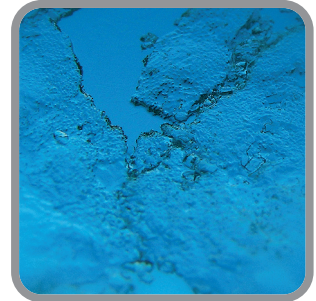
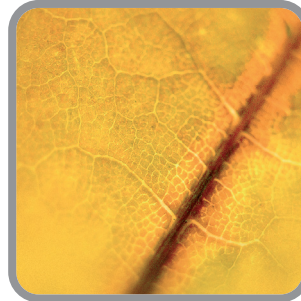


ANNUAL REPORT



2005



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ABOUT COMPANY

Since the foundation of BTA insurance company on November 1, 1993, the company has become one of the leading insurance companies in Latvia – it has grown into a dynamic and professional team working to implement the needs of its customers and to provide good quality insurance products.

BTA started its activities fundamentally in provision of insurance for sea and air transportation; however, in fierce market competition BTA soon proved to be a universal insurance company able to offer a wide spectrum of insurance services in the whole territory of Latvia. Every year BTA is continuing to expand the network of its branches.

Latvian risk insurance companies can be licensed in 19 kinds of insurance, and BTA owns 18 of those licenses.

As a result of successful activities, BTA has grown into a stable insurance company in Latvia with one of the largest shares in the non-life risk insurance market. On the basis of gross premiums, BTA is one of the largest risk insurance companies in Latvia.

BTA's financial stability is based on four cornerstones: paid-up core capital, built-up technical reserves, balanced reinsurance policy providing additional security both for the clients and BTA, and conservative investment policy that allows avoiding various financial crises and providing additional profit for BTA. Successful implementation of the set targets is the result of the professionalism of our employees – starting from insurance agents being in direct contact with clients, and up to the top management of the company, caring for the company's policy.

In early 2002 BTA expanded its activities obtaining a Lithuanian insurance company – BTA Draudimas.

Given the requirements of our clients and partners, the gained experience, and the professionalism of our employees, BTA is prepared to prove that the provision of the best quality insurance products lies at the heart of financial stability, successful development, and giving additional feeling of security to our clients. BTA prepares individualized insurance proposals for each client, be it an individual or a company, by taking into consideration their needs for insurance.



MISSION

We are one of the leading insurance providers – a dynamic and professional company that works to satisfy its clients' needs to receive good quality insurance products.

Our client is our priority; we care for the financial stability and security of our clients.

Our employees are our asset – they are competent, reliable, motivated and positive thinkers.

We are an insurance provider with local capital and strong experience gained in the local market; our clients are satisfied with service quality, and the company's shareholders – with the return of their investment.

We are recognized by those parts of society to whom we target our insurance products.



ADDRESS BY CHAIRMAN OF THE BOARD

GINTS DANDZBERGS

Chairman of the Board, BTA insurance company

The rapid last year's growth of the Latvian economy resulted in an equally rapid growth of the Latvian insurance market. We have witnessed amazing figure changes in CASCO, property insurance and other insurance segments. Lately, Latvian insurance market has "prepared" two top-level players both being one step ahead of the rest of the league. It is my true pleasure to announce that BTA is one of the two top-league players.

Our company has shown continuous growth, we have had good success last year in several areas – we have established and developed BTA services in response to social developments and clients' needs, we have started the introduction of quality management system and launched new sales points. An important step in paving path to growth has been the accomplishment of preparatory work to start working in Estonia. This has been a natural step in BTA development – to be represented in all three Baltic States.

The key task for this year and for the immediate future ahead is to continue the rationalization of structure to increase our activity and ability to attain high efficiency even in relatively hard sectors of our activity.

BTA's success has not come as a vagary of chance – this is a result of team-work and it reflects daily contribution from each and every employee. One of the reasons for BTA's success is a creative approach to the daily work.

Rapid development gives us new challenge and our job now involves both; to attract new clients and to make service to our existing clients as good and as efficient as possible. This development will continue as BTA is not going along the winds of market development – we are well ahead of the breeze beating overall market growth indicators for yet another year!

A handwritten signature in blue ink, consisting of a large, stylized 'G' followed by a horizontal line that ends in a small loop.

Gints Dandzbergs

BTA MANAGEMENT REPORT ON THE RESULTS OF 2005

The development of the joint-stock insurance company BTA (hereinafter referred to as BTA) in 2005 has been positive. The consistency of BTA's operational principles, focusing on the quality of customer service and professionalism of staff has facilitated achievement of the goal of increasing the amount of insurance premiums.

Last year BTA continued the development of insurance services and increased its accessibility for customers by opening several new offices in Latvia and Lithuania.

Significant effort was devoted to the improvement of insurance services and claim settlement processes. During 2005 BTA's internal work groups in cooperation with external advisors worked on the assessment of duty segregation, improvement of the remuneration system, and optimization of processes. BTA introduced a quality management system to assess the performance of various units of the company on a regular basis and to provide feedback. In the second half of 2005, the company introduced a client support service, which provides BTA's clients with advice in the case of an insurance occurrence and provides assistance if necessary.

The above factors have resulted in growth of operations and improved financial position. In 2005 the amount of gross written premiums of BTA was LVL 28 460 382, which is a 31.94% increase over the last year, while gross claims settled amounted to LVL 12 041 037, which is a 39.06% increase over the last year. Within BTA, the growth of claims exceeds that of premiums.

The reinsurers' share in BTA's written premiums has decreased. The total amount of reinsurance premiums in 2005 was LVL 4 487 454, which is a 26.84% increase over 2004. It allowed the company to increase the amount of net earned premiums to LVL 20 216 452, which is a 24.39% increase over 2004.

The total claims paid during 2005 amounted to LVL 15 601 651. In view of the changes in RBNS, the level of claims has increased to 54.82% of the written premiums. Compared to 2004, the amount of claims settled has increased by LVL 4 027 103 or 48.39%. Such a trend is also common in the Latvian insurance market in general.

BTA continues to observe a prudent and reasonable policy for establishment of technical reserves and accepted reinsurance risks, which are preconditions for stable and long term operation in the insurance market. In 2005 the amount of net technical reserves increased by LVL 5 382 779 and the total sum amounted to LVL 17 014 976, representing an annual increase of 46.27%. The growth of net technical reserves exceeded that of gross written premiums and that of profit from increased insurance operations. The company continued to create larger technical reserves than required because the share of responsibility in client risks had increased due to reducing the reinsurers' share. This trend was reinforced by changes to the normative acts such as the steep increase of net UPR following the change of methodology, which eliminated the calculation of reinsurers' share in disproportional contracts.

One of the preconditions for successful operations of BTA was investing activities, which generated an investment income of LVL 1 171 377 during 2005.

The activities of BTA in 2005 have generated a consolidated pre-tax profit of LVL 788 598, or LVL 618 134 after tax. In view of the financial results of 2005, the Board of BTA suggests to the shareholders that the profit shall be distributed as follows:

- LVL 62 334 transferred to reserves;
- a part of the current year profit amounting LVL 556 000 shall be distributed as dividends,
- a part of the retained earnings amounting to LVL 71 000 shall be distributed as dividends.

The growth of BTA is very much supported by the shareholders. Last year BTA made the seventh share issue in succession. The registered capital of BTA increased by LVL 800 000, while due to this share issue the equity grew by LVL 902 400. All new shares were subscribed and paid in before 30 September, 2005. Currently, the company is planning on making the eighth share issue in order to increase the equity in line with the growth of operations.

In 2006 BTA plans to increase the amount of written premiums significantly. The plan is based on the extensive sales network, the improvements of sales and claim settlements in previous years, as well as the insurance products customized to client needs. The company is planning to develop on-line systems to widen the range of insurance products sold on-line. This will help to strengthen BTA's position in the developing market of on-line insurance in Latvia, which is expected to boost with the introduction of the electronic signature.

BTA pays increasing attention to risk management issues. Risk management and control functions are implemented in the everyday operations of the company through insurance risk underwriting methodology, estimation of limits for risks to be underwritten, and reinsurance policy. Risks related to the investments made by BTA are controlled in accordance with the company's approved investment policy.

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

During 2005, BTA's intra-group transactions with own shares were performed in accordance with the law "On Joint-Stock Companies".

The management of BTA confirms that the 2005 financial statements have been based on appropriate accounting methods in accordance with the Latvian legislation, and give true and fair views of the financial position as at the end of the year and the results of operations during the year. The management of BTA is responsible for maintaining appropriate accounting records in line with the requirements of normative acts, safeguarding the company's assets, and preventing and detecting of fraud and other irregularities.

We would like to extend our gratitude to all BTA's clients, partners and shareholders for successful cooperation, as well as to the staff of BTA for their investment in the stability and further growth of the company. Also, we wish success in future operations.



Gints Dandzbergs
Chairman of the Board



Aleksandrs Rimars
Chairman of the Council



Agris Dambeniaks
Member of the Board

20 April 2006

STATEMENT OF MANAGEMENT RESPONSIBILITY

In 2005, the insurance joint-stock company BTA was managed by a Board consisting of 7 Board members. The Board informs the Council of the company's activities on a regular basis.

The company's management assumes responsibility for maintaining records and registering transactions in accordance with the requirements of Latvian laws and regulations, and safeguarding the company's assets and preventing fraud or other irregularities.

The management is responsible for the preparation of the 2005 financial statements that reflect the operations of BTA during the time period from 1 January 2005 to 31 December 2005.

The company's management confirms that the present annual report has been prepared in accordance with the effective requirements of the legislation and the Financial and Capital Market Commission, and it gives a true and fair view of the company's financial position at the end of the reporting year, as well as the operating results and cash flows for the year.

The annual report has been prepared on the basis of prudent decisions and assumptions of the management.

The management confirms that the requirements of the Latvian legislation have been met and the financial statements have been prepared on the going concern basis.

The management is not aware of any significant events subsequent to the end of the year that have not been disclosed in this annual report and that may have an impact on further activities of the company and the presentation of the financial statements.



