3 516 244	1 582 862
Investment property		3 821 837	1 688 015
	28	7 338 081	3 270 877
<u>Intangible assets</u>	29	9 800	20 502
Non current assets held for sale			
Shares and other non-fixed income securities	30	2 000	2 000
Investments in associates	31	491 963	-
Investments at fair value through profit or loss			
Shares and other non-fixed income securities	32	4 138 210	1 739 730
Debt securities and other fixed income securities	32	9 420 240	9 330 118
Total investments at fair value through profit or loss		13 558 450	11 069 848
Available for sale financial assets			
Shares and other non-fixed income securities	33	769 854	560 681
Deposits with banks	34	12 709 104	5 392 698
<u>Total financial investments</u>		27 531 371	17 025 227
Loans and receivables			
Loans			
Mortgage loans		8 016 918	5 364 910
Other loans		3 262 048	1 523 193
Total loans issued	35	11 278 966	6 888 103
Receivables from direct insurance activities			
Due from policy holders		8 901 484	4 017 525
Due from intermediaries		1 860 379	1 803 599
Total receivables from direct insurance activities	36	10 761 863	5 821 124
Receivables from reinsurance activities	37	135 271	122 886
Other debtors	38	968 714	961 833
<u>Total loans and receivables</u>		23 144 814	13 793 946
Accrued income and deferred expenses			
Deferred client acquisition costs	12	2 552 182	1 494 979
Other accrued income and deferred expenses		255 668	67 155
<u>Total accrued income and deferred expenses</u>		2 807 850	1 562 134
Reinsurance contract assets			
Reinsurers' share in unearned premiums technical reserve	6	1 082 712	1 059 711
Reinsurers' share in outstanding claim technical reserve	9	5 670 045	824 178
<u>Total reinsurance contracts</u>		6 752 757	1 883 889
<u>Cash at hand and in bank</u>	39	1 446 156	812 390
Total assets		69 501 095	38 846 338

The accompanying notes on pages 13 to 58 form an integral part of these financial statements.

Balance sheet as at 31 December 2007

Equity and liabilities	Notes	2007 LVL	2006 LVL
Equity			
Share capital	41	6 000 000	4 300 000
Share premium		1 219 103	942 003
Revaluation reserve		2 459 859	709 057
Equalization reserve		22 284	16 638
Reserve capital and other reserves		698 895	698 895
Retained earnings:			
Retained earnings from prior years		179 454	204 057
Current year profit		4 003 279	413 197
<u>Total equity</u>		<u>14 582 874</u>	<u>7 283 847</u>
Liabilities			
Gross insurance liabilities			
Technical reserve for unearned premiums and unexpired risks	6	30 292 800	18 649 381
Outstanding claim technical reserve	9	17 453 218	8 356 831
Total technical reserves		<u>47 746 018</u>	<u>27 006 212</u>
Subordinated liabilities	42	1 053 152	527 598
Creditors			
Direct insurance creditors			
Due to policy holders		1 251 880	692 574
Due to intermediaries		785 090	421 293
Total direct insurance creditors		<u>2 036 970</u>	<u>1 113 867</u>
Reinsurance creditors	45	1 225 786	1 515 996
Taxes and social contributions	44	733 218	176 937
Other creditors	46	790 288	616 373
Total creditors		<u>4 786 262</u>	<u>3 423 173</u>
Deferred tax liabilities	43	703 773	177 914
Provisions	48	365 412	202 361
Accrued expenses and deferred income	49	263 604	225 233
<u>Total liabilities</u>		<u>54 918 221</u>	<u>31 562 491</u>
Total equity and liabilities		<u>69 501 095</u>	<u>38 846 338</u>

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Gints Dandzbergs
Chairman of the Board



Pauls Dandzbergs
Chairman of the Council



Agris Dambeniaks
Member of the Board

Cash flow statement for the year ended 31 December 2007

	Notes	2007 LVL	2006 LVL
Cash flow from insurance activities			
Premiums received in direct insurance		58 935 780	36 983 219
Claims paid in direct insurance		(28 526 051)	(18 247 252)
Premiums received in co-insurance		89 284	242 922
Payments received from reinsurers		-	21 641
Payments made to reinsurers		(1 909 510)	(1 965 067)
Payments received in assumed reinsurance		289 430	220 354
Income tax paid	44	(72 837)	(261 756)
Obligatory payments	40	(947 396)	(850 221)
Payments to employees		(5 981 034)	(3 806 855)
Payments to intermediaries		(1 419 827)	(1 451 820)
Other payments made		(5 411 931)	(4 158 246)
Other payment received		905 008	857 412
Total cash flow from insurance activities		15 950 916	7 584 331
Cash flow from investing activities			
Acquisition of investments:		(459 428 202)	(181 163 391)
Disposal of investments:		444 398 616	173 991 911
Investment income received		1 459 134	789 411
Dividends received		270	13 731
Total cash flow from investing activities		(13 570 182)	(6 368 338)
Cash flow from financing activities			
Proceeds in increase in shares		1 324 634	712 511
Proceeds from subordinated liabilities	42	1 053 152	520 598
Dividends paid		(318 624)	(572 476)
Proceeds from other financial sources		-	-
Total cash flow from financing activities		2 059 162	660 633
Cash and cash equivalent net increase/decrease		4 439 896	1 876 626
Foreign currency fluctuation influence on cash and cash equivalents (+/-)		(35 702)	(3 846)
Cash and cash equivalent at the beginning of the year		3 972 727	2 099 947
Cash and cash equivalent at the end of the year	39	8 376 921	3 972 727

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Gints Dandzbergs
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Pauls Dandzbergs
Chairman of the Council

Agris Dambenieks
Member of the Board

Statement of changes in capital and reserves for 2007

	Note	Share capital LVL	Share premium LVL	Revaluation reserve LVL	Equaliza- tion reserves LVL	Reserve capital and other reserves LVL	Retained Earnings LVL	Profit (loss) of the reporting year LVL	Total capital and reserves LVL
31.12.2005		3 300 000	730 003	151 765	383 468	698 895	237 723	618 334	6 120 188
Issued shares in the reporting year	41	1 000 000	212 000	-	-	-	-	-	1 212 000
Profit for the reporting year		-	-	-	-	-	-	413 197	413 197
Transfer of retained earnings		-	-	-	-	-	62 334	(62 334)	-
Increase/decrease in equalization reserve	41	-	-	-	(366 830)	-	-	-	(366 830)
Discounts for preference stock		-	-	-	-	-	(25 000)	-	(25 000)
Increase in revaluation reserve for investments in land and buildings	41	-	-	655 638	-	-	-	-	655 638
Deferred tax effect on long-term investments	41	-	-	(98 346)	-	-	-	-	(98 346)
Dividends for 2005	41	-	-	-	-	-	(71 000)	(556 000)	(627 000)
31.12.2006		4 300 000	942 003	709 057	16 638	698 895	204 057	413 197	7 283 847
Issued shares in the reporting year	41	1 700 000	277 100	-	-	-	-	-	1 977 100
Profit for the reporting year		-	-	-	-	-	-	4 003 279	4 003 279
Transfer of retained earnings		-	-	-	-	-	397	(397)	-
Increase/decrease in equalization reserve		-	-	-	5 646	-	-	-	5 646
Discounts for preference stock		-	-	-	-	-	(25 000)	-	(25 000)
Increase in revaluation reserve for investments in land and buildings		-	-	2 059 767	-	-	-	-	2 059 767
Deferred tax effect on long-term investments		-	-	(308 965)	-	-	-	-	(308 965)
Dividends for 2006		-	-	-	-	-	-	(412 800)	(412 800)
31.12.2007		6 000 000	1 219 103	2 459 859	22 284	698 895	179 454	4 003 279	14 582 874

The accompanying notes on pages 13 to 58 form an integral part of these financial statements.

The Board of the Company approves for issue to the shareholders these financial statements on 18 April 2008, and the financial statements are signed on behalf of the Council and Board of the Company by:

Gints Dandzbergs
Chairman of the Board

Pauls Dandzbergs
Chairman of the Council

Agris Dambenieks
Member of the Board

Notes to the financial statements

(1) General information

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

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

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

Shareholders of the company are residents of Latvia – 1 legal entity and 10 individuals.

The Company has a 19.99% interest in a related company BTA Draudimas UAB, legal address – Verkiu 29-18, Vilnius.

The Company has a 49% interest in associated company OOO KROHA, Gagarina 74 -76A, Kaliningrad, Russia.

The company has a 100% interest in BTA Informācijas Tehnoloģijas SIA that has been classified as a non current investment held for sale as it is the intent of management to sell this interest in the short term.

The Company has a branch abroad. The legal address of the branch is Peterburi tee 2F, Tallinn 11415. The financial results of the branch are included in the total operational results of the Company

The financial statements were approved by the Board of Directors on 18 April 2008. The financial statements will be approved by the annual shareholder’s meeting which has the power to amend the authorised financial statements.

(2) Accounting policies

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, as required by the regulation “*On the preparation of annual reports and consolidated annual reports of insurance joint stock companies, mutual insurance cooperative associations and branches of non-EU insurance companies*” issued by the Financial and Capital Market Commission.

In preparing these financial statements, the Company has adopted IFRS 7 *Financial Instruments: Disclosures and the Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures* applicable for financial statements for annual periods beginning on or after 1 January 2007. The adoption of IFRS 7 and the amendment to IAS 1 have impacted the content of disclosures made in financial statements but have had no impact on the reported profit or the financial position of the Company.

Notes to the financial statements

Basis of preparation

The amounts presented in these financial statements are in the monetary unit of the Republic of Latvia – lats, which is the functional currency of the Company.

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 and available-for-sale instruments except those whose fair value cannot be reliably estimated. Other financial assets and liabilities are carried at amortized cost using the effective interest rate method.

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. Judgments made by management that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year relate to the estimation of liabilities and assets generated by insurance claims and unexpired risk technical reserves. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are reflected in the income statement in the period of reporting.

Consistent accounting principles have been applied to the financial years disclosed in these financial statements.

New standards and interpretations, amendments that are not yet effective

A number of new standards, amendments to standards and interpretations are not yet effective or have not yet been adopted by EU for the year ended 31 December 2007, and have not been applied in preparing these financial statements:

- IFRS 8 *Operating Segments* requires segment disclosure based on the components of the entity that management monitors in making decisions about operating matters. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. This standard is not relevant to the Company, as the Company is not listed.
- IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions* requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity-instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments needed are obtained. It also provides guidance on whether share-based payment arrangements, in which suppliers of goods or services of an entity are provided with equity instruments of the entity's parent, should be accounted for as cash-settled or equity-settled in the entity's financial statements. IFRIC 11 is not relevant to the Company's operations as the Company has not entered into any share-based payments arrangements.
- IFRS 2 *Share-based Payment* - the revised Standard will clarify the definition of vesting conditions and non-vesting conditions. The revised IFRS 2 is not relevant to the Company's operations as the Company does not have any share-based compensation plans.
- IFRIC 12 *Service Concession Arrangements* provides guidance to private sector entities on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12 is not relevant to the Company's operations as the Company has not entered into any service concession arrangements.
- IFRIC 13 *Customer Loyalty Programmes* addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13 is not relevant to the Company's operations as the Company does not have such customer loyalty programmes.
- Revised IAS 23 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 is not relevant to the Company's operations as the Company has not entered into any acquisition, construction or production, for which specific borrowing would be attracted.
- IFRIC 14 *IAS 19 – The limit on a defined Benefit Asset, Minimum funding Requirements and their interaction* clarifies when refunds or reductions in future contributions in relation to defined assets should be regarded as available and provides guidance on the impact of minimum funding requirements (MFR) on such assets. IFRIC 14 is not relevant to the Company's operations as the Company has not entered into long term employee benefit plans.
- IFRS 3 *Business Combinations* – has been amended and the definition of a business has been expanded, while introducing also other significant changes to the standard for accounting of business combinations. Management do

Notes to the financial statements

not anticipate IFRS 3 to have any effect on the Company.