Gints Dandzbergs
Chairman of the Board



Aleksandrs Rimars
Chairman of the Council



Agris Dambeniaks
Member of the Board

20 April 2006

MANAGEMENT OF BTA

AIVARS NEIMANIS
Member of the Board
(Premier Vice President)

ANDREJS GALANDERS
Member of the Board
(Finance Director)

JĀNIS MAĻINOVSKIS
Member of the Board
(Vice President)

AGRIS DAMBENIEKS
Member of the Board
(Chief Accountant)



JEĻENA ALFEJEVA
Member of the Board
(Vice President)

GINTS DANDZBERGS
Chairman of the Board

BTA IN THE REGIONS

In 2005 BTA's regional policy has contributed to successful company growth in the regions. BTA's overall and regional policy means consistency with regard to principles for action, accessibility of insurance services, and client-orientated approach combined with good quality and well organized service delivery as well as employee professionalism.

The year 2005 has been important for BTA's regional centers both in terms of activity development and insurance premium growth.

The functions of the insurance company "BTA" are built equally following company's "regional principle" in all Latvia – in Riga, Latgale, Vidzeme, Kurzeme, Zemgale and in "Daugava" region. The overall division in regions and branches is made in view to ensure that our clients and employees meet under the most convenient terms and so that all issues – both insurance and costs related ones – are solved as quickly as possible.



LAILA LĪDUMA
Director of Riga
regional centre

The life in the capital of Latvia is getting more dynamic and faster from day to day. To save the time for the citizens of Riga and to make insurance services even more accessible, the "Riga" regional centre worked very hard in 2005 to expand the sales network in Riga and in the surrounding region.

As of January 1, 2006 insurance services in Riga were offered in 3 branches, 8 client service centers and 28 insurance policy sales points. In 2005 the regional centre "Riga" also made an in-depth analysis of its sizeable market potential. The rapid growth of sales volume in 2005 proves that there are significant growth opportunities in the future. The growth of the sales volume was supported by the expansion of the sales network as well as by the introduction of new client service products, such as "autoDienests" and information hotline.



**MĀRIS RUDAUS-
RUDOVSKIS**
Director of Zemgale
regional centre

In 2005 the regional centre "Zemgale" worked on the expansion of the sales network opening several new insurance policy sales points in Jelgava, Olaine, Sabile and Dubulti.

Regional centre "Zemgale" started the reorganization and stabilization of activities in several regional branches.

Regional centre "Kurzeme" continued its cooperation with the leading car trading dealers in the region increasing the CASCO insurance activities in 2005.



KRISTĪNE DRULLE
Director of Kurzeme
regional centre

There is also an on-going work to expand the regional branches, their activities and to attract new, competent specialists.

Regional centre "Kurzeme" is working hard to maintain the existing clients, to care for the provision of the best quality insurance products and equally good service.

REGIONAL CENTRES



TATJANA REUTE
Director of Latgale
regional centre

Disregarding the harsh economical circumstances in Latgale regions, the regional centre "Latgale" finalized the year 2005 with good results.

Development of insurance products while maintaining prices, rich compensation spectrum, introduction of new insurance products, renovation of computer system, and professional growth – the combination of these factors accounts for the development of insurance market and client service culture in the region.

As BTA is recognized as a stable and reliable insurance provider, the company's representation Latgale region has gained a wide circle of loyal customers; and this number is growing.

Regional centre "Vidzeme" had positive results in 2005. CASCO insurance has grown rapidly in the region, and the amount of premiums in this segment has increased by 77.2% versus the 2004 figure.

This was due to the good reputation of BTA, the relatively good terms of insurance, carefully tailored cooperation with corporate clients and leasing providers, as well as timely and correct cost planning. As the regional situation is getting more stable, clients' financial capacity is increasing along with the overall welfare level.

In 2005 the regional centre "Daugava" defined client service quality as its key task. Each person has individual needs and insurance providers often prove to be good advisers, recommending the right insurance policy and providing the best insurance service. Nowadays nearly all clients know what insurance means, even though, it is true that people are often not fully aware of the details of the products. Therefore, our clients are always served kindly and the most suitable solution is offered.



**VIESTURS
MELNSTRAZDS**
Director of Vidzeme
regional centre



JURIS APSIS
Director of Daugava
regional centre

Property insurance is growing rapidly in the region and people show great interest in it. The storm of 2005 proved our clients that BTA is capable of immediate reaction in special circumstances and is able to cover unexpected expenses.

Heads of the regional centers admit that BTA is a confident and reliable insurance provider in Latvian regions. BTA clients appreciate provision of correct and good quality services and individual approach.

In 2006 it is planned to continue the regional development by paying special attention to the expansion of the sales network. The company will continue improving service provision, increasing sales, and promoting and offering voluntary insurance products in all insurance policy sales points. Employee and cooperation partner training and professional development will be in strong focus in the future.

REGIONAL CENTRES AND BRANCH OFFICES

HEAD OFFICE

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Fax: (371) 7025190
e-mail: bta@bta.lv
www.bta.lv

Aizkraukle

Lāčplēša iela 2a
Phone: (371) 51 21361

Dobele

Brīvības iela 10a
Phone: (371) 37 21160

Krāslava

Tirgus iela 7
Phone: (371) 56 22535

Ogre

Brīvības iela 22
Phone: (371) 50 71196

Sigulda

Ausekļa iela 7
Phone: (371) 79 70089

Alūksne

Latgales iela 8b
Phone: (371) 43 81622

Gulbene

Parka iela 1a
Phone: (371) 44 73456

Kuldīga

Vakara iela 15
Phone: (371) 33 22426

Preiļi

Rēzeknes iela 15
Phone: (371) 53 81357

Smiltene

Baznīcas laukums 15
Phone: (371) 47 73633

Balvi

Baznīcas iela 14
Phone: (371) 45 21599

Jelgava

Uzvaras iela 2
Phone: (371) 30 46594

Liepāja

Celtnieku iela 18
Phone: (371) 34 22248

Rēzekne

Dārzu iela 13
Phone: (371) 46 38192

Talsi

Lielā iela 20
Phone: (371) 32 91246

Bauska

Slimnīcas iela 7
Phone: (371) 39 28048

Jēkabpils

Brīvības iela 161
Phone: (371) 52 37427

Limbaži

Stacijas iela 8
Phone: (371) 40 70774

Rīga

Sporta iela 18
Phone: (371) 73 60956

Tukums

Pils iela 12
Phone: (371) 31 25520

Cēsis

Uzvaras bulvāris 4
Phone: (371) 41 20082

Jūrmala

Lībiešu iela 8
Phone: (371) 77 38710

Ludza

Stacijas iela 30/27
Phone: (371) 57 07879

Salaspils

Rīgas iela 30
Phone: (371) 7980023

Valmiera

Rīgas iela 44
Phone: (371) 42 07292

Daugavpils

Rīgas iela 20
Phone: (371) 54 21252

Kandava

Lielā iela 8
Phone: (371) 31 22708

Madona

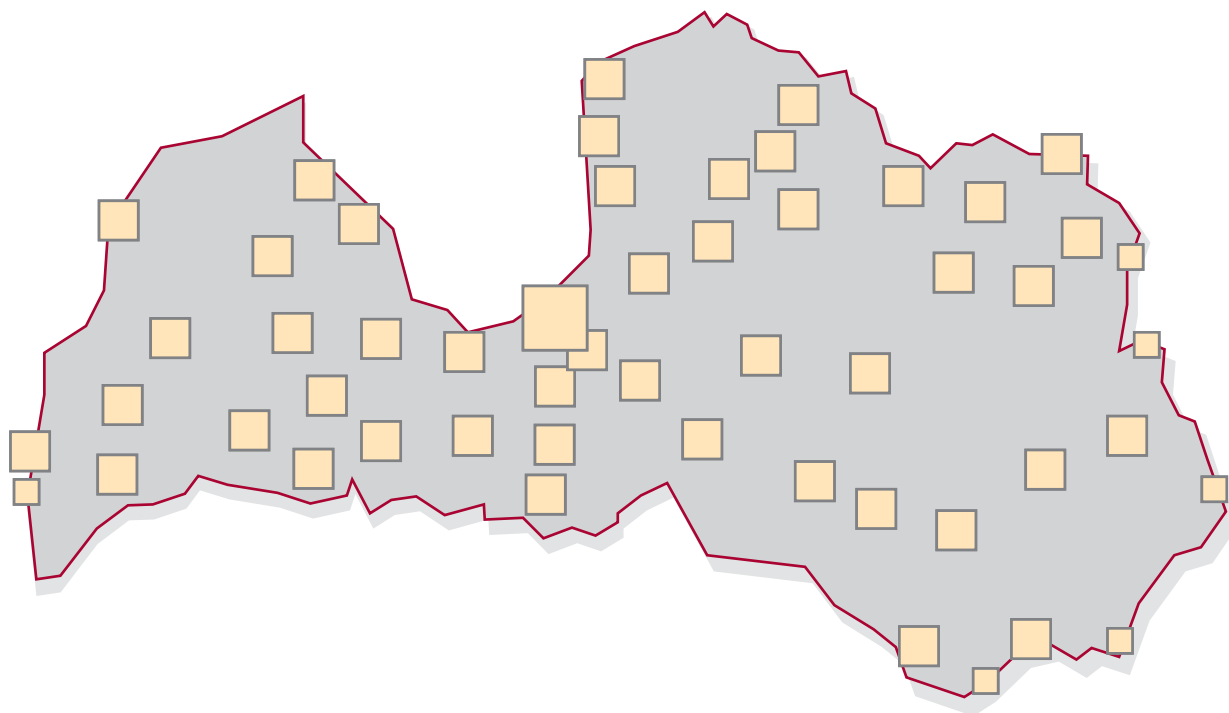
Saules iela 16
Phone: (371) 48 22219

Saldus

Lielā iela 2
Phone: (371) 38 07175

Ventspils

Saules iela 19
Phone: (371) 36 29249



INTERESTING FACTS

BTA HAS PAID THE LARGEST OCTA INDEMNITY

In December 2005 BTA paid the largest insurance indemnity in the history of OCTA – the compulsory third party liability insurance for inland motor vehicle owners – in Latvia; it amounted to LVL 56 700. This indemnity was almost two times higher than the previous largest amount paid in Latvia on an OCTA policy basis.