- IAS 1 *Presentation of Financial Statements* - revised Standard requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income. Management plans to continue to prepare two separate statements and does not intend to prepare a statement of comprehensive income.
- IAS 27 *Consolidated and Separate Financial Statements* - in the revised Standard the term minority interest has been replaced by non-controlling interest, and is defined as "the equity in a subsidiary not attributable, directly or indirectly, to a parent". The revised IAS 27 is not relevant to the Company's operations as the Company does not have any interests in such subsidiaries that will be affected by the revisions to the Standard.

Reporting period

Reporting period includes 12 months from January 1, 2007 to December 31, 2007.

Foreign currency

Foreign exchange transactions including transactions in Estonia 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 recognized in the profit or loss account in the period in which the fluctuation occurs. Foreign exchange differences arising on translation are recognised in the income statement.

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

	31.12.2007	31.12.2006
EUR	0.7028	0.7028
USD	0.4840	0.5360
EEK	0.0449	0.0449
LTL	0.2040	0.2040
RUR	0.0197	0.0203

Classification of insurance contracts

All insurance contracts are classified as insurance contracts.

Non-life insurance 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 insured event is 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 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, which protect direct insurance from 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 disfunctioning, but it cannot be fixed 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

The 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 transferred insurance risk.

Insurance premium and premium income

Written premiums include the amounts, which are due for the insurance contracts signed during the reporting year, which have come into force in the reporting year irrespective whether these premiums have been received or not. Premiums written are decreased by premiums cancelled and interrupted during the reporting period.

Claims incurred

Claims incurred from insurance activities are claims attributable to the reporting period and consists of claims paid in the financial year, 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.

Technical reserves

The Company has established the following technical reserves:

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 based on its period in force.

Unexpired risk reserve (URR)

URR is provided when it is expected that the unearned premium reserve will not be sufficient to cover all claims and expenses arising on policies in force.

Outstanding claim technical reserve

Outstanding claim technical reserve is amount provided at the end of the reporting period in respect of estimated losses incurred

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 as at reporting date, not yet settled

Incurred but not reported claims reserve (IBNR)

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

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

- personal accident insurance,
- motor own damage insurance,
- property insurance (fire risks),
- property insurance (other risks),
- travel accident insurance,

Notes to the financial statements

- general third party liability,
- cargo insurance,
- various financial risks.

The IBNR reserve is calculated as a percentage of premiums written in the prior year for the following lines of business:

- marine insurance,
- general motor third party liability insurance,
- marine third party liability insurance,
- guarantees,
- health insurance,
- railway insurance,
- aircraft insurance,
- aircraft third party liability insurance,
- credit risk insurance.

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

Equalization reserve

An equalization reserve is established in order to seek to equalize 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.

Reinsurance

Amounts recoverable under reinsurance contracts are assessed for impairment at each balance sheet date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Company may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer.

The Company cedes reinsurance in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks. Reinsurance arrangements do not relieve the Company from its direct obligations to its policyholders.

Premiums ceded and benefits reimbursed are presented in the income statement and balance sheet on a gross basis.

Only contracts that give rise to a significant transfer of insurance risk are accounted for as reinsurance contracts. Amounts recoverable under such contracts are recognised in the same year as the related claim. Contracts that do not transfer significant insurance risk (i.e. financial reinsurance), are recorded using the deposit method of accounting. At the balance sheet date the Company did not have any such contracts.

Reinsurance assets include balances due from reinsurance companies for ceded insurance liabilities. Premiums on reinsurance assumed are recognised as revenue and accounted as if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims technical reserve or settled claims associated with the reinsured policy. Reinsurance assets comprise the actual or estimated amounts, which, under contractual reinsurance arrangements, are recoverable from reinsurers in respect of technical reserves. Reinsurance assets relating to technical reserves are established based on the terms of reinsurance contracts and valued on the same basis as the related reinsured liabilities. The Company records an allowance for estimated irrecoverable reinsurance assets, if any.

The cost of reinsurance related to life assurance contracts is accounted for over the life of the underlying insurance policies using assumptions consistent with those used to account for the underlying policies.

Reinsurance commissions and profit participations

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

Client acquisition costs

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

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Deferred client acquisition costs

Deferred client acquisition costs including intermediary commissions, and other costs of acquiring the business are recognized as expenses over the life of the insurance policies.

Allocation of administration expenses among insurance types

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

Unearned reinsurance commission

Unearned reinsurance commission includes calculated commissions from reinsurers in accordance with reinsurance contracts that are deferred and attributed to revenues in accordance with the insurance period of respective policies.

Liability adequacy test

Management assess 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 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 deferred acquisition costs and then by setting aside additional unexpired risk reserves.

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

Leases

The lease of property, plant and equipment is classified as a *finance lease* if it transfers substantially all risks and rewards of ownership. Title does not have to be transferred. Ownership does not have to be transferred. All other cases are classified as *operating lease*.

The company does not have assets under finance lease.

The Company as lessor

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

The Company as lessee

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

Interest income and expenses

Interest income and expense is recognized in the income statements as it accrues, taking into account the effective yield on the asset.

Corporate income tax

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

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% 2007 and 2006), and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized 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 different depreciation rates of fixed assets applied, which are used for tax accounting and financial accounting, provisions made and losses available to be utilized. Deferred tax has been recognized by applying the statutory tax rate 15%.

Notes to the financial statements

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilized. 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 realized.

Deferred tax assets and liabilities are not discounted.

Property, plant and equipment

Owner occupied buildings, office equipment and vehicles

Property, plant and equipment are disclosed at cost less accumulated depreciation and impairment. Depreciation is calculated in accordance with the geometrical regression 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	20.00% per year
Computers, electrical equipment	35.00% per year
Vehicles	20.00% per year
Buildings for own use	5.00% per year

In the event that the book value of an asset is higher than its recoverable amount, the value of the respective asset is written down to its recoverable amount. The recoverable amount is the highest of the fair value less selling expenses or value in use.

Maintenance costs of property, plant and equipment are recognized in the profit or loss statement as incurred.

Costs of capital repairs of property, plant 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.

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

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

Land and buildings

Land and buildings are classified as either investment properties or land and buildings used by the company for its operating activities (owner occupied).

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

An external, independent valuation expert, having an appropriate recognised professional qualification and experience in the location values each investment property in order to reflect market conditions at the balance sheet date.

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.

Buildings used for the Company's operating activities are initially stated at cost less depreciation. If the value of land and buildings used for operating activities at the balance sheet date is significantly higher than their book value, they are re-measured at the higher value, if the increase in value is assumed to be permanent. The increase of value resulting from revaluation is recognized under "Long term investment revaluation reserve" in equity. Long term investment revaluation reserve is decreased when the revalued asset is disposed, is not utilized, or increase of value is no longer reasonable. Valuations are carried out by independent valuers.

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

Notes to the financial statements

fair value is recognized directly in equity if it is a gain. Upon disposal of the item the gain is transferred to retained earnings. Any loss arising in this manner is recognized in the income statement 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.

Intangible assets

Software licenses

Software licenses are capitalized. Software licenses are recorded at cost including acquisition and implementation costs less accumulated amortization and impairment. Amortization is calculated in accordance with the geometrical regression 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 the following rates:

Software licenses	20% per year
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In the event that the book value of an intangible asset is higher than its recoverable amount, the value of the respective intangible asset is written down to its recoverable amount. The recoverable amount is the highest of the fair value less selling expenses or value in use.

Financial instruments

Classification

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

Financial instruments designated at fair value through profit or loss are held-for-trading financial instruments and financial assets and liabilities that the Company initially defines as assets and liabilities designated at fair value through profit or loss.

A financial instrument is classified as held for trading if it is acquired principally for the purpose of selling or repurchasing in the near term or it is 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. Derivatives are also categorized as held for trading unless they are designated as hedging instrument for hedge accounting purposes.

During 2007, the Company did not apply hedge accounting.

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. Held to maturity financial instruments include certain debt securities.

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 balance sheet. Insurance receivables are classified in this category.

Financial liabilities carried at amortized 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.

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 balance sheet 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.

Notes to the financial statements

Recognition and Derecognition

Financial instruments are recognized when the Company becomes a party to the contractual rights of the instrument. All regular way purchase and sales of financial assets are recognized in the balance sheet 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.

All loans and advances are recognized when cash is advanced to borrowers.

Financial assets are derecognized 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 derecognized when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

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 amortized cost using the effective interest rate method. All instruments are subject to revaluation when impaired. Short term receivables and payables are not discounted.

Profit or loss arising from changes to the fair value of financial instruments designated through profit or loss is recognized in the income statement. Differences arising from changes to the fair value of available for sale financial instruments are recognized through equity.

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 balance sheet 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 balance sheet 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 balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

Investments in subsidiaries

Investment in the shares of subsidiary BTA Informācijas Tehnoloģijas SIA is included as a non-current assets held for sale, at the lower of cost or fair value less cost to sell. At the date of preparation of these financial statement the subsidiary is sold. Consolidated financial statements are not prepared as the only subsidiary BTA Informācijas Tehnoloģijas SIA is not material to the company's financial statements.

Notes to the financial statements

Investments in associated companies

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. The individual financial statements include the Company's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Company's share of losses exceeds its interest in associate, the Company's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of an associate.

Impairment of financial assets

At each balance sheet date the Company assesses whether there is objective evidence that 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 on 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 balance sheet date. Assets that are not individually significant are collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Company on terms that the Company would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

In assessing collective impairment the Company uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Insurance receivables that are overdue are reversed against premium income once the policy is cancelled. No impairment allowances are recognized 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 recognized on doubtful receivables.

Impairment of non-financial assets

The carrying amounts of the Company's assets, other than financial assets, deferred acquisition costs and, deferred taxes are reviewed at each balance sheet date to determine whether there is any indication of impairment.

In the presence of such evidence, the Company estimates the recoverable amount. Irrespective of whether there is evidence of impairment the Company every year reviews intangible assets with indeterminate useful lives or not available yet for use.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement. Recoverable amount is the greater of its value in use and its fair value, less cost to sell.

Sale of assets under agreements to repurchase (repo agreements)

Transactions of asset sales with repurchase are recognized as financing transactions. If the Company is involved in these transactions as a seller of assets, then it continues to recognize the sold assets in its balance sheet using the same accounting principles as for the assets of its own. The funds received as a result of sale are recognized 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 recognized in the Company's balance sheet, but the purchase price paid as a result of transaction is recognized as a claim against the seller of assets. Interest income or expenses as a result of transactions are recognized in the profit or loss statement during the operation of respective contract.