BTA PROVIDES ITS CONTRIBUTION IN PROMOTING THE SYMBOL OF LATVIAN FREEDOM

On November 18, the day of annual celebration of the proclamation of the independence of Latvia, BTA provided its contribution to promotion of the symbol of freedom of Latvia. In addition, BTA organized a photo competition "The Image of Freedom" that complemented to the activities on the theme of freedom and independence.

The works submitted for the competition were showed right on the day of Independence Proclamation – November 18 – in one of the hotspots of the downtown Riga – the Livu Square. Authors of three best pictures won a monetary prize.

With this photo contest and the insurance of the Freedom monument BTA celebrated its own anniversary as well.



BTA "AUTOFLEET" IS AN ACTUAL ASSISTANCE TO A CLIENT IN NEED

Caring for its clients, BTA introduced a new service at the end of the last year – aimed specifically at drivers in emergency situations – *autoDienests* or *autoFleet*. The service will help BTA's clients to fill out the Accident Statements after minor traffic accidents, present the documentation required for filing claims, study the situation, and call the road traffic police if necessary. Many BTA clients admitted that this service had helped them to avoid dire situations and stress in case of a traffic accident.

The new BTA service *autoDienests* was noted as a big step in improving the traffic security by the management of the Latvian road traffic police; the police noted that this service should be copied by other insurance companies.

The introduction of *autoDienests* is just one of the stages in the development of BTA's service.

BTA information services have started successful activities providing several hundreds of BTA's clients with professional advice regarding insurance.

BTA DAYS – CELEBRATION IN LATVIAN CITIES

Basing on the successful experience gained in the last few years, BTA, in liaison with the records company "Platforma Records" organized the "BTA days" for the third successive year. Various contests and a lottery took place during the event, and customers had an opportunity to win a prize from "Ieva" magazine and travel agency "Impro".

In 2005 the "BTA days" event was organized in Smiltene, Dobeles and Ventspils. Given that BTA is represented in Lithuania as well, the festival also took place in the city of Panevezys, Lithuania.

"BTA days" had several thousands of visitors which showed that the popularity of BTA is increasing day to day.

INTERESTING FACTS

INSURING THE CONSTRUCTION OF THE *DIENVIDU TILTS* IN RIGA, BTA HAS SIGNED ONE OF THE MOST VALUABLE INSURANCE CONTRACTS

Winning the insurance competition on the construction of *Dienvidu* bridge in Riga, BTA insured the construction company "Dienvidu tilts" during the bridge construction stage for about 107 million Latvian lats. All the construction risks were insured – the material values of construction amounting to about 104 million Latvian lats, overall legal liability of the "Dienvidu tilts" company – a legal person – for one million lats as well as the guarantee of the guarantee period in the amount of 2% of the construction amount.

In terms of insurance volume this is one of the largest insurance deals in the insurance business history in Latvia.

BTA TAKES UP THE *DRAUDZĪGAIS AICINĀJUMS* TRADITION

On January 28, 2005 the 70th anniversary of the day of *Draudzīgais aicinājums* or the "Friendly Call for Action" was announced. For several years BTA is a partner in promoting and supporting this day when several libraries of rural schools are presented books, special events for pupils are organized with participation of popular Latvian musicians. This is a day when BTA with its supporters, including the fifth president of the Republic of Latvia, Guntis Ulmanis, is appealing to all residents of Latvia to remember their schools and to support the "friendly call for action" that was expressed in 1935 by the first President of Latvia, Kārlis Ulmanis.



THANK GOD – A WOMAN BEHIND THE WHEEL!

One of the most successful projects of BTA in 2005 was the creation of a new and unusual product for the Latvian market – "Lady Car insurance".

BTA's data showed that women had been more careful and more responsible than men when driving.

Therefore BTA, assessing the risk through standard methods, created an insurance product just for women – a token of gratitude for safe driving.

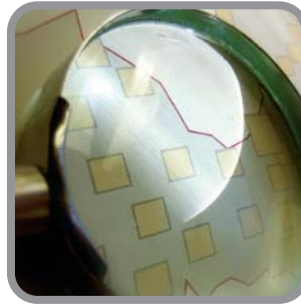
"Lady Car insurance" comprised the special CASCO+OCTA insurance (at a 50% discount) and a complex with special additional discounts and a variety of bonus offers, like evacuation and assistance on the road provided for free of charge. Last year all lady drivers received a CD with a selection of music just for women drivers who had obtained the "Lady Car insurance".

Women drivers and the "Lady Car insurance" were in the focus of the specialized event – "Thank God – a Woman Behind the Wheel!" BTA lady clients were invited for a grand celebration at the Spilve airport; the new product and the BTA campaign were supported by the Traffic security directorate, the road traffic Police, psychologists and media.

Ladies driving appreciated the BTA insurance idea: the product became very popular among Latvian women. The number of ladies having opted for the BTA CASCO insurance more than doubled versus the respective period last year.

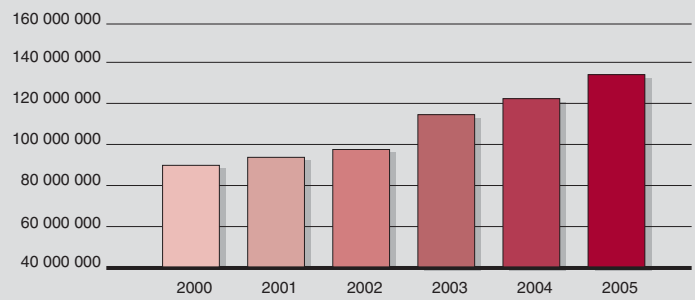
BTA again showed that it was a local company caring for its clients and following the developments in the society – hence being able to offer new solutions in the development of insurance products.

REPORT OF THE BUSINESS ACTIVITIES

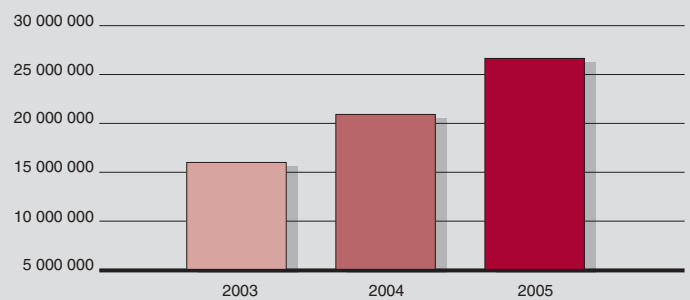


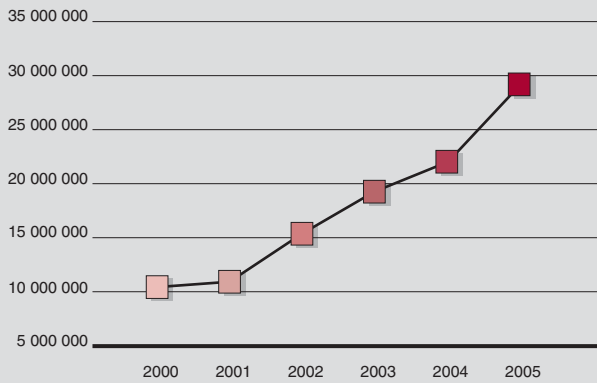
2005

GROWTH OF THE RISK INSURANCE MARKET IN LATVIA (LVL)

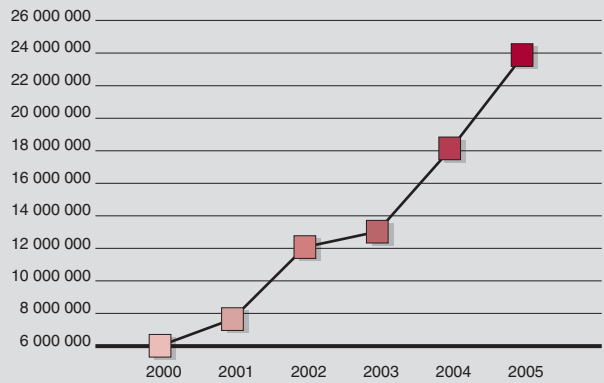


BTA ASSET GROWTH (LVL)

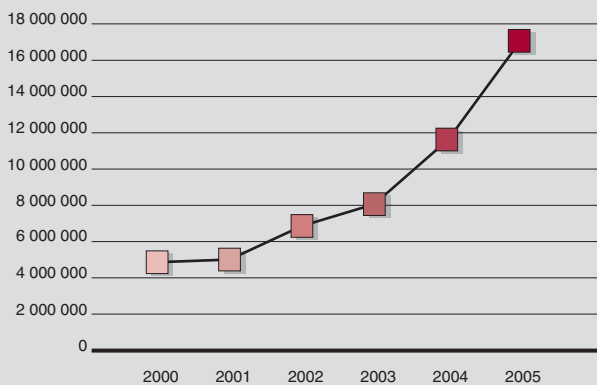




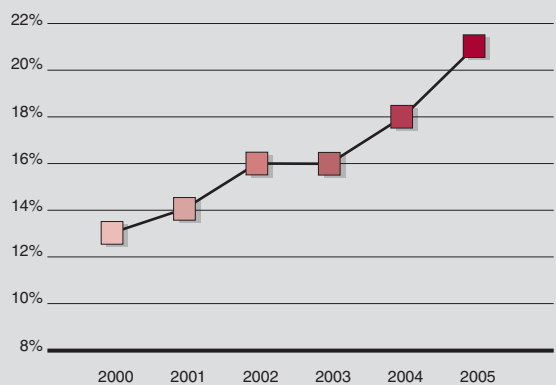
Written gross premiums (LVL)



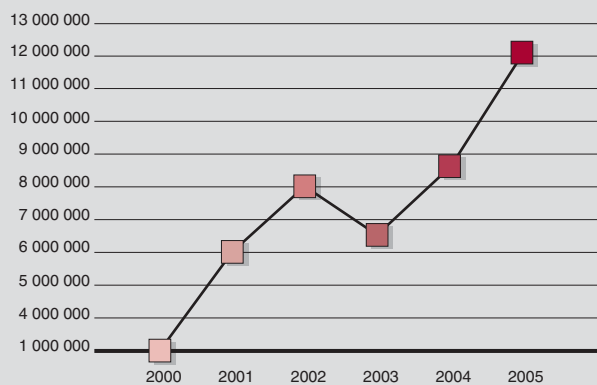
Written net premiums (LVL)



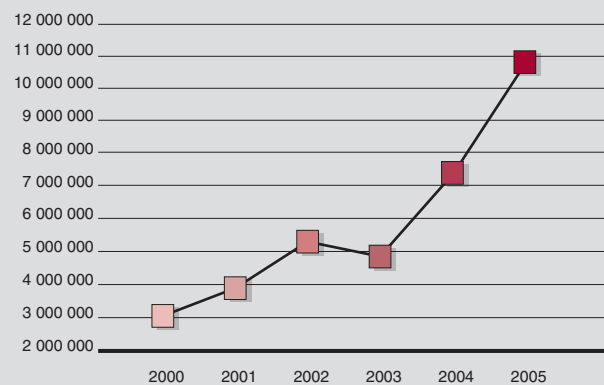
Technical reserves (LVL)



BTA Market share (%)

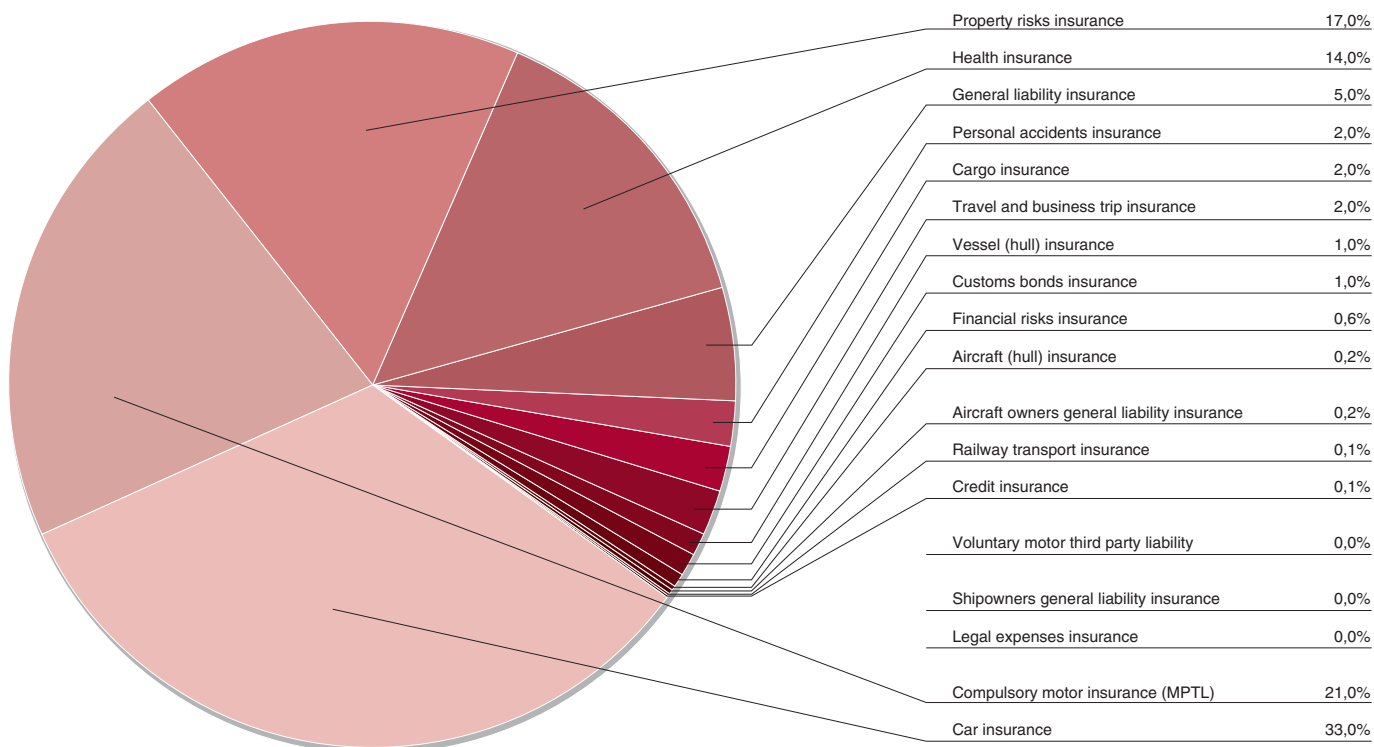


Gross claims paid (LVL)

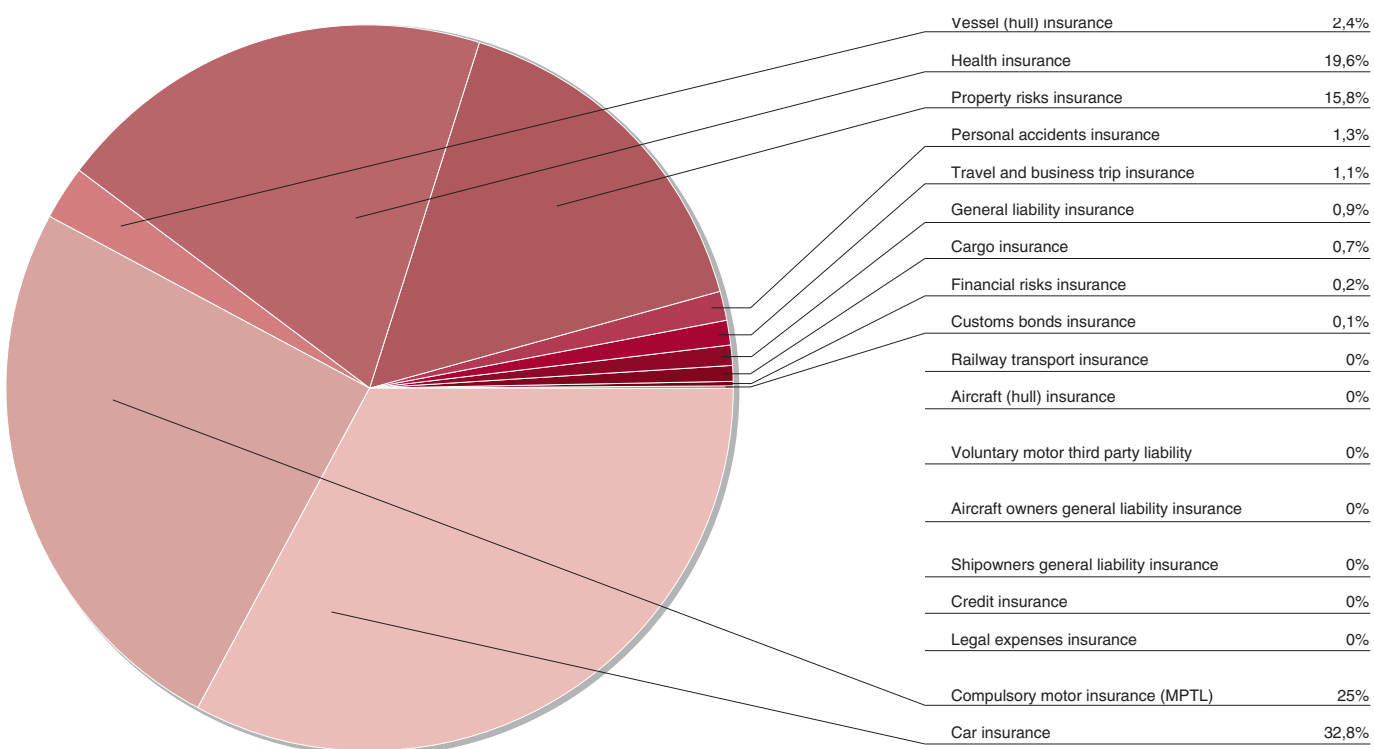


Net claims paid (LVL)

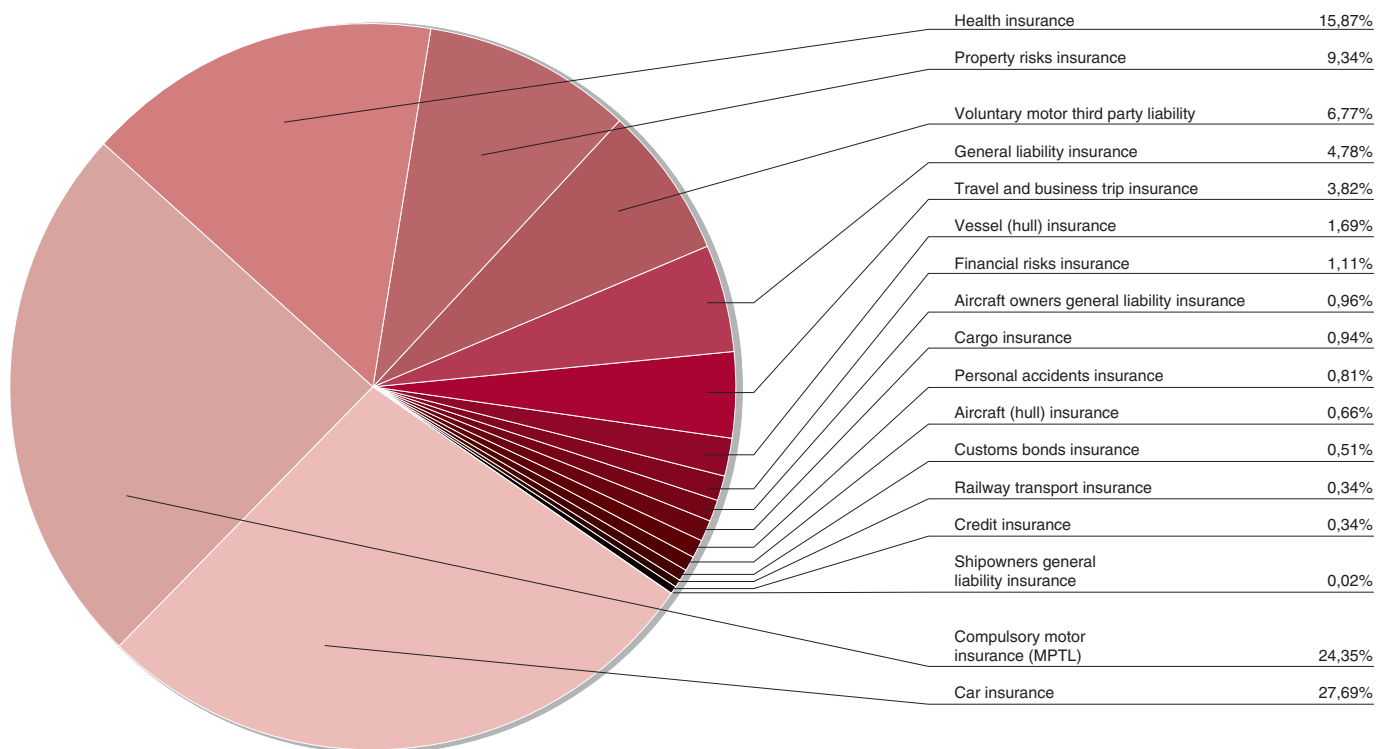
THE WRITTEN PREMIUMS PORTFOLIO OF LATVIAN INSURANCE COMPANIES, GROSS (%)