Notes to the financial statements

Insurance debtors

Receivables include accounts receivable from policyholders, intermediaries, and other debtors and are recognized at amortized cost.

Amounts that are overdue are reversed against premium income once the policy is cancelled. No impairment allowances are recognized 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 recognized on doubtful receivables.

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.

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 maturity term less than three months. In the cash flow statement, cash flows are presented using the direct method.

Share capital

Repurchase of shares

Share capital repurchased, is recognized as a change in equity in the amount of the consideration paid, including directly attributable costs. Repurchased shares are classified as treasury shares and presented as a deduction from total equity.

Dividends

Dividends are recognised as a liability in the period in which they are declared

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.

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. 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 to pensions.

Provisions

A provision is recognized 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) Risk and risk management

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 insurance risks result from accepting insured risks, assessing them, 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.

AAS „BTA” management has identified risks and developed the management of these risks. Risk management is carried out in accordance with the Company’s Board decision.

Notes to the financial statements

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 minimize and avoid the risk occurrence possibility.

Insurance risks and risk management

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

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. Term of non-life contracts is up to 5 years; however, they are 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.

Basic product features

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 bonus-malus system, which decreases the insurance premium upon absence of losses and increases the insurance premium upon occurrence of losses. The sums insured very rarely exceed the limit of 50 thousand lats. Largest losses arise from the theft of vehicles and destruction.

Motor third party liability insurance.

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

Most of motor third party liability insurance indemnities 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.

Health insurance

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

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

Property insurance

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

Business interruption insurance covers lost business profits and fixed costs incurred, which arise from the realization of any risk covered by property insurance of a company. Upon the sale of that insurance type, it is considered to be particularly important to take into account the reliability of customers and transparency of 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 the realizations of fire risk.

Insurance risk concentration

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 the types, 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 economic area in total, for which several risks are insured. When insuring such risks, an obligatory precondition is assessment of the company's financial position and capacity, as well as fixing how large financial liabilities can arise, how large liabilities 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 minimize 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 making 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. Reinsurance policy, according to which the Company is operating, has been approved by the Board.

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, icing, etc.). Large fires and earthquakes are unlikely, but they may occur. Most characteristic catastrophes are floods and storms. In order to minimize 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 objects. The Company has developed methodology for fixing retention. It depends on very many factors and historical statistical information in each product group. According to management, the measures taken sufficiently reduce the impact of catastrophe risk on the Company.

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 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, department of 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, respectively, the higher the position; the higher risk may be underwritten.

Irrespective of the above described events, which have been implemented and are being managed, the Company's management is, however, 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 insurance indemnity will be fixed non-compliant with the losses caused or the claims case will be administered for a too long time.

In order to minimize such risks, the Company has developed and uses the quality management system, which describes all processes and reserves, which are carried out in the Company during the insurance administration process and the claims regulation procedures. It has been fixed when and upon what circumstances certain type of procedures should be observed. Quality measurements can be carried out in any process and fix whether this process is being carried out in accordance with the Company's interests and described processes. The measurements of these processes are the engagement of the Quality managements 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 minimize the risk, which is connected with the insurance processes.

Notes to the financial statements

Liabilities adequacy test

The Company has assessed its insurance liabilities shown in the balance sheet on 31 December 2007 by the liability adequacy test.

A liability adequacy test is carried out at each reporting date and assess whether recognized insurance liabilities less deferred acquisition costs are adequate using current estimates of future cash flows under its insurance contracts. If the assessment indicates liabilities are inadequate in the light of the established future cash flow, the deficiency is recognized 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.

The test is performed by product groups each comprising a group of insurance contracts with similar risk profiles. Sufficiency of technical reserves by LAT test as at 31.12.2007 is showed in following table:

	In thousand LVL	Year					
		2008	2009	2010	2011	2012	2013
Un discounted future cash flow from expected claims and claim handling costs	(31 627)	(25 710)	(4 234)	(1 161)	(373)	(150)	-
Un discounted future cash flow from expected claims and claim handling costs including 14% inflation for year 2008	(35 314)	(27 450)	(5 216)	(1 693)	(645)	(310)	-
Present value of future cash flow using refinancing rate 6% p.a. (Bank of Latvia)	(33 223)	(26 662)	(4 779)	(1 464)	(80)	(238)	-
DAC as at 31/12/2007	(2 552)	(2 552)					-
Expected administration expenses	(3 258)	(2 507)	(459)	(119)	(97)	(75)	-
Total gross technical reserve as at 31/12/2007	47 746						
LAT surplus as at 31/12/2007	8 713						

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 claim adjustment expenses.

The amount of liabilities is set so that it would be sufficient for covering the liabilities under insurance contracts.

	Necessary capital (000' LVL)	Changes %
LAT result as at 31/12/2007	8 713	
Discounted at the refinancing rate of 5% p.a.	8 462	-3.4%
Discounted at the refinancing rate of 4% p.a.	8 148	-7.0%
Discounted at the refinancing rate of 7% p.a.	9 048	3.3%
Discounted at the Bank of Latvia refinancing rate of 6% p.a., decrease of expenses in the first year 0.6	6 806	-22.3%
Discounted at the Bank of Latvia refinancing rate of 6% p.a., decrease of expenses in the first year 0.4	4 200	-52.1%

Notes to the financial statements

Claims development

Information on the claims development has been provided in order to illustrate the insurance risk to which the Company is subject to. 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 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 change 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 2007 as adequate.

Claim development analysis, Thousand LVL

	Year of insured occurrence					Total
	2003	2004	2005	2006	2007	
Estimate of cumulative claims at end of accident year	201	10 732	14 890	22 261	38 024	38 024
- one year later	2 325	11 440	12 891	22 027		22 027
- two years later	2 151	10 711	12 917			12 917
- three years later	2 093	10 344				10 344
- four years later	2 161					2 161
Cumulative payments to date	<u>(2 151)</u>	<u>(10 257)</u>	<u>(12 632)</u>	<u>(20 973)</u>	<u>(22 007)</u>	<u>(68 020)</u>
Outstanding claims reserves at 31.12.2007	10	87	285	1 054	16 017	17 453

Financial risks and risk management

The Company's financial assets and liabilities, including investments, 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;
- Currency risk: adverse changes to the currency exchange rate may cause loss to the Company
- Credit risk: failure 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.

Market risks

The Company is subject to potential investment risks by incurring losses from financial assets, financial liabilities, reinsurance and insurance contractual liabilities.

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, which may be referred to the cover of technical reserve, and then the Company develops the investments establishment procedure.

The main investment risk components are the market, credit and liquidity risks. The market risk, in its turn, is comprised of the price, interest rates and currency risks.

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 minimization of investments risk.

Reduction of investments risk is carried out in two ways – firstly, by diversifying the investments portfolio, secondly, by analyzing 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.

Notes to the financial statements

Investment analysis by ratings as at 31.12.2007:

	Standard Poor's or Moody's	Shares and other listed equity instruments	Investment funds	Other non-fixed income securities	Government bonds	Listed debt securities	Mortgage bonds	Other fixed income securities	Total
AAA	-	-	-	-	2 498 466	-	-	-	2 498 466
AA+	-	76 141	-	-	-	-	-	-	76 141
AA-	-	1 185 609	-	68 130	-	99 771	-	-	1 353 510
A	-	-	-	-	3 049 606	580 934	1 955 078	-	5 585 618
A-	-	-	-	-	171 916	-	-	-	171 916
BBB+	-	-	-	-	-	-	357 896	-	357 896
BBB	-	-	-	-	-	186 529	-	-	186 529
BBB-	-	-	-	-	100 545	50 121	-	-	150 666
BB	-	-	-	-	-	93 211	-	-	93 211
B+	-	-	-	-	-	134 375	-	-	134 375
Not applied	-	260 429	2 547 563	-	-	-	-	-	2 807 992
No rating	-	-	-	338	-	-	-	141 792	142 130
		1 522 179	2 547 563	68 468	5 820 533	1 144 941	2 312 974	141 792	13 558 450

Currency risk

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. 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.

Sensitivity to foreign exchange is considered insignificant.

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

31 December 2007

	LVL	EUR	USD	EEK	Other	Total
Investments and cash						
Long term assets held for sale	493 963	-	-	-	-	493 963
Shares and other non-fixed income securities	339	3 790 235	277 047	70 589	-	4 138 210
Debt securities and other fixed income securities	5 178 287	3 284 994	956 959	-	-	9 420 240
AFS investments	769 854	-	-	-	-	769 854
Term deposits with credit institutions	7 346 555	3 450 688	1 016 779	810 314	84 768	12 709 104
Mortgage loans	5 526 287	2 341 649	148 982	-	-	8 016 918
Other loans	1 251 089	1 985 854	25 105	-	-	3 262 048
Receivables	9 306 646	1 647 430	286 710	624 123	939	11 865 848
Cash	1 087 035	283 244	37 474	33 235	5 168	1 446 156
Total Investments and cash	30 960 055	16 784 094	2 749 056	1 538 261	90 875	52 122 341
Technical reserves, net						
Unearned premium and unexpired risk technical reserves, net	24 414 128	2 871 130	252 234	1 655 666	16 930	29 210 088
Technical reserves for outstanding claims, net	10 458 274	684 735	445 545	172 167	22 452	11 783 173
Total Technical reserves, net	34 872 402	3 555 865	697 779	1 827 833	39 382	40 993 261
Open currency position	(3 912 347)	13 228 229	2 051 277	(289 572)	51 493	11 129 080

Notes to the financial statements

31 December 2006

	LVL	EUR	USD	EEK	Other	Total
Investments and cash						
Long term assets held for sale	2 000	-	-	-	-	2 000
Shares and other non-fixed income securities	339	1 187 791	492 786	58 814	-	1 739 730
Debt securities and other fixed income securities	6 820 471	1 326 596	1 183 051	-	-	9 330 118
AFS investments	560 681	-	-	-	-	560 681
Term deposits with credit institutions	3 081 089	1 942 973	368 636	-	-	5 392 698
Mortgage loans	4 338 636	930 292	95 982	-	-	5 364 910
Other loans	645 081	486 641	391 471	-	-	1 523 193
Receivables	5 299 153	1 092 460	391 619	104 495	18 116	6 905 843
Cash	559 677	47 053	66 621	43 501	95 538	812 390
Total Investments and cash	21 307 127	7 013 806	2 990 166	206 810	113 654	31 631 563
Technical reserves, net						
Unearned premium and unexpired risk technical reserves, net	15 024 373	2 044 925	339 736	155 555	25 081	17 589 670
Technical reserves for outstanding claims, net	6 550 997	562 432	395 636	-	23 588	7 532 653
Total Technical reserves, net	21 575 370	2 607 357	735 372	155 555	48 669	25 122 323
Open currency position	(268 243)	4 406 449	2 254 794	51 255	64 985	6 509 240

Interest rate risk

Measures for management of the interest rate risk in the Company are centralized and 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 analyzed according to repricing periods determined as the earlier of remaining contractual maturity and contractual repricing. The interest rate repricing profile of assets of the Company as at year end.