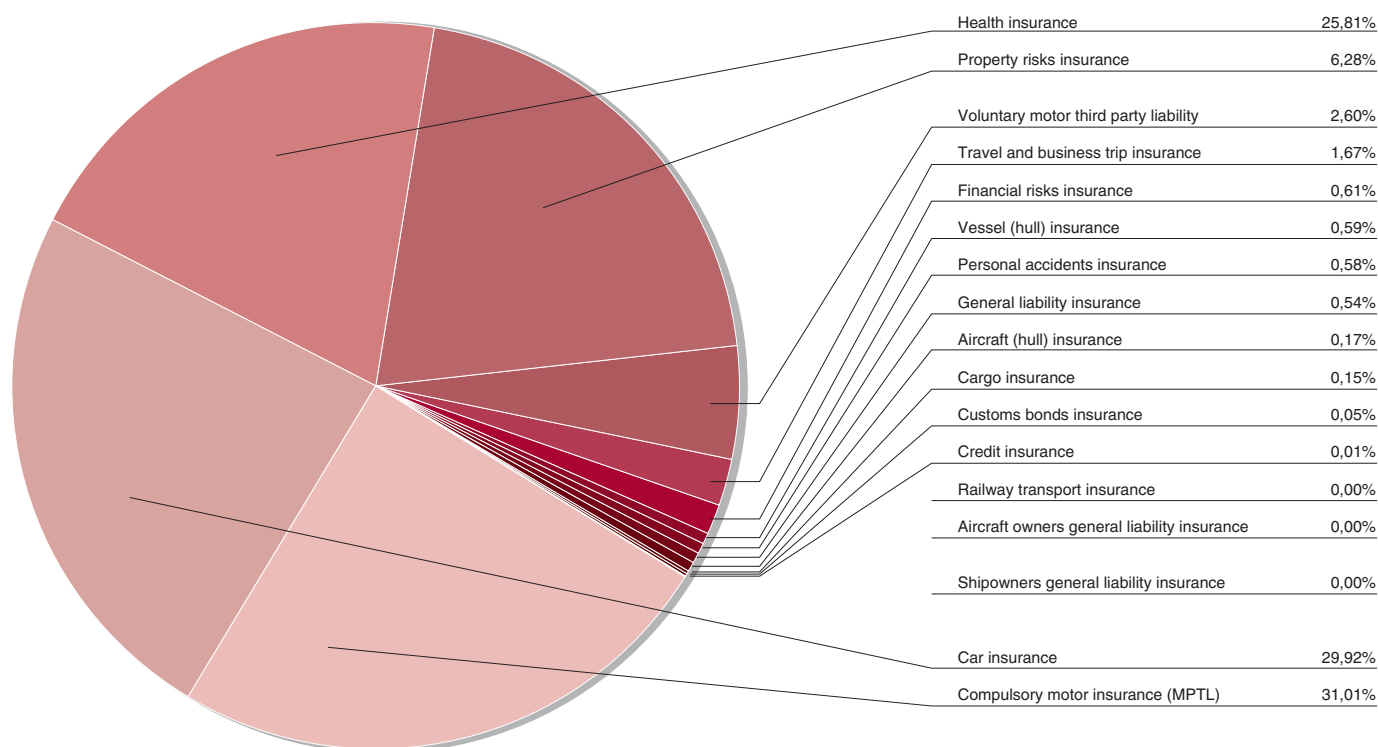
THE PAID CLAIMS PORTFOLIO OF RISK INSURANCE COMPANIES, GROSS (%)



BTA PORTFOLIO OF THE WRITTEN GROSS PREMIUMS (%) 31.12.2005



BTA PORTFOLIO OF THE GROSS CLAIMS PAID (%) 31.12. 2005



INSURANCE PRODUCTS



2005



CASCO VEHICLE INSURANCE

ALDIS PROKOFJEVS

Signatory, BTA road transport insurance risk

It is a pleasure that on the basis of year 2005 results I am announcing 56% growth in BTA CASCO portfolio. We have demonstrated much faster pace of growth than the market overall: the market growth has been only 34%. BTA market share in CASCO insurance reached 17.4% last year. At the moment BTA has the second largest CASCO portfolio in Latvia.

One of the best illustrations for the year 2005 success in BTA CASCO insurance was the establishment of "Lady Car insurance" which until now is a unique product in the Latvian market.

This was a specialized CASCO insurance product for our female customers and contained an attractive offer for any lady-driver, for instance, a 50% discount for the OCTA (mandatory) car insurance topped with several bonus offers – car evacuation and technical assistance on the road for free of charge, discounts for various essential services etc. More than thousand driving ladies have availed themselves to this service opportunity.

One of the most significant year 2005 events was the establishment of BTA *autoDienests* or *autoFleet*. Thus BTA became the first insurance provider in Latvia providing actual assistance and support to customers in emergency.

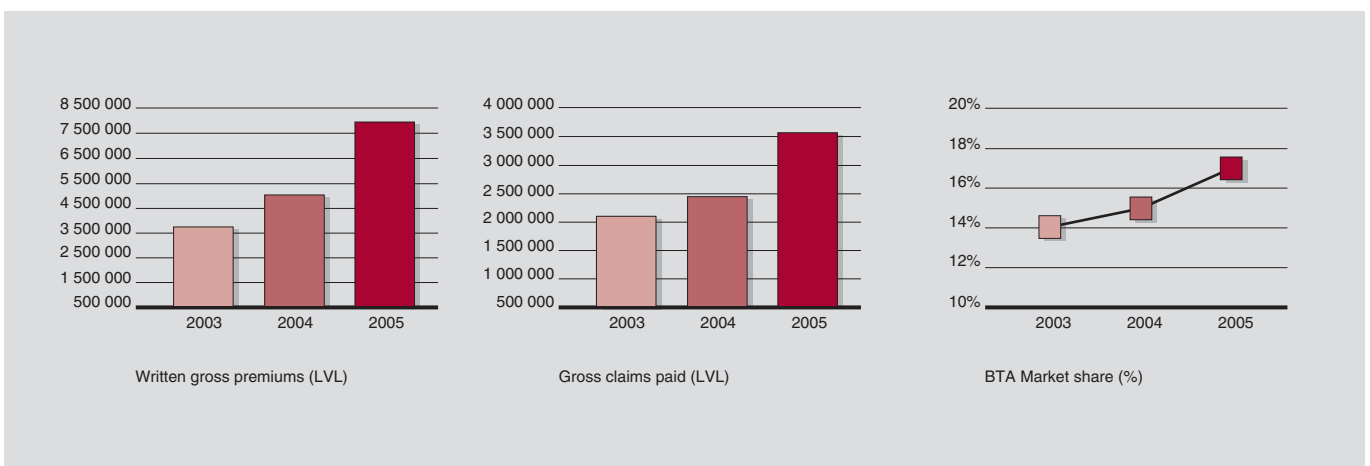
An information hotline – 2 6 12 12 12 – was established; therefore, BTA customers have been able to obtain professional round-the-clock advice regarding appropriate actions after minor traffic accidents and best insurance deals.

This additional service spectrum – making the BTA CASCO products more attractive – brings out the company among other insurance companies offering only standard services. Implementing of new services is of special importance for the competition in the current market because otherwise the customers' choice would have been only price driven.

This year the entire insurance market demonstrated a common trend, i.e., improving CASCO products and decreasing prices. Such trend means that the insurance product is profitable and the turnover is increasing continuously.

For two years Latvia has been one of the fastest growing countries in Europe according to sales of brand new cars. A similar trend has been forecasted for the next year. The population income level in Latvia is growing and people tend to increase the use of credit and lease opportunities. In 2005 BTA became an exclusive CASCO insurance partner to several largest Latvian crediting companies and continues to develop cooperation with other companies.

The BTA objective is to continue this course of action, enforcing its policy focused on customer needs and desires, making high quality products more accessible and providing personalized price calculations.





OCTA

IVETA JAHONTOVA

Director, OCTA insurance department

Following Latvian accession to the European Union and the respective changes introduced to OCTA product, in 2005 the OCTA insurance market continued its dynamic growth.

Looking at BTA results in the year 2005, the BTA OCTA portfolio growth must be underscored – this growth was much faster than the overall OCTA market growth. In fact, BTA's OCTA portfolio grew by 8.5% while the OCTA portfolio in the market increased by less than 1%.

In 2005 BTA maintained its leadership in the OCTA insurance market and increased its market share up to 26.2% in this segment.

Developing the OCTA insurance product, BTA makes all the effort to take into account the needs of every driver. Hence, the OCTA insurance prices in 2005 were differentiated and adjusted to the interests and needs of each client.

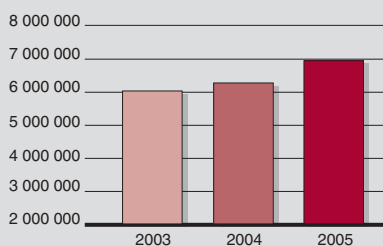
In 2005 BTA finalized the transition to on-line sales system which now gives BTA clients an opportunity to purchase insurance in any BTA branch for the best price available, including even bonus offers to loyal BTA customers. This step also served as a stable basis for successful launch of the Bonus-Malus system in early 2006, which allowed the application of substantial discounts for BTA clients with positive driving history.

In 2005 BTA service development was in special focus thus aiming to attract customers both with lower OCTA insurance premiums and wider service spectrum.