31 December 2007

	Within 6 months LVL	6-12 months LVL	1-2 years LVL	3-5 years LVL	Over 5 years	Non-interest bearing	Total LVL	Amounts subject to fixed rates LVL
Financial assets								
Financial assets at fair value through profit and loss	583 275	2 894 702	1 869 955	3 206 608	865 700	4 138 210	13 558 450	10 459 810
Financial assets classified as AFS	-	-	-	-	-	769 854	769 854	-
Term deposits with credit institutions	10 086 753	2 091 421	400 447	130 483	-	-	12 709 104	12 709 104
Loans	228 747	3 260 252	3 417 648	3 360 010	1 012 309	-	11 278 966	11 278 966
Receivables	-	-	-	-	-	11 865 848	11 865 848	-
Demand deposits with credit institutions	1 414 258	-	-	-	-	-	1 414 258	1 414 258
Cash on hands	-	-	-	-	-	31 898	31 898	-
Total financial assets	12 313 033	8 246 375	5 688 050	6 697 101	1 878 009	16 805 810	51 628 378	35 862 138

Notes to the financial statements

31 December 2006

	Within 6 months LVL	6-12 months LVL	1-2 years LVL	2-5 years LVL	Over 5 years LVL	Non- interest bearing LVL	Total LVL	Amounts subject to fixed rates LVL
Financial assets								
Financial assets at fair value through profit and loss	725 424	-	2 801 258	2 346 768	3 456 668	1 739 730	11 069 848	10 316 230
Financial assets classified as AFS	-	-	-	-	-	560 681	560 681	-
Term deposits with credit institutions	3 712 376	693 387	613 816	373 119	-	-	5 392 698	5 392 698
Loans	1 048 924	2 437 738	652 320	743 048	2 006 073	-	6 888 103	6 888 103
Receivables	-	-	-	-	-	6 905 843	6 905 843	-
Demand deposits with credit institutions	773 497	-	-	-	-	-	773 497	773 497
Cash on hand	-	-	-	-	-	38 893	38 893	-
Total financial assets	6 260 221	3 131 125	4 067 394	3 462 935	5 462 741	9 245 147	31 629 563	23 370 528

Weighted average effective interest rates as applicable for the interest bearing financial instruments excluding insurance contracts were as follows:

	2007	2006
Bonds	5.37%	4.32%
Deposits	5.91%	4.12%
Loans	4.27%	4.74%

For the purposes of managing market and interest rate risk, the Company uses interest rate and stock index derivative financial instruments. Investments in derivative financial instruments may be made in compliance with the below following risk management policies:

- Interest rate futures – in cases if the risk of changes in the existing investment portfolio debt securities price is decreased, the amount of signed futures may not exceed 95 per cent of the value of debt securities portfolio.
- Interest rate futures – in cases if the increase of more effective investment portfolio profitability is promoted, the amount of signed futures may not exceed 50 per cent of the consolidated own funds of AAS BTA.
- Stock index futures – in cases if the increase of more effective investment portfolio is promoted, the amount of signed futures may not exceed 25 per cent of the consolidated own funds of AAS BTA.

The net derivative financial liabilities as at 31.12.2007 are nil (2006: immaterial)

Credit risk

The company takes on exposure to credit risk which is the risk that counterparty will be unable to pay amounts in full when due. The company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one issuer of securities, debtor, borrower, or group of the above. Such risks are monitored regularly.

Notes to the financial statements

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

Maximum credit risk	2007		2006	
	Gross	Net	Gross	Net
Non-fixed income securities	4 138 210	4 138 210	1 739 730	1 739 730
Government bonds	5 820 533	5 820 533	5 082 874	5 082 874
Corporate bonds	1 144 941	1 144 941	1 644 756	1 644 756
Mortgage bonds	2 312 974	2 312 974	2 467 750	2 467 750
Other fixed income securities	141 792	141 792	134 738	134 738
Available for sale financial assets	769 854	769 854	560 681	560 681
Deposits with banks	12 709 104	12 709 104	5 392 698	5 392 698
Loans	11 278 966	-	6 888 103	-
Due from policy holders	8 901 484	8 953 484	4 017 525	4 017 525
Due from intermediaries	1 860 379	1 860 379	1 803 599	1 803 599
Receivables from reinsurance activities	135 271	135 271	122 886	122 886
Other debtors	968 714	968 714	961 833	961 833
Reinsurers' share in unearned premiums provisions	1 082 712	1 082 712	1 059 711	1 059 711
Reinsurers' share in claim provisions	5 670 045	5 670 045	824 178	824 178
Total	56 934 979	45 708 013	32 701 062	25 812 959

No special terms and conditions are associated with use of collateral.

Credit risk arises on direct insurance amounts receivable and reinsurance amounts receivable and is the risk the counter party defaults on 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.

Reinsurance

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

When carrying out reinsurance, the rating of a reinsurance company may not be 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.

There have been no cases when a reinsurance company has not met its liabilities.

Rating	2007		
	Reinsurance debtors	Reinsurer's share in written premiums	Reinsurer's share in claims paid
AAA	-	153 294	210 467
AA	52 807	2 062 682	328 010
A	47 694	807 490	102 886
BBB	3 667	4 417 604	3 632 377
Insurance companies of the EU economic zone which are licensed to insure this risk	8 460	21 138	981
No rating	22 643	-	-
TOTAL	135 271	7 462 208	4 274 721

Notes to the financial statements

Rating	2006		
	Reinsurance debtors	Reinsurer's share in written premiums	Reinsurer's share in claims paid
AAA	-	286 586	8 352
AA	31 218	772 811	237 410
A	8 435	1 555 521	142 505
BBB	1 558	2 699 250	2 414 955
BB	-	14 299	18 982
Insurance companies of the EU economic zone which are licensed to insure this risk	40 835	134 493	28 762
No rating	40 840	-	39 656
TOTAL	122 886	5 462 960	2 890 622

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

	Maximum own retention
CASCO	40 000 LVL
Cargo	75 000 EUR
Property	150 000 LVL
General TPL	100 000 LVL
Compulsory motor TPL	400 000 EUR

Liquidity risks

In accordance with approved investment establishment procedure methodology, the employees of AAS BTA Financial Department are obliged to ensure that at least 30 per cent of the assets required for 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 solvent 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.

Such type of high liquidity assets in AAS BTA balance sheet make up significant part of assets and cover more than 50% from technical reserves.

The table below allocates the Company's assets, liabilities to maturity groups based on the time remaining from the balance sheet date to the contractual maturity dates as at 31 December 2007:

Notes to the financial statements**31 December 2007**

	Up to 12 months LVL	From 1 to 5 years LVL	Over 5 years LVL	No fixed term LVL	Total LVL
Assets					
Property, plant and equipment	-	-	-	470 266	470 266
Land and buildings	-	-	-	7 338 081	7 338 081
Intangible assets	-	-	-	9 800	9 800
Investments held for sale	-	-	-	493 963	493 963
Financial assets at fair value through profit or loss	3 477 977	6 116 133*)	865 700*)	3 098 640*)	13 558 450
Investments available for sale	-	-	-	769 854	769 854
Term deposits with credit institutions	12 178 174	530 930	-	-	12 709 104
Loans	3 488 999	6 777 658	1 012 309	-	11 278 966
Receivables from insurance operations	10 761 863	-	-	-	10 761 863
Receivables from reinsurance operations	135 271	-	-	-	135 271
Other receivables	494 548	474 166	-	-	968 714
Deferred income	2 807 850	-	-	-	2 807 850
Reinsurance agreement	6 752 757	-	-	-	6 752 757
Cash	1 446 156	-	-	-	1 446 156
Total assets based on the contractual date	41 543 595	13 898 887	1 878 009	12 180 604	69 501 095
Total assets taking into account liquidity	51 624 068	7 782 754	1 012 309	8 081 964	69 501 095
Equity and liabilities					
Capital and reserves	-	-	-	14 582 874	14 582 874
Insurance liabilities	47 441 245	304 773	-	-	47 746 018
Subordinated liabilities	-	-	1 053 152	-	1 053 152
Creditors	4 786 262	-	-	-	4 786 262
Deferred tax liabilities	-	-	-	703 773	703 773
Provisions	-	-	-	365 412	365 412
Accrued expenses and deferred income	263 604	-	-	-	263 604
Total equity and liabilities	52 491 111	304 773	1 053 152	15 652 059	69 501 095
Maturity gap on assets and liabilities	(10 947 516)	13 594 114	824 857	(3 471 455)	-
Maturity gap on assets and liabilities taking into account liquidity*)	(867 043)	7 477 981	(40 843)	(6 570 095)	-

*) 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

The table below allocates the Company's assets, liabilities to maturity groups based on the time remaining from the balance sheet date to the contractual maturity dates as at 31 December 2006:

31 December 2006

	Up to 12 months LVL	From 1 to 5 years LVL	Over 5 years LVL	No fixed term LVL	Total LVL
Assets					
Property, plant and equipment	-	-	-	477 373	477 373
Land and buildings	-	-	-	3 270 877	3 270 877
Intangible assets	-	-	-	20 502	20 502
Investments held for trading	-	2 000	-	-	2 000
Financial assets at fair value through profit and loss	725 424	6 134 138*)	3 456 668*)	753 618*)	11 069 848
Investments available for sale	-	-	-	560 681	560 681
Term deposits with credit institutions	4 405 763	986 935	-	-	5 392 698
Loans	3 486 662	1 395 368	2 006 073	-	6 888 103
Receivables from insurance operations	5 821 124	-	-	-	5 821 124
Receivables from reinsurance operations	122 886	-	-	-	122 886
Other receivables	475 220	486 613	-	-	961 833
Deferred income	1 562 134	-	-	-	1 562 134
Reinsurance agreements	1 883 889	-	-	-	1 883 889
Cash	812 390	-	-	-	812 390
Total assets based on the contractual date	19 295 492	9 005 054	5 462 741	5 083 051	38 846 338
Total assets taking into account liquidity	29 639 916	2 870 916	2 006 073	4 329 433	38 846 338
Equity and liabilities					
Capital and reserves	-	-	-	7 283 847	7 283 847
Insurance liabilities	26 221 766	784 446	-	-	27 006 212
Subordinated liabilities	-	-	527 598	-	527 598
Creditors	3 423 173	-	-	-	3 423 173
Deferred tax liabilities	-	-	-	177 914	177 914
Provisions	-	-	-	202 361	202 361
Accrued expenses and deferred income	225 233	-	-	-	225 233
Total equity and liabilities	29 870 172	784 446	527 598	7 664 122	38 846 338
Maturity gap on assets and liabilities	(10 574 680)	8 220 608	4 935 143	(2 581 071)	-
Maturity gap on assets and liabilities taking into account liquidity*)	(230 256)	2 086 470	1 478 475	(3 334 689)	-

*) 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.

Operating risks and risk management

The Company has determined that customers should receive a high quality service. The most significant risk in provision of these services has been defined to be qualified and knowledgeable employees representing the Company. In order to attract and keep medium and top level qualified employees in the Company, it has implemented a competitive salary and motivation system thus reaching that personnel change in top management is 0.00%, in medium level of managers – 3.5%, in specialists' level – 12.4% and lowest level specialists – 27.2%. The Company has established a training centre, which is engaged in raising the employees' qualification. The informative basis 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 type by fixing unreasonably low price or granting unreasonably high discounts, has been minimized. When fixing the price, the methodologies should be strictly followed, but deviations are necessary in connection with the market situation and such deviations should obligatory be agreed with top management. 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 activities is the information systems (IS). The Company's management pays major attention to ensure that these systems can work and comply with up-to-date requirements. The Company has an IT Department whose assignment 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 equipment or information has occurred. This time may not exceed 12 hours.

Capital sufficiency

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 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 guarantee fund announced by the FCMC.

	31.12.2007	31.12.2006
	LVL	LVL
Solvency margin based on premiums written	9 134 796	6 342 644
Solvency margin based on claims	3 241 894	2 379 509
Solvency margin at the end of the previous reporting period	6 342 644	4 249 565
Adjusted solvency margin at the end of the previous reporting period	6 342 644	4 249 565
Minimum guarantee fund (EUR)	3 200 000	3 000 000
EUR exchange rate set by the Bank of Latvia at the end of the reporting period	0.702804	0.702804
Minimum guarantee fund (LVL)	<u>2 248 973</u>	<u>2 108 412</u>
Solvency margin (The largest of amounts)	<u>9 134 796</u>	<u>6 342 644</u>
Equity and solvency compliance	31.12.2007	31.12.2006
	LVL	LVL
Share capital	6 000 000	4 300 000
Share premium	1 219 103	942 003
Reserve capital and other reserves, except revaluation and equalization reserves	698 895	698 895
Audited retained earnings/accumulated loss carried forward from prior years (+/-)	4 182 733	617 254
Intangible assets	(9 800)	(20 502)
Subordinated liabilities	<u>1 053 152</u>	<u>527 598</u>
Total capital for capital adequacy (own funds)	<u>13 144 083</u>	<u>7 065 248</u>
Solvency margin	<u>9 134 796</u>	<u>6 342 644</u>
Capital adequacy	<u>4 009 287</u>	<u>722 604</u>

The insurer's own funds are also directly related to the insurer's risk assuming ability (carrying capacity), which is characterized by the proportion of own funds against the major insurer's balance sheet and profit or loss ratios. The proportion of own funds against insurance premiums written and insurance claims paid characterizes the insurer's ability to manage different insurance risks, but the proportion against the technical reserves characterizes the insurer's ability to overcome losses, which may occur in case if a mistake has occurred in the calculation of technical reserves.

	2007		2006	
	LVL	%	LVL	%
Own funds	13 144 082	-	7 065 248	-
Incurred claims, net	28 397 331	47%	18 582 050	38%
Earned premiums, net	45 255 970	29%	28 472 483	25%
Technical reserves total, net	40 933 261	32%	25 122 323	28%
Investment portfolio	35 349 518	37%	20 793 979	34%

Notes to the financial statements**(4) Net written premiums**

	2007 LVL			2006 LVL		
	Gross written premiums	Reinsurer's share in premiums	Net written premiums	Gross written premiums	Reinsurer's share in premiums	Net written premiums
Motor own damage insurance	25 657 123	(4 199 165)	21 457 958	14 395 459	(2 438 357)	11 957 102
Compulsory motor third party liability*	15 931 296	(585 130)	15 346 166	9 281 947	(380 899)	8 901 048
Health insurance	11 329 597	-	11 329 597	6 832 846	-	6 832 846
Property insurance	5 484 154	(714 830)	4 769 324	3 188 627	(553 956)	2 634 671
Various financial risks	981 335	(528 993)	452 342	554 423	(304 689)	249 734
Cargo insurance	545 408	(369 822)	175 586	459 949	(308 341)	151 608
General third party liability	1 166 110	(279 005)	887 105	906 745	(356 957)	549 788
Personal accident insurance	339 317	(4 727)	334 590	272 852	(21 650)	251 202
Travel accident insurance	1 928 430	(53 321)	1 875 109	1 469 175	(54 364)	1 414 811
Marine insurance	187 392	(165 384)	22 008	152 535	(212 505)	(59 970)
Marine third party liability insurance	3 061	(2 755)	306	3 312	(2 981)	331
Railway insurance	71 202	(49 477)	21 725	103 389	(72 394)	30 995
Voluntary motor third party liability	3 013	-	3 013	1 367 001	-	1 367 001
Aircraft third party liability insurance	199 329	(198 729)	600	438 671	(379 742)	58 929
Aircraft insurance	114 897	(117 681)	(2 784)	246 574	(168 235)	78 339
Credit insurance	110 727	(63 677)	47 050	121 939	(102 639)	19 300
Guarantee insurance	286 205	(129 512)	156 693	226 543	(105 251)	121 292
	64 338 596	(7 462 208)	56 876 388	40 021 987	(5 462 960)	34 559 027

Gross written premiums include 191 T LVL (2006: 1 611 TLVL) assumed reinsurance.

* 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 663 154 (2006: LVL 579 998).

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

For ensuring the activities of the Latvian Motor Vehicle Insurance Bureau: LVL 0.40 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**(5) Net earned premiums**

	2007			2006		
	LVL			LVL		
	Gross earned premiums	Reinsurer's share in premiums	Net earned premiums	Gross earned premiums	Reinsurer's share in premiums	Net earned premiums
Motor own damage insurance	20 476 231	(4 199 925)	16 276 306	10 478 153	(2 437 597)	8 040 556
Compulsory motor third party liability	13 250 258	(585 130)	12 665 128	8 127 604	(380 899)	7 746 705
Health insurance	8 912 650	-	8 912 650	5 820 068	-	5 820 068
Property insurance	4 512 013	(775 394)	3 736 619	2 832 273	(647 908)	2 184 365
Various financial risks	713 729	(384 504)	329 225	391 588	(188 506)	203 082
Cargo insurance	518 121	(347 960)	170 161	462 117	(313 001)	149 116
General third party liability	1 003 427	(277 530)	725 897	1 300 656	(838 741)	461 915
Personal accident insurance	299 094	(4 867)	294 227	253 630	(26 324)	227 306
Travel accident insurance	1 919 237	(53 321)	1 865 916	1 421 622	(54 364)	1 367 258
Marine insurance	181 070	(160 800)	20 270	199 893	(209 306)	(9 413)
Marine third party liability insurance	2 984	(2 686)	298	2 085	(1 604)	481
Railway insurance	79 374	(55 571)	23 803	111 506	(76 487)	35 019
Voluntary motor third party liability	3 296	-	3 296	2 027 042	-	2 027 042
Aircraft third party liability insurance	278 581	(256 146)	22 435	380 467	(356 830)	23 637
Aircraft insurance	158 583	(138 347)	20 236	224 763	(169 106)	55 657
Credit insurance	122 820	(76 756)	46 064	110 796	(81 830)	28 966
Guarantee insurance	263 709	(120 270)	143 439	197 477	(86 754)	110 723
	52 695 177	(7 439 207)	45 255 970	34 341 740	(5 869 257)	28 472 483

Notes to the financial statements**(6) Technical reserves for unearned premiums and unexpired risks**

	Gross LVL	Reinsurer share LVL	Net LVL
Balance at 31 December 2005	12 969 134	(1 466 008)	11 503 126
<i>Written premiums</i>	40 021 987	(5 462 960)	34 559 027
<i>Premiums earned</i>	<u>(34 341 740)</u>	<u>5 869 257</u>	<u>(28 472 483)</u>
Changes during year	<u>5 680 247</u>	<u>406 297</u>	<u>6 086 544</u>
Balance at 31 December 2006	18 649 381	(1 059 711)	17 589 670
<i>Written premiums</i>	64 338 596	(7 462 208)	56 876 388
<i>Premiums earned</i>	<u>(52 695 177)</u>	<u>7 439 207</u>	<u>(45 255 970)</u>
Changes during year	<u>11 643 419</u>	<u>(23 001)</u>	<u>11 620 418</u>
Balance at 31 December 2007	30 292 800	(1 082 712)	29 210 088

	2007 LVL		2006 LVL	
	Gross	Net	Gross	Net
Unearned premium reserve	30 000 387	28 917 675	17 969 381	16 909 670
Unexpired risk reserve	292 413	292 413	680 000	680 000
	<u>30 292 800</u>	<u>29 210 088</u>	<u>18 649 381</u>	<u>17 589 670</u>

(7) Other technical income

	2007 LVL	2006 LVL
Commission from policy cancellation	100 685	96 394
Profit share of reinsurance agreements	29 465	-
Income from distribution of policies of other insurers	255 587	203 782
Other technical income	<u>53 137</u>	<u>61 094</u>
	438 874	361 270

Notes to the financial statements**(8) Net paid claims**

	2007			2006		
	Gross claims paid	Reinsurer's share in claim	Net claims paid	Gross claims paid	Reinsurer's share in claim	Net claims paid
Motor own damage insurance	12 054 840	(3 758 262)	8 296 578	6 947 377	(2 409 970)	4 537 407
Compulsory motor third party liability	8 978 928	(35 624)	8 943 304	5 207 999	(932)	5 207 067
Health insurance	5 257 971	-	5 257 971	4 013 422	-	4 013 422
Property insurance	1 109 919	(33 395)	1 076 524	376 603	(47 974)	328 629
Various financial risks	65 679	(30)	65 649	59 177	(5 835)	53 342
Cargo insurance	59 167	(49 066)	10 101	97 410	(43 112)	54 298
General third party liability	233 427	(161 035)	72 392	60 478	(18 287)	42 191
Personal accident insurance	72 505	(18)	72 487	105 581	(88)	105 493
Travel accident insurance	266 656	(26 401)	240 255	188 521	-	188 521
Marine insurance	92 789	(71 593)	21 196	306 406	(250 919)	55 487
Railway insurance	13 407	(9 385)	4 022	17 483	(12 238)	5 245
Voluntary motor third party liability	-	-	-	1 476 549	-	1 476 549
Aircraft insurance	70 431	(40 613)	29 818	108 002	(48 775)	59 227
Credit insurance	18 527	(13 044)	5 483	23 720	(18 976)	4 744
Aircraft third party liability insurance	8 141	-	8 141	13 335	(1)	13 334
Guarantee insurance	119 146	(76 255)	42 891	66 338	(33 515)	32 823
	28 421 533	(4 274 721)	24 146 812	19 068 401	(2 890 622)	16 177 779

(9) Outstanding claim technical reserve

	Gross LVL	Reinsurer share LVL	Net LVL
Balance at 31 December 2005	7 950 422	(2 822 040)	5 128 382
<i>Claims incurred during the period</i>	<i>19 474 810</i>	<i>(892 760)</i>	<i>18 582 050</i>
<i>Claims paid</i>	<i>(19 068 401)</i>	<i>2 890 622</i>	<i>(16 177 779)</i>
Changes during year	406 409	1 997 862	2 404 271
Balance at 31 December 2006	8 356 831	(824 178)	7 532 653
<i>Claims incurred during the period</i>	<i>37 517 919</i>	<i>(9 120 588)</i>	<i>28 397 331</i>
<i>Claims paid</i>	<i>(28 421 532)</i>	<i>4 274 721</i>	<i>(24 146 811)</i>
Changes during year	9 096 387	(4 845 867)	4 250 520
Balance at 31 December 2007	17 453 218	(5 670 045)	11 783 173

	2007		2006	
	Gross	Net	Gross	Net
RBNS	13 667 595	7 997 550	6 287 620	5 463 442
IBNR	3 785 623	3 785 623	2 069 211	2 069 211
	17 453 218	11 783 173	8 356 831	7 532 653