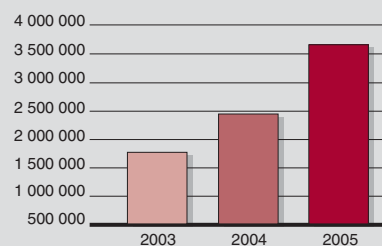
BTA *TelePolise* (Tele-insurance policy) has been successful for several years – the service allows insurance purchase via phone which accounts for substantial time efficiency and serves as a convenient sales method for our customers without leaving their office or home.

In late 2005 the introduction of a new service – BTA *autoFleet* – gained popularity. This service is supposed to assist drivers after minor traffic accidents, for instance, with filling out the Accident Statement and filing a claim, as well as to study the situation and call the road traffic police if necessary.

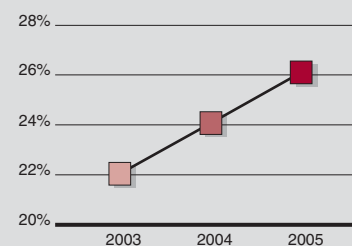
In the future BTA aims to offer its clients more products of good quality on very good conditions, to develop the OCTA insurance product and to expand the network of local branches in Latvia so that every driver can have easy and convenient access to the BTA OCTA insurance.



Written gross premiums (LVL)



Gross claims paid (LVL)



BTA Market share (%)



HEALTH INSURANCE

IGORS STEPANOVS

Head of BTA Health insurance department

The growing interest in health insurance and demand for this insurance type from the residents has stimulated growth of the health insurance market in 2005.

BTA has been a market leader for several years in this kind of insurance and this is partly due to our experience, being a stable team, and trust in our insurance company from our clients and cooperation partners.

On the basis of BTA statistical data for the year 2005, gross premium growth versus the previous period amounts to 30.4%, and the proportion of health insurance in the portfolio equals 24%.

The 37.3% of the total gross premiums are premiums from BTA regional offices and branches.

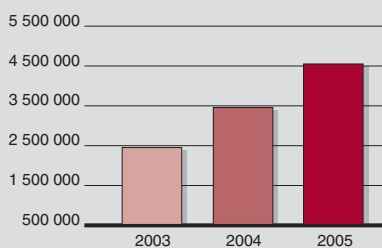
BTA holds a stable second place in the non-life insurance market with its 4.5 million gross premiums.

BTA is working regularly to improve its health insurance programs, supplementing service spectrum and working on ever new methods. A well organized service and professional advice from experts is guaranteed to our clients.

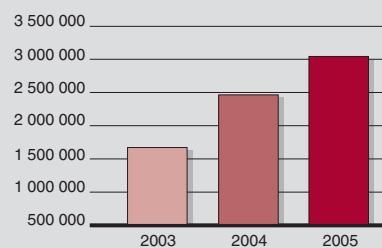
Offering companies, state and municipal institutions health insurance products, BTA is urging employers to choose the most popular and most rational programs and tries to assure that it is going to be a good motivation to work better, to stay healthy and to care continuously for individual health.

The wide network of branches both in Riga and regional centers of Latvia is a precondition for BTA's success in health insurance market; but it is also dependent on well trained specialists, including medical professionals.

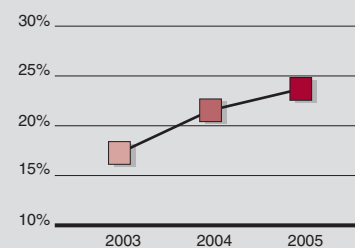
BTA is planning to work eventually to promote the distribution of health insurance policies and residential health insurance; we will also work to increase the qualifications of our employees in health insurance as BTA's objective is to provide good quality health care services to all the clients.



Written gross premiums (LVL)



Gross claims paid (LVL)



BTA Market share (%)



ASSISTANCE INSURANCE (TRAVEL RISK INSURANCE)

JEKATERINA RADZINSKA
Director, Personal insurance department

In 2005 BTA again was among the leaders in the Latvian market with regard to the premiums signed for travel risk insurance. This fact, no doubt, is linked to the trust the BTA clients put in us – one of the strongest Latvian insurance providers. Our professional experience, the responsibility of our personnel and the stable teamwork guarantees security to clients. BTA's daily assistance service is established to provide quick and good quality assistance in complicated situations to all BTA clients abroad in terms of organizing client transportation home, in provision of medical assistance and advice, in coordinating the activities of BTA cooperation partners in Turkey, Egypt and other countries.

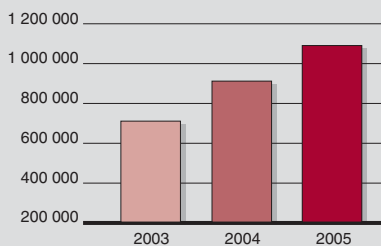
Permanent BTA clients know that while traveling to Turkey, Spain, Egypt or spending time in skiing resorts, they are exempt from medical accident service charge. Caring for our clients' needs, BTA transfers remuneration to its foreign partners on assistance provision to our clients without intermediaries.

BTA is continuously working to develop and to expand the spectrum of insurance services. In 2005 BTA offered its clients an even wider selection of insurance programs – starting from a program when medical costs are covered for a client traveling abroad and up to a VIP program covering 16 insurance risks, including a delayed flight, departure and arrival time insurance and medical cost coverage after returning to Latvia which, at the moment, is a unique offer.

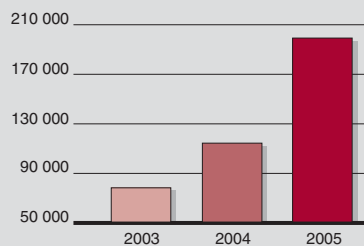
Now BTA is offering a specialized program to clients flying abroad – *Optimālā+*. This insurance program would cover luggage risks, flight risks, as well as with flight delay associated problems.

In 2005 BTA contributed the largest payment for assistance provision in the entire Latvian insurance history – LVL 22 742 for the treatment of a patient and medical evacuation from Georgia to Latvia due to a stroke.

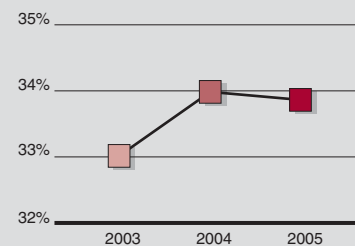
BTA will continue working in future to provide its clients insurance programs, on the basis of their needs and desires.



Written gross premiums (LVL)



Gross claims paid (LVL)



BTA Market share (%)



PROPERTY RISK INSURANCE

RITVARS HENIŠ

Signatory, BTA property risks

Despite the harsh competition, the year 2005 has been a year of growth for BTA property insurance deals. In property insurance deals the gross premium growth was provided in the amount of 80%.

One of the largest deals in 2005 was the contract on insurance of *Dienvidu tilts* – a new bridge to be constructed in Riga. The rights to the bridge insurance were obtained in a tender, and this is the largest construction costs risk insurance deal in the history of BTA. This deal certainly proves BTA's stable position in the large-scale engineering and technical risk insurance segment.

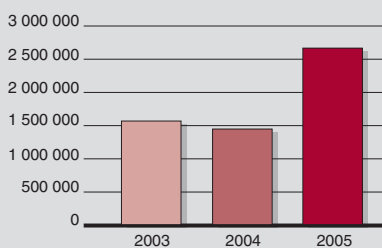
Likewise, the year 2005 witnessed continuation of successful cooperation with credit institutions trading private property insurance policies on-line. This sales channel is growing rapidly and in 2006 it is going to be one of the priorities in terms of development of property insurance.

In 2005 several promotional events and activities were carried out in the property insurance segment offering specialized and motivating deals to our customers. It must be admitted that in the private property insurance segment a good share of clients are insuring their property only because it is a mandatory requirement to obtain mortgage loans – hence it is important to find ways to motivate clients to obtain insurance on a voluntary basis.

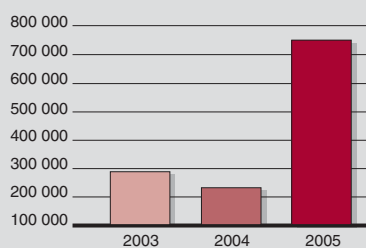
One of the most persuasive arguments for insurance purchase was the January 2005 storm "Ervins", as in the result of the storm BTA paid more than LVL 300 000 for property insurance. Besides, BTA's operative activities in cost administration illustrated well that the company was able to react quickly to a large number of insurance cases fully meeting clients' needs.

It must also be noted that the market competition is growing tighter – as in all traditional insurance kinds. However, this is not threatening for BTA, it is rather a stimulus for growth. Given the strong competition BTA is trying to differentiate the insurance portfolio as much as possible, paying larger attention to client contribution in security of their companies.

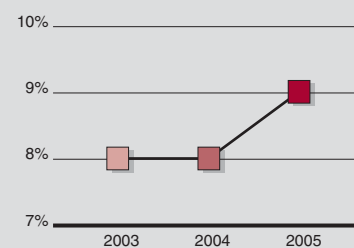
In 2006 BTA is planning to expand on and to diversify the product spectrum. High service quality and competitive prices will be BTA's priorities in 2006.