Notes to the financial statements**(10) Claims incurred**

	2007 LVL			2006 LVL		
	Gross claims incurred	Reinsurer's share in claim	Net claims incurred	Gross claims incurred	Reinsurer's share in claim	Net claims incurred
Motor own damage insurance	(13 497 175)	3 758 259	(9 738 916)	(8 051 781)	2 357 770	(5 694 011)
Compulsory motor third party liability	(10 931 206)	35 146	(10 896 060)	(6 491 166)	(11 960)	(6 503 126)
Health insurance	(5 488 219)	-	(5 488 219)	(4 195 037)	-	(4 195 037)
Property insurance	(1 626 982)	147 852	(1 479 130)	(417 112)	24 030	(393 082)
Financial risks	(2 063 384)	1 981 305	(82 079)	(112 971)	5 534	(107 437)
Cargo insurance	(856 144)	830 643	(25 501)	514 073	(529 713)	(15 640)
General third party liability	(418 742)	199 664	(219 078)	(21 111)	(32 056)	(53 167)
Personal accident	(65 920)	18	(65 902)	(125 437)	88	(125 349)
Travel insurance	(267 572)	23 199	(244 373)	(192 426)	(439)	(192 865)
Marine insurance	(2 243 560)	2 115 095	(128 465)	985 394	(901 007)	84 387
Marine third party liability insurance	13	-	13	149	-	149
Railway insurance	(69 368)	50 404	(18 964)	(17 607)	12 237	(5 370)
Voluntary motor third party liability	(3)	-	(3)	(1 253 282)	-	(1 253 282)
Aircraft insurance	51 477	(21 883)	29 594	17 889	(73 769)	(55 880)
Credit insurance	(69 378)	47 690	(21 688)	(24 839)	18 976	(5 863)
Aircraft third party liability insurance	150 179	(114 308)	35 871	(8 479)	(19 197)	(27 676)
Guarantee insurance	(121 936)	67 504	(54 432)	(81 066)	42 265	(38 801)
	(37 517 920)	9 120 588	(28 397 332)	(19 474 809)	892 759	(18 582 050)

(11) Client acquisition costs

	2007 LVL	2006 LVL
Commission paid to intermediaries	6 132 934	3 551 565
Commission paid for reinsurance	4 852	86 733
Salaries to agents	122 676	143 151
	6 260 462	3 781 449

Notes to the financial statements

(12) Change in deferred client acquisition costs

	<u>LVL</u>
Balance at 31 December 2005	1 072 938
<i>Written commissions</i>	3 781 449
<i>Deferred commissions allocated to profit or loss</i>	(3 359 408)
Changes during year	422 041
Balance at 31 December 2006	1 494 979
<i>Written commissions</i>	6 260 462
<i>Deferred commissions allocated to profit or loss</i>	(5 203 259)
Changes during year	1 057 203
Balance at 31 December 2007	2 552 182

(13) Administrative expenses

	2007	2006
	LVL	LVL
Salaries and social contribution expenses	6 388 667	4 253 832
Office expenses and rent	858 617	763 077
Post and communication expenses	351 523	365 158
Transportation	533 520	397 687
Advertisement and public relations	244 666	365 492
FCCM/Interests Protection Fund	348 250	271 265
Representation	148 774	153 391
Business trips	85 656	99 560
Staff training	23 542	20 747
Other expenses	1 002 164	649 905
	9 985 379	7 340 114

According to the Latvian legislation 0.140% (2006: 0.192%) from gross premiums in the MTLF line and 0.486% (2006: 0.593%) of gross premiums in other lines of insurance should be transferred to 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, client acquisition costs and investment costs, which is based on expenses incurred in different departments..

Administrative expenses allocated by insurance types:

	2007	2006
	LVL	LVL
Motor own damage insurance	3 981 997	1 548 668
Compulsory motor third party liability	2 472 550	1 301 125
Health insurance	1 758 358	1 264 089
Property insurance	851 143	1 200 839
Various financial risks	152 304	93 952
Cargo insurance	84 648	136 007
General third party liability	180 981	314 343
Personal accident insurance	52 656	111 503
Travel accident insurance	299 293	473 514
Marine insurance	29 083	74 660
Marine third party liability insurance	475	119
Railway insurance	11 051	8 248
Voluntary motor third party liability	468	607 249
Aircraft insurance	17 832	48 061
Credit insurance	17 185	11 335
Aircraft third party liability insurance	30 936	37 302
Guarantee insurance	44 419	109 100
	9 985 379	7 340 114

Notes to the financial statements

(14) Reinsurers' commission income

	2007	2006
	LVL	LVL
Reinsurers' commission	1 027 024	437 026
Recession commission	8 890	16 212
	<u>1 035 914</u>	<u>453 238</u>

(15) Change in unearned reinsurance commission

Balance at 31 December 2005	<u>LVL</u>	<u>184 502</u>
<i>Earned commissions</i>		(453 238)
<i>Deferred commissions allocated to profit or loss</i>		467 269
	Changes during year	<u>(14 031)</u>
Balance at 31 December 2006		<u>198 533</u>
<i>Written commissions</i>		(1 035 914)
<i>Deferred commissions allocated to profit or loss</i>		1 100 985
	Changes during year	<u>(65 071)</u>
Balance at 31 December 2007		<u><u>263 604</u></u>

(16) Other technical expenses

	2007	2006
	LVL	LVL
Other technical expenses	321 942	134 030
Changes in provisions for unused vacations	163 051	3 172
Impairment allowance for receivables from direct insurance and reinsurance operations (Refer to note 36)	69 769	26 065
Expenses related to distribution of policies of other insurers	5 656	250 887
	<u>560 418</u>	<u>414 154</u>

Notes to the financial statements

(17) Three largest insurance type division by working items

	Health insurance	Compulsory motor third party liability	Motor own damage	Other	Total
Earned premiums					
Written premiums					
Gross premiums *	11 329 597	15 931 296	25 657 123	11 420 580	64 338 596
Reinsurers' share	-	(585 130)	(4 199 165)	(2 677 913)	(7 462 208)
<i>Net written premiums</i>	11 329 597	15 346 166	21 457 958	8 742 667	56 876 388
Change in unearned premium technical reserves					
Gross unearned premium technical reserves	(2 416 947)	(2 681 038)	(5 180 892)	(1 364 542)	(11 643 419)
Reinsurers' share	-	-	(760)	23 761	23 001
Net premiums earned	8 912 650	12 665 128	16 276 306	7 401 886	45 255 970
Other technical income	-	358 070	57 363	23 441	438 874
Gratification, net	-	-	-	(2 190)	(2 190)
Incurred claims					
Paid claims					
Gross claims paid	(5 257 976)	(8 978 918)	(12 054 847)	(2 129 792)	(28 421 533)
Paid claims	(5 260 858)	(9 069 080)	(12 330 517)	(2 126 362)	(28 786 817)
Loss adjustment expenses	(1 385)	(575 544)	(650 315)	(41 198)	(1 268 442)
Recovered losses	4 267	665 706	925 985	37 768	1 633 726
Reinsurers' share of claims paid	-	35 624	3 758 262	480 835	4 274 721
<i>Net paid claims</i>	(5 257 976)	(8 943 294)	(8 296 585)	(1 648 957)	(24 146 812)
Change in claim technical reserves					
Change in gross claim technical reserves	(230 243)	(1 952 288)	(1 442 327)	(5 471 529)	(9 096 387)
Reinsurers' share	-	(478)	(3)	4 846 348	4 845 867
<i>Net incurred claims</i>	(5 488 219)	(10 896 060)	(9 738 915)	(2 274 138)	(28 397 332)
Operating expenses					
Client acquisition costs	(502 169)	(725 741)	(3 204 474)	(1 828 078)	(6 260 462)
Change in deferred client acquisition costs	22 714	111 049	695 928	227 512	1 057 203
Administrative expenses	(1 758 359)	(2 472 550)	(3 981 997)	(1 772 473)	(9 985 379)
Reinsurance commission income and profit share, net	-	-	505 427	530 487	1 035 914
Change in unearned reinsurance commission	-	-	-	(65 071)	(65 071)
Net operating expenses	(2 237 814)	(3 087 242)	(5 985 116)	(2 907 623)	(14 217 795)
Other technical expenses	(256 357)	(21 338)	(169 803)	(112 920)	(560 418)
Changes in equalization reserve	-	-	-	(5 646)	(5 646)

* 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 663 154 (2006: LVL 579 998).

Notes to the financial statements**(18) Investment management charges**

	2007	2006
	LVL	LVL
Transaction commissions	(21 212)	(21 284)
Management charges	(4 274)	(1 044)
	<u>(25 486)</u>	<u>(22 328)</u>

(19) Interest income and dividend income, net

	2007	2006
	LVL	LVL
Interest income from financial assets recognized at fair value through profit or loss	650 218	368 758
Income from investment property (rent)	70 380	-
Interest income from deposits with credit institutions	496 232	141 515
Dividends from investments held as available for sale	270	13 731
Interest on loans	402 977	328 489
	<u>1 620 077</u>	<u>852 493</u>

(20) Net realized profit of financial assets and liabilities not recognized at fair value through income statement

	2007	2006
	LVL	LVL
Net realized profit from sales of available for sales investments	-	15 190
	<u>-</u>	<u>15 190</u>

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

	2007	2006
	LVL	LVL
Change in the value other securities	(53 670)	(224 073)
Impact of exchange rate fluctuations on the value of stocks and other securities	(135 282)	(184 655)
Net realized profit/(loss) on derivatives	(39 424)	28 526
	<u>(228 376)</u>	<u>(380 202)</u>

(22) Impairment gain/(loss)

	2007	2006
	LVL	LVL
(Increase)/decrease in allowances for bad debts, other than insurance debts	(48 663)	10 040
(Increase)/decrease in allowances for loans	(253 488)	51 682
Impairment loss from property, plant and equipment	-	(19 241)
Adjustment in amortized cost of the loans using effective interest rate method	(293 957)	-
	<u>(596 108)</u>	<u>42 481</u>

The company has issued certain loans with interest rates lower than market rate as at the loan issue date and recognized an impairment adjustments accordingly.

Notes to the financial statements

(23) Increase in value of investment properties

	2007	2006
	LVL	LVL
Increase in fair value of investment properties	2 133 822	588 456
	2 133 822	588 456

The last revaluation was performed by independent certified valuer in June 2007 and was based on comparative market prices. Management believes that the fair value of property is not materially different from its carrying amount as at balance sheet date.

(24) Other income/ expenses, net

	2007	2006
	LVL	LVL
Gifts to staff	(12 714)	(44 668)
Donations	(41 013)	(17 940)
Membership fees	(3 150)	(3 248)
Real estate tax	(32 144)	(42 654)
Other expenses	(18 713)	(20 952)
Income from fines	60	-
Other income	7 760	7 829
	(99 914)	(121 633)

(25) Income tax expense

	2007	2006
	LVL	LVL
Current tax	507 094	14 427
Deferred tax	216 894	3 321
	723 988	17 748

	2007	2006
	LVL	LVL
Profit before tax	4 727 267	473 599
Theoretical tax using the 15% rate	709 090	64 642
Expenses not deductible for tax purposes	48 170	22 225
Adjustment to prior year not recognised deferred tax asset	-	(69 119)
Donations	(33 272)	-
Tax expenses	723 988	17 748

A deferred tax expense of 308 395 has been included directly in equity in respect of the revaluation of land and buildings for own use (2006: 98 346 LVL)

(26) Reinsurance cession result

	2007	2006
	LVL	LVL
Reinsurance premiums	(7 462 208)	(5 462 960)
Reinsurers' share in unearned premiums reserve	1 082 711	1 059 711
Reinsurers' share in claims paid	4 274 721	2 890 622
Reinsurers' share in reserve for outstanding claims	5 670 046	824 178
Reinsurance commissions and profit participation	(1 035 912)	(453 238)
Change in unearned reinsurance commissions	65 071	14 031

Notes to the financial statements

(27) Property, plant and equipment

	Cars LVL	Other fixed assets LVL	Total LVL
Cost			
31.12.2005	135 725	1 275 160	1 410 885
Purchased	-	287 066	287 066
Disposed	-	(1 743)	(1 743)
31.12.2006	135 725	1 560 483	1 696 208
Purchased	-	209 487	209 487
Disposed	(123 221)	(527 346)	(650 567)
31.12.2007	12 504	1 242 624	1 255 128
Accumulated depreciation			
31.12.2005	(134 565)	(895 774)	(1 030 339)
Depreciation for the year	(580)	(188 136)	(188 716)
Depreciation on disposed assets	-	220	220
31.12.2006	(135 145)	(1 083 690)	(1 218 835)
Depreciation for the year	(580)	(216 017)	(216 597)
Depreciation on disposed assets	123 221	527 349	650 570
31.12.2007	(12 504)	(772 358)	(784 862)
Balance at 31.12.2006	580	476 793	477 373
Balance at 31.12.2007	-	470 266	470 266

(28) Land and buildings

	Owner Occupied LVL	Investments Property LVL	Total LVL
Cost 31.12.2005	937 430	1 130 871	2 068 301
Including revaluation	178 547	390 464	569 011
Revaluation	655 638	588 456	1 244 094
Impairment of buildings for own use	(19 241)	-	(19 241)
Adjustment for depreciation on revalued buildings	(114 286)	-	(114 286)
Reclassified	31 312	(31 312)	-
Purchased	135 065	-	135 065
Cost 31.12.2006	1 625 918	1 688 015	3 313 933
Including revaluation	724 464	949 750	1 674 214
Revaluation	2 059 767	2 133 822	4 193 589
Adjustment for depreciation on revalued buildings	(81 521)	-	(81 521)
31.12.2007	3 604 164	3 821 837	7 426 001
Including revaluation	2 784 231	3 083 571	5 867 802
Accumulated amortization			
31.12.2005	(97 489)	-	(97 489)
Depreciation	(59 853)	-	(59 853)
Adjustment for depreciation on revalued buildings	114 286	-	114 286
31.12.2006	(43 056)	-	(43 056)
Depreciation	(126 386)	-	(126 386)
Adjustment for depreciation on revalued buildings	81 522	-	81 522
31.12.2007	(87 920)	-	(87 920)
Balance 31.12.2006	1 582 862	1 688 015	3 270 877
Balance 31.12.2007	3 516 244	3 821 837	7 338 081

Notes to the financial statements

(29) Intangible assets

	Computer programs and licenses LVL	Total
Cost		
31.12.2006	56 903	56 903
Purchased	-	-
31.12.2007	56 903	56 903
Accumulated amortization		
31.12.2006	(36 401)	(36 401)
Amortization for the year	(10 702)	(10 702)
31.12.2007	(47 103)	(47 103)
Balance at 31.12.2006	20 502	20 502
Balance at 31.12.2007	9 800	9 800

(30) Non current assets held for sale

The company has a 100% interest in a subsidiary, BTA Informācijas Tehnoloģijas SIA, established in 2006 at a cost of LVL 2000. Management have determined to sell this investment and are actively seeking a buyer. Accordingly, the investment has been classified as an asset held for sale as the lower of cost and fair value, less costs to sell. As at the date of signing these financial statements, the investment is sold to related party.

(31) Investments in associated companies

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 construction and other lines of business. Its legal address is Gagarina 74 -76A, Kaliningrad, Russia. Management believes that the purchase price reflects the fair value of the share of net assets of the investment as at the purchase date.

Because the associated company was acquired very close to the year end, according to management the Company's share of the total recognised gains and losses of associated Company in the financial year on an equity accounted basis, is considered to be nil. Management has determined not to hold this investment but to sell after certain period of time.

(32) Investments at fair value through profit or loss

Non-fixed income securities	2007 LVL		2006 LVL	
	Purchase value	Fair value	Purchase value	Fair value
Shares and other equity securities	1 478 197	1 522 179	512 357	528 090
Investment securities of investment funds or similar securities	2 390 744	2 547 563	134 810	225 181
Other non-fixed income securities	63 451	68 468	932 004	986 459
	3 932 392	4 138 210	1 579 171	1 739 730

Notes to the financial statements

Fixed income securities	2007 LVL		2006 LVL	
	Purchase value	Fair value	Purchase value	Fair value
Debt securities issued or guaranteed by central governments or municipalities	6 015 470	5 820 533	5 163 107	5 082 874
Mortgage bonds	2 357 597	2 312 974	2 441 751	2 467 750
Debt securities and other securities with fixed income, which are included in a regulated market	1 176 629	1 144 941	1 658 906	1 644 756
Other fixed income securities	130 095	141 792	130 095	134 738
	9 679 791	9 420 240	9 393 859	9 330 118

Investment portfolio of fixed income securities by geography:	2007	2006
	LVL	LVL
Latvia	5 823 008	7 360 643
Other European Union countries	2 988 033	1 279 740
USA	609 199	677 684
CIS	-	12 051
	9 420 240	9 330 118

(33) Available for sale financial assets

	2007 LVL	2006 LVL
Balance at 31 December 2006	560 681	39 167
Sales and redemption proceeds	-	(18 600)
Purchased during the financial year	209 173	-
Reclassification from investments in related company	-	540 114
Balance at 31 December 2007	769 854	560 681

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:

- (a) As at 31 December 2007 the company's share is 19.99% (31 December 2006 is 19.9%) at a cost LVL 744 114 (in 2006: LVL 540 114).
- (b) As at December 31, 2007 the Company owns 19,5% interest in BTA Īpašumi SIA (at December 31, 2006: 19,5%), which is presented at cost of LVL 19 490 (2006: LVL 490).

Notes to the financial statements**(34) Deposits with credit institutions**

	2007	2006
	LVL	LVL
Deposits with banks	12 515 550	5 227 354
Accrued interest	193 554	165 344
	12 709 104	5 392 698

	2007	2006
	LVL	LVL
Investment maturity structure:		
With maturity not longer than 3 months	6 930 765	3 160 337
With maturity from 3 to 6 months	3 155 988	552 039
With maturity from 6 to 12 months	2 091 421	693 387
With maturity from 1 to 5 years	530 930	986 935
	12 709 104	5 392 698

(35) Loans

	2007	2006
	LVL	LVL
Structure of loan portfolio		
Amount of loan	11 701 102	6 838 367
Adjustment in amortized cost of the loans using effective interest rate method	(293 957)	-
Impairment allowance	(343 490)	(136 513)
	11 063 655	6 701 854
Accrued interest	215 311	186 249
	11 278 966	6 888 103

	Gross
	LVL
Allowance as at 31 December 2005	(188 194)
Decrease of allowance	51 681
Allowance as at 31 December 2006	(136 513)
Increase of allowance	(253 488)
Written off	46 511
Allowance as at 31 December 2007	(343 490)

	2007		2006	
	Amortized cost	Fair Value	Amortized cost	Fair Value
Mortgage loans	8 016 918	8 067 578	5 364 910	5 364 910
Other loans	3 262 048	3 169 423	1 523 193	1 523 193
Total loans	11 278 966	11 237 001	6 888 103	6 888 103

Notes to the financial statements

Mortgage loans

	2007	2006
	LVL	LVL
Mortgage loans:		
Loans to individuals	961 582	895 458
Loans to non-financial institutions	7 349 232	4 382 790
Adjustment in amortized cost of the loans using effective interest rate method	(215 372)	-
Impairment allowance	(249 560)	(46 902)
Accrued interest	171 036	133 564
	8 016 918	5 364 910

	2007	2006
	LVL	LVL
Mortgage loans currency structure:		
EUR	2 341 649	930 292
LVL	5 526 287	4 338 636
USD	148 982	95 982
	8 016 918	5 364 910

Other loans

	2007	2006
	LVL	LVL
Other loans:		
Loans to individuals	95 653	184 162
Loans to non-financial institutions	3 294 635	1 375 957
Adjustment in amortized cost of the loans using effective interest rate method	(78 585)	-
Impairment allowance	(93 930)	(89 611)
Accrued interest	44 275	52 685
	3 262 048	1 523 193

	2007	2006
	LVL	LVL
Other loans currency structure:		
EUR	1 985 854	486 641
LVL	1 251 089	645 081
USD	25 105	391 471
	3 262 048	1 523 193

Loans with maturity more than 5 years as at 31 December 2007 were in amount of LVL 1 012 309 (2006: LVL 2 006 073).

(36) Receivables from direct insurance activities

	2007	2006
	LVL	LVL
Due from policy holders	9 053 804	4 100 076
Due from intermediaries	1 860 379	1 803 599
Impairment allowance for bad debtors	(152 320)	(82 551)
	10 761 863	5 821 124

Notes to the financial statements

	Allowance for policy holders, Gross LVL	Allowance for intermediaries, Gross LVL	Total allowance for insurance debtors, Gross LVL
Allowance as at 31 December 2005	(56 486)	-	(56 486)
Increase of allowance	(26 065)	-	(26 065)
Allowance as at 31 December 2006	(82 551)	-	(82 551)
Increase of allowance	(52 000)	(17 769)	(69 769)
Allowance as at 31 December 2007	(134 551)	(17 769)	(152 320)

(37) Receivables from reinsurance activities

	2007 LVL	2006 LVL
Reinsurer's	113 543	96 086
Cedents	21 728	26 800
	135 271	122 886

(38) Other debtors

	2007 LVL	2006 LVL
Income tax advance payment	-	204 086
Employees	10 531	22 622
Advanced payments	146 941	292 034
Other debtors	903 428	486 614
Impairment allowance	(92 186)	(43 523)
	968 714	961 833

Other debtors include an amount due from the sale of shares in BTA Draudimas of 474 165 LVL (2006: 486 614 LVL).

	Gross LVL
Allowance as at 31 December 2005	(53 563)
Decrease of allowance	10 040
Allowance as at 31 December 2006	(43 523)
Increase of allowance	(48 663)
Allowance as at 31 December 2007	(92 186)

(39) Cash at hand and in bank

	2007 LVL	2006 LVL
Cash on hand	31 898	38 893
Current accounts with credit institutions	1 414 258	773 497
Cash on hand	1 446 156	812 390
Deposits with original maturity less than 3 months	6 930 765	3 160 337
Cash at hand and cash equivalent	8 376 921	3 972 727

Notes to the financial statements

(40) Obligatory payments disclosed in cash flow statement

	2007	2006
	LVL	LVL
Transport Insurance bureau	594 188	594 571
FCCM (Financial and Capital Market Commission)	202 002	178 935
Interests Protection Fund	151 206	76 715
	947 396	850 221

(41) Capital and reserves

Share capital

The share capital of the Company at 31 December 2007 was LVL 6 000 000 and comprised of 60 000 shares (fully paid). Nominal value of one share was LVL 100.