Written gross premiums (LVL)

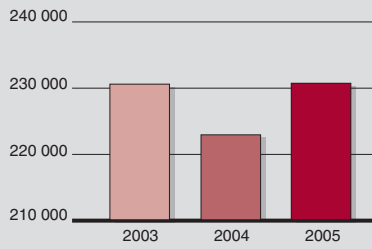


Gross claims paid (LVL)



BTA Market share (%)

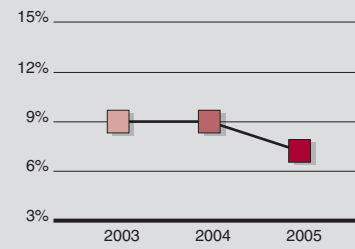
PERSONAL ACCIDENTS INSURANCE



Written gross premiums (LVL)

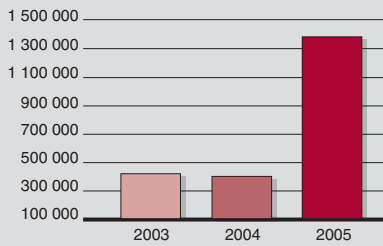


Gross claims paid (LVL)

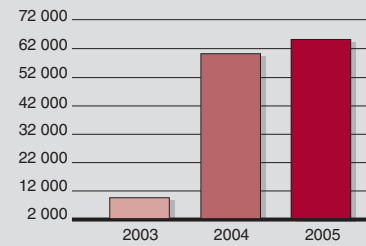


BTA Market share (%)

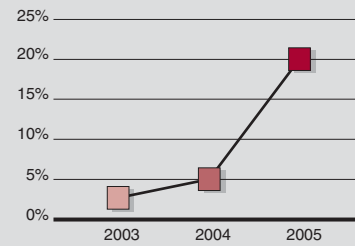
GENERAL LIABILITY INSURANCE



Written gross premiums (LVL)

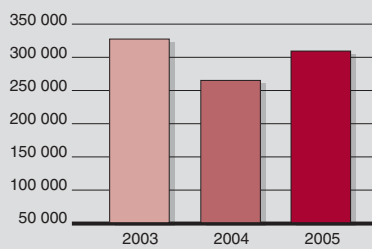


Gross claims paid (LVL)

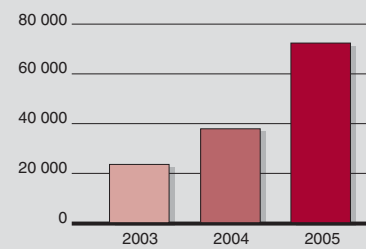


BTA Market share (%)

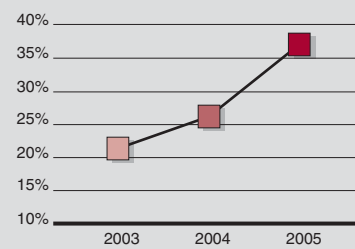
FINANCIAL RISKS INSURANCE



Written gross premiums (LVL)

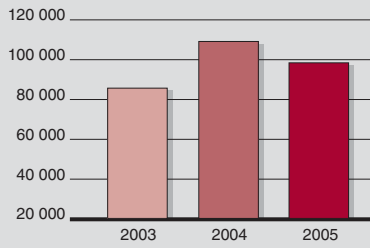


Gross claims paid (LVL)



BTA Market share (%)

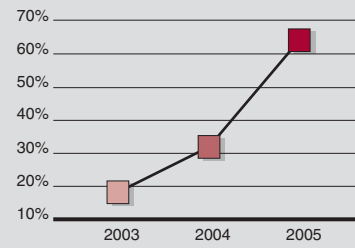
CREDIT INSURANCE



Written gross premiums (LVL)

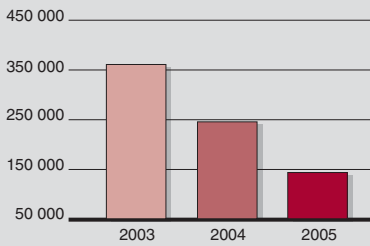


Gross claims paid (LVL)

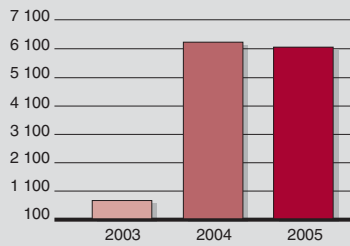


BTA Market share (%)

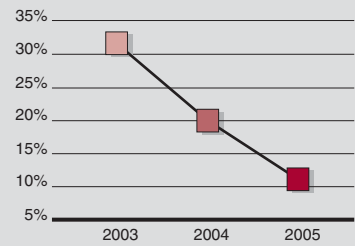
CUSTOMS BONDS INSURANCE



Written gross premiums (LVL)

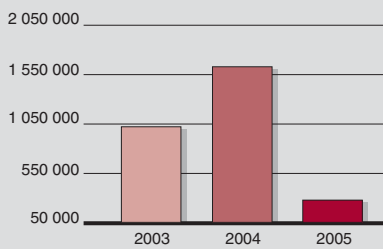


Gross claims paid (LVL)

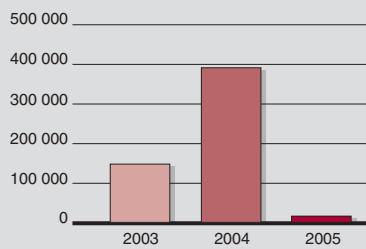


BTA Market share (%)

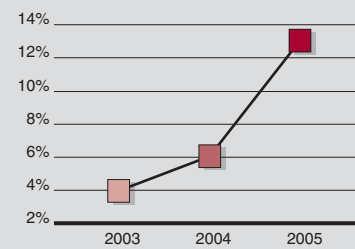
CARGO INSURANCE



Written gross premiums (LVL)

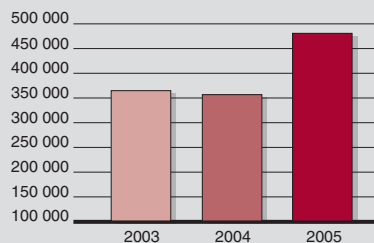


Gross claims paid (LVL)

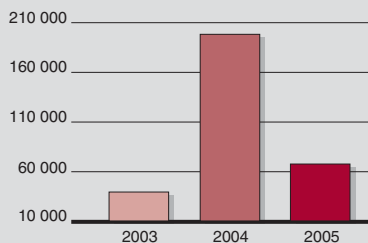


BTA Market share (%)

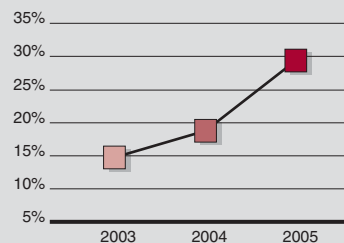
VESSEL (HULL) INSURANCE



Written gross premiums (LVL)

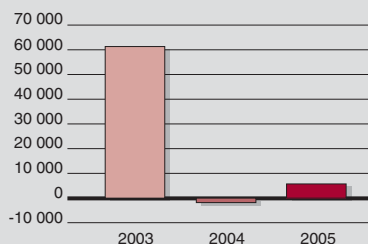


Gross claims paid (LVL)

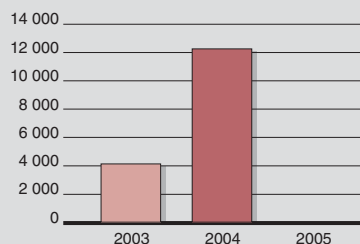


BTA Market share (%)

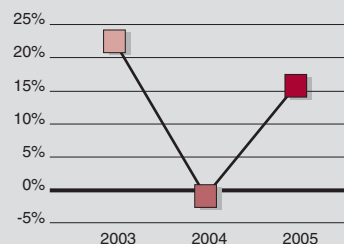
SHIPOWNERS GENERAL LIABILITY INSURANCE



Written gross premiums (LVL)

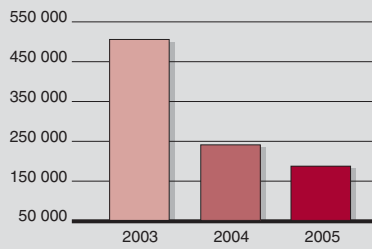


Gross claims paid (LVL)



BTA Market share (%)

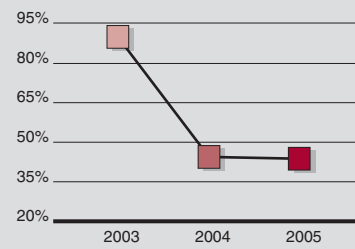
AIRCRAFT (HULL) INSURANCE



Written gross premiums (LVL)

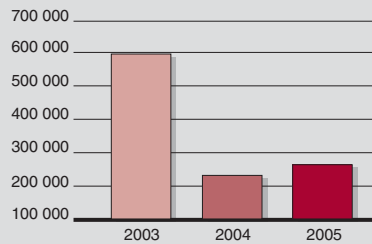


Gross claims paid (LVL)

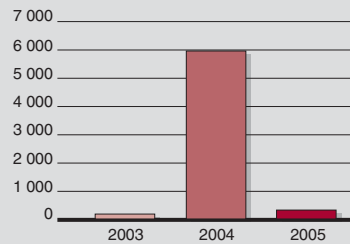


BTA Market share (%)

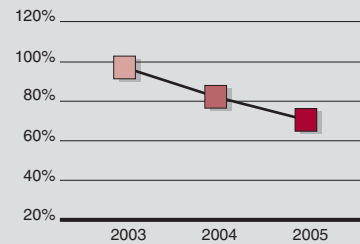
AIRCRAFT OWNERS GENERAL LIABILITY INSURANCE



Written gross premiums (LVL)



Gross claims paid (LVL)



BTA Market share (%)

FINANCIAL REVIEW



2005

BALANCE SHEET AS AT 31 DECEMBER 2005

ASSETS (LVL)	2005	2004
WRITTEN BUT UNPAID SHARE CAPITAL	–	291 102
INTANGIBLE ASSETS	30 818	42 016
INVESTMENTS	19 241 197	15 543 893
Land and buildings	1 970 812	1 823 321
Related parties:	1 017 031	798 583
Investments in equity	1 017 031	697 983
Debt securities and loans	–	100 600
Other financial investments:	16 253 354	12 921 989
Investments in non–fixed income securities	774 781	903 530
Debt securities and other fixed income securities	7 567 210	7 494 881
Investment funds	35 977	–
Mortgage loans	2 472 456	1 615 963
Other loans	1 403 852	904 278
Term deposits with credit institutions	3 959 557	1 940 119
Other investments	39 521	63 218
RECEIVABLES	5 383 354	3 262 273
Direct insurance receivables:	3 940 176	2 807 043
Due from policy holders	2 967 128	2 038 627
Due from intermediaries	973 048	768 416
Reinsurance receivables	78 827	31 827
Other receivables	1 364 351	423 403
OTHER ASSETS	907 348	721 404
Tangible assets	380 546	261 916
Cash on hand and current accounts with credit institutions	526 802	459 488
Cash on hand	92 276	26 561
Current accounts with credit institutions	434 526	432 927
ACCRUED INCOME AND DEFERRED EXPENSES	1 309 316	902 580
Accrued interest and rent	184 724	122 991
Deferred client acquisition costs	1 072 938	751 735
Other accrued income and deferred expenses	51 654	27 854
TOTAL ASSETS	26 872 033	20 763 268