	2007		2006	
	Number of shares	LVL	Number of shares	LVL
Ordinary shares with voting rights	56 000	5 600 000	40 000	4 000 000
Preference shares without voting rights	4 000	400 000	3 000	300 000
	60 000	6 000 000	43 000	4 300 000

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 residual assets.

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

The preference shares may be sold at a discount or the shareholders meeting may decide that the company pays for preference shares. In 2007 the shareholders meeting decided that discount will be covered from the earnings of the company.

	2007		2006	
Company's shareholders:	Number of shares	Shareholding	Number of shares	Shareholding
BMGS AS	-	-	5 581	12.98%
Transport Information Agency AS	5 599	9.33%	3 999	9.30%
Riga Transport Fleet AS	-	-	2 830	6.58%
Latvian Trade Fleet Seamen Trade Union	-	-	1 845	4.29%
Other private persons	54 401	90.67%	28 745	66.85%
	60 000	100%	43 000	100%

New share issues and related share premiums in 2006 and 2007 were as follows:

	2007	2006
	LVL	LVL
Share capital	4 300 000	3 300 000
Share premium	942 003	730 003
	5 242 003	4 030 003
Issued shares, paid in cash	1 324 634	712 511
Issued shares, paid by dividends not distributed	99 868	53 009
Discount on preference shares	25 000	25 000
Issued shares converted from subordinated liabilities	527 598	421 480
	7 219 103	5 242 003
Including:		
Share capital	6 000 000	4 300 000
Share premium	1 219 103	942 003

Notes to the financial statements

Revaluation reserves

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

	2007	2006
	LVL	LVL
Land and buildings revaluation reserves	2 893 952	834 185
Deferred tax liabilities at 15%	(434 093)	(125 128)
	<u>2 459 859</u>	<u>709 057</u>
Balance at 31 December 2005	151 765	
Revaluation reserve increase	655 638	
Deferred tax from changes in revaluation reserve	(98 346)	
Balance at 31 December 2006	709 057	
Deferred tax from changes in revaluation reserve	2 059 767	
Deferred tax	(308 965)	
Balance at 31 December 2007	2 459 859	

Equalization reserve

The Company has established an equalization 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. The changes in Equalization technical reserves are reflected in income statement. This reserve is not distributable.

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

After the balance sheet date dividends were proposed by the Board for 2006. The dividends have not been provided for 2007.

	2007	2006
	LVL	LVL
Per ordinary share	-	384 000
Per preference share	-	28 800
	<u>-</u>	<u>412 800</u>

(42) Subordinated liabilities

	2007	2006
	LVL	LVL
Beginning of the year	527 598	428 480
Increase in the year	1 053 152	520 598
Converted to issued shares	(527 598)	(421 480)
	<u>1 053 152</u>	<u>527 598</u>
End of the year		
Subordinated liabilities are loans with a term longer than 5 years from two private persons and from two legal entities.. The annual interest rate of subordinated liabilities is between 4.8% -5.2%.. Loans are subordinated to all other creditors.		
The term structure of subordinated liabilities	LVL	
Maturity after 6 years	<u>1 053 152</u>	
	<u>1 053 152</u>	

Notes to the financial statements

(43) Deferred tax liabilities

	2007	2006
	LVL	LVL
Deferred tax liability at the beginning of the year	177 914	76 247
Deferred tax during the reporting period attributable to profit or loss	216 894	3 321
Deferred tax recognized in equity	308 965	98 346
Deferred tax liability at the end of the year	703 773	177 914

Deferred tax assets and liabilities include the following items:

	2007		2006	
	LVL	LVL	LVL	LVL
	Assets	Liabilities	Assets	Liabilities
Temporary differences between the value for financial reporting of plant, property and equipment and value for tax purposes	-	(469 097)	-	(158 981)
Revaluation reserve	-	(434 093)	-	(125 128)
Provisions	183 567	-	74 005	-
Loss from revaluation of securities	8 050	-	32 190	-
Net result	-	(711 573)	-	(177 914)

(44) Taxes and social contributions

Tax type	Balance at	Calculated in 2007	(Paid) in	Transferred	Balance at
	31.12.2006		2007		in 2007
	LVL	LVL	LVL	LVL	LVL
Profit tax	(204 086)	507 093	(72 837)	204 086	434 256
Risk duty	317	2 385	(2 406)	-	296
Social contributions	98 358	1 483 178	(1 222 233)	(204 086)	155 217
Personal income tax	60 613	935 254	(892 369)	-	103 498
Property tax	15 245	32 144	(47 935)	-	(546)
VAT	-	23 507	(16 494)	-	7 013
Estonian branch tax	2 404	33 813	(3 279)	-	32 938
	(27 149)	3 017 374	(2 257 553)	-	732 672
Including:					
Overpaid tax	(204 086)				(546)
Tax liability	176 937				733 218

Overpaid taxes are disclosed under other receivables.

(45) Reinsurance creditors

	2007	2006
	LVL	LVL
Reinsurance companies	973 302	1 122 073
Reinsurance intermediaries	252 484	393 923
	1 225 786	1 515 996
Reinsurance creditors distributed by countries are as follows:	2007	2006
	LVL	LVL
European member countries	1 027 575	1 263 966
CIS, Central Asia	64	9 133
USA	198 147	242 897
	1 225 786	1 515 996

Notes to the financial statements

(46) Other creditors

	2007	2006
	LVL	LVL
Due to the Transport Insurance bureau	102 849	86 127
Due to employees (remuneration)	192 015	118 628
Due to the Financial Capital and Market Commission	107 029	82 448
Due to other insurance companies	89 910	124 543
Prior year unpaid dividends	35	5 727
Other creditors	298 450	198 900
	790 288	616 373

(47) 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 related party BTA Draudimas UAB.

	2007	2006
	LVL	LVL
Received insurance premium for assumed reinsurance	147 773	1 172 489
Paid for commission	-	(86 131)
Paid claims	(33 117)	(1 496 093)
Paid insurance premium for ceded reinsurance	(7 760)	(77 205)
Received commission	1 725	7 896
Received interest	6 179	-
Changes in outstanding claim technical reserve	-	223 335

In addition the company has received commission for sale of products in amount 255 314 LVL (2006: 201 031 LVL).

The Company has paid a commission of LVL 150 738 (2006: 61 908) on the settlement of an insurance case that happened abroad.

Loan balances issued to related parties:

	2007	2006
	LVL	LVL
Mortgage loans issued to Council and Board members	15 063	29 805
Mortgage loans issued to the companies controlled by board and council members*)	2 687 179	2 139 869
Allowances for bad debts	(260 090)	(252 984)
Mortgage loans issued to the companies controlled by board and council members*), net of bad debt allowances	2 427 089	1 886 885
Other loans issued to the subsidiary and other related companies	2 743 204	248 819
Allowances for bad debts	(151 333)	(14 401)
Other loans issued to the subsidiary and other related companies, net	2 591 871	234 410
Loan balances issued to related parties, net	5 034 023	2 151 100

Notes to the financial statements

Other receivables

Other receivables	281 192	149 604
Allowances for bad debts	(27 170)	-
Other receivables, net	254 022	149 604

Other payables	148 850	135 441
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Other loans issued to related parties include subordinated loan to BTA Draudimas in amount of LVL 1 026 094 with maturity by year 2014. Loan is subordinated after all creditors, but before shareholders.

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 when loans were issued.

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

As at 31. December 2007 the company has received subordinated loan from related parties. Refer to Note 42.

Other receivables include receivables from board members for BTA Draudimas shares sold in 2006 of 118 245 (2006: 0), and receivables from other related parties for BTA Draudimas shares sold in 2006 of 118 745 (2006: 135 844). Receivables are due by 12 December 2008.

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.

Loss adjustment services were received from a related party amounting to LVL 592 884 (2006: LVL 720 882). These transactions were performed on an arm's length basis. The loss adjustment agreement was terminated as of 1 October 2007.

(48) Provisions

	2007	2006
	LVL	LVL
Provisions for unused employee vacations	365 412	202 361
	365 412	202 361

	Gross
	LVL
Allowance as at 31 December 2005	199 188
Increase of allowance	3 173
Allowance as at 31 December 2006	202 361
Increase of allowance	163 051
Allowance as at 31 December 2007	365 412

Notes to the financial statements

(49) Accrued expenses and deferred income

	2007	2006
	LVL	LVL
Unearned reinsurance commission income	263 604	198 533
Other deferred income	-	26 668
Other accrued expenses	-	32
	263 604	225 233

(50) Number of employees and information on branches

	2007	2006
Employees	829	783
Agents	205	190
	1 034	973

Insurance agents are persons who pursues insurance mediation on behalf of and in the interests of only one insurance merchant, not employee/

	2007	2006
Foreign country branches	1	1
Customer service centres abroad	5	1
Regional centres	6	6
Branches in Latvia	20	20
Customer service centres	25	25
Policy selling points	78	92
	135	145

	2007	2006
Average number of working employees	792	840
	792	840

	2007	2006
Head office	394	288
Branches:		
RC "Rīga"	142	173
RC "Latgale"	49	89
RC "Kurzeme"	47	98
RC "Vidzeme"	64	166
RC "Zemgale"	63	111
RC "Daugava"	37	45
Estonian branch	33	3
	829	973

(51) Personnel expenses

	2007	2006
Remuneration	4 567 200	2 989 745
Social contribution expenses	1 078 344	705 479
	5 645 544	3 695 224

Notes to the financial statements

(52) Information on the remuneration of the member of the Board of Directors and Supervisory Council

	2007	2006
Supervisory Council	57 394	50 351
Board of Directors	186 642	103 900
Social contribution expenses	58 788	37 160
	302 824	191 411

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

(53) Remaining maturities of insurance liabilities

	2007 LVL			2006 LVL		
	Gross liabilities	Reinsu- rance	Net liabilities	Gross liabilities	Reinsu- rance	Net liabilities
Unearned premium and unexpired risk technical reserves	30 292 800	(1 082 711)	29 210 089	18 649 381	(1 059 711)	17 589 670
Outstanding claim technical reserves	17 453 218	(5 670 046)	11 783 172	8 356 831	(824 178)	7 532 653
Total	47 746 018	(6 752 757)	40 993 261	27 006 212	(1 883 889)	25 122 323
Short term liabilities	47 441 245	(6 752 757)	40 688 488	26 221 766	(1 883 889)	24 337 877
Long term liabilities	304 773	-	304 773	784 446	-	784 446

(54) Off balance sheet items and contingent liabilities

Within the scope of basic activities, the Company receives claims from clients. Such claims have been considered by the management and it considers that no material losses will be incurred, which have not already been included in the insurance reserves.

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.

Litigations

As at 31 December 2007 there were other no open legal claims against the Company

Credit related commitments

As at 31 December 2007 the Company did not have off balance sheet credit related commitments.

Capital commitments

As at 31 December 2007 the Company did not have any capital commitments.



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Independent Auditors' Report

To the shareholders of AAS BTA

Report on the Financial Statements

We have audited the accompanying financial statements of AAS BTA ("the Company"), which comprise the balance sheet as at 31 December 2007 and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 7 to 58.

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. 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.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the AAS BTA as at 31 December 2007, 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



Stephen Young
Chairman of the Board
Riga, Latvia
18 April 2008



Inga Lipsane
Sworn Auditor
Certificate No. 112