BALANCE SHEET AS AT 31 DECEMBER 2005

SHAREHOLDERS' EQUITY AND LIABILITIES (LVL)	2005	2004
CAPITAL AND RESERVES	5 736 720	4 561 301
Share capital	3 300 000	2 500 000
Share premium reserve	730 003	627 603
Revaluation reserve	151 765	177 080
Reserve capital and other reserves	698 895	317 390
Retained earnings:	856 057	939 228
retained earnings	237 723	301 743
profit for the reporting year	618 334	637 485
SUBORDINATED LOAN	428 480	150 970
TECHNICAL RESERVES	17 014 976	11 632 197
Technical reserves of unearned premiums:	10 823 126	7 066 650
Gross amount	12 289 133	7 803 099
Reinsurer's share	(1 466 007)	(736 449)
Technical provisions for outstanding claims:	5 128 382	3 442 743
Gross amount	7 950 422	4 389 808
Reinsurer's share	(2 822 040)	(947 065)
Equalization technical reserves	383 468	442 804
Other technical reserves	680 000	680 000
PROVISIONS	275 435	206 151
Provision for deferred tax	76 247	120 432
Other provisions	199 188	85 719
DEPOSITS FROM REINSURERS	-	-
LIABILITIES	3 222 065	4 114 374
Direct insurance liabilities:	827 778	912 762
Due to policy holders	424 001	401 035
Due to intermediaries	403 777	511 727
Reinsurance liabilities	1 662 334	1 173 904
Loans from credit institutions	-	1 376 940
Taxes and social contributions	161 472	106 939
Other liabilities	570 481	543 829
ACCRUED EXPENSES AND DEFERRED INCOME	194 357	98 275
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	26 872 033	20 763 268



Gints Dandzbergs
Chairman of the Board



Aleksandrs Rimars
Chairman of the Council



Agris Dambeniaks
Member of the Board

20 April 2006

PROFIT OR LOSS ACCOUNT

TECHNICAL ACCOUNT (LVL)	2005	2004
NET EARNED PREMIUMS	20 216 452	16 251 488
Gross premiums	28 460 382	21 569 088
Gross written premiums	29 085 757	22 144 569
Compulsory motor TPL insurance obligatory deductions	(625 375)	(575 481)
Reinsurer's share	(4 487 454)	(3 537 793)
Net written premiums	23 972 928	18 031 295
Change in the unearned premium technical reserves		
Gross unearned premium technical reserves	(4 486 034)	(804 183)
Reinsurer's share	729 558	(975 624)
Change in the net unearned premium technical reserves	(3 756 476)	(1 779 807)
ALLOCATED INVESTMENT RESULT FROM NON-TECHNICAL ACCOUNT	876 020	328 194
OTHER TECHNICAL INCOME	45 757	176 207
NET CLAIMS INCURRED	(12 349 095)	(8 321 992)
Gross claims	(11 863 656)	(8 671 552)
Claims paid	(12 041 037)	(8 658 436)
Loss adjustment expenses	(530 847)	(430 100)
Recovered losses	708 228	416 984
Reinsurer's share in claims	1 200 200	1 333 985
Net claims paid	(10 663 456)	(7 337 567)
Change in claim technical reserves		
Gross changes	(3 560 614)	(1 076 486)
Reinsurer's share	1 874 975	92 061
Change in net claim technical reserves	(1 685 639)	(984 425)
CHANGES IN OTHER TECHNICAL RESERVES	-	(150 000)
GRATIFICATIONS, NET	(15 588)	(5 985)
NET OPERATING EXPENSES	(7 208 521)	(6 382 315)
Client acquisition costs	(2 741 820)	(3 210 902)
Change in deferred client acquisition costs	321 203	(417 238)
Administrative expenses	(5 095 409)	(3 650 419)
Reinsurance commission income and profit share	394 156	711 085
Change in unearned reinsurance commission	(86 651)	185 159
OTHER TECHNICAL EXPENSES	(987 178)	(978 840)
CHANGES IN EQUALIZATION TECHNICAL RESERVES	59 333	(204 804)
TECHNICAL RESULT OF NON-LIFE INSURANCE	637 180	711 953

PROFIT OR LOSS ACCOUNT

TECHNICAL ACCOUNT (LVL)	Health insurance	MTPL	Motor own damage insurance	Other	Total
NET EARNED PREMIUMS	4 238 419	6 272 233	5 161 108	4 544 692	20 216 452
Gross premiums	4 517 174	6 930 436	7 879 798	9 132 974	28 460 382
Gross written premiums	4 517 174	7 555 811	7 879 798	9 132 974	29 085 757
Compulsory motor TPL insurance obligatory deductions	–	(625 375)	–	–	(625 375)
Reinsurer's share	–	(329 230)	(1 018 447)	(3 139 777)	(4 487 454)
<i>Net written premiums</i>	4 517 174	6 601 206	6 861 351	5 993 197	23 972 928
Change in the unearned premium technical reserves					
Gross unearned premium technical reserves	(278 755)	(233 124)	(1 687 457)	(2 286 698)	(4 486 034)
Reinsurer's share	–	(95 849)	(12 786)	838 193	729 558
<i>Change in the net unearned premium technical reserves</i>	(278 755)	(328 973)	(1 700 243)	(1 448 505)	(3 756 476)
ALLOCATED INVESTMENT RESULT FROM NON-TECHNICAL ACCOUNT	183 659	271 789	223 642	196 930	876 020
OTHER TECHNICAL INCOME	(2 562)	(3 177)	6 163	45 333	45 757
NET CLAIMS INCURRED	(2 951 696)	(4 049 910)	(3 061 220)	(2 286 269)	(12 349 095)
Gross claims	(3 062 379)	(3 679 433)	(3 549 220)	(1 572 624)	(11 863 656)
Claims paid	(3 067 729)	(3 607 369)	(3 795 832)	(1 570 107)	(12 041 037)
Loss adjustment expenses	(945)	(256 944)	(248 174)	(24 784)	(530 847)
Recovered losses	6 295	184 880	494 786	22 267	708 228
Reinsurer's share in claims	–	26 717	1 051 341	122 142	1 200 200
<i>Net claims paid</i>	(3 062 379)	(3 652 716)	(2 497 879)	(1 450 482)	(10 663 456)
Change in claim technical reserves					
Gross claim technical reserves	110 683	(372 020)	(571 086)	(2 728 191)	(3 560 614)
Reinsurer's share in claims	–	(25 174)	7 745	1 892 404	1 874 975
<i>Change in net claim technical reserves</i>	110 683	(397 194)	(563 341)	(835 787)	(1 685 639)
CHANGES IN OTHER TECHNICAL RESERVES	–	–	–	–	–
GRATIFICATIONS, NET	(175)	–	–	(15 413)	(15 588)
NET OPERATING EXPENSES	(1 006 558)	(2 214 873)	(1 894 317)	(2 092 773)	(7 208 521)
Client acquisition costs	(266 642)	(689 725)	(809 768)	(975 685)	(2 741 820)
Change in deferred client acquisition costs	(17 007)	9 116	227 977	101 117	321 203
Administrative expenses	(722 909)	(1 534 297)	(1 312 421)	(1 525 782)	(5 095 409)
Reinsurance commission income and profit share	–	33	(105)	394 228	394 156
Change in unearned reinsurance commission	–	–	–	(86 651)	(86 651)
OTHER TECHNICAL EXPENSES	(27 539)	(118 033)	(124 891)	(716 715)	(987 178)
CHANGES IN EQUALIZATION TECHNICAL RESERVES	–	–	–	59 333	59 333
TECHNICAL RESULT OF NON-LIFE INSURANCE	433 548	158 029	310 485	(264 882)	637 180

PROFIT OR LOSS ACCOUNT

NON-TECHNICAL ACCOUNT (LVL)	2005	2004
TECHNICAL RESULT OF NON-LIFE INSURANCE	637 180	711 953
INVESTMENT INCOME	1 348 191	670 124
Income from land and buildings	500	750
Income from other financial investments	746 823	575 805
Gain on revaluation of investments	451 555	93 569
Profit from sales of investments	149 313	-
INVESTMENT CHARGE	(176 814)	(212 481)
Investment management charges including interest paid	(139 821)	(110 796)
Loss on revaluation of investments	-	(101 685)
Loss on sales of investments	(36 993)	-
ALLOCATED INVESTMENT RESULT TO TECHNICAL ACCOUNT	(876 020)	(328 194)
OTHER INCOME	105 949	11 229
OTHER EXPENSES	(249 888)	(75 034)
PROFIT BEFORE TAXES	788 598	777 597
Property tax	(29 246)	(28 635)
Corporate income tax	(141 018)	(111 477)
NET PROFIT	618 334	637 485



Gints Dandzbergs
Chairman of the Board



Aleksandrs Rimars
Chairman of the Council

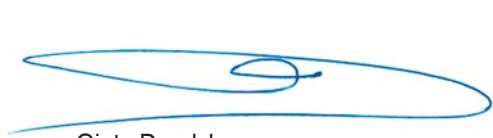


Agris Dambeniaks
Member of the Board

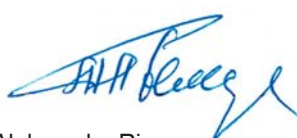
20 April 2006

CASH FLOW STATEMENT

CASH FLOW STATEMENT (LVL)	2005	2004
CASH FLOW FROM INSURANCE ACTIVITIES	5 019 330	2 716 962
Premiums received in direct insurance	24 144 037	20 129 986
Claims paid in direct insurance	(11 780 942)	(8 486 878)
Premiums received in co-insurance	82 668	78 787
Payments received from reinsurers	239 572	494 065
Payments made to reinsurers	(2 299 124)	(3 110 639)
Payments received in assumed reinsurance	2 080 004	1 987 452
Payments made in assumed reinsurance	(105 376)	(477 638)
Profits tax	(141 958)	(85 959)
Obligatory payments	(849 885)	(711 175)
Other payments received	534 075	233 218
Other payment made	(6 883 741)	(7 334 257)
CASH FLOW FROM INVESTING ACTIVITIES	(3 723 750)	(3 820 651)
Acquisition of investments:	(71 587 732)	(55 357 563)
Land and buildings	–	(42 569)
Related and associated companies	(663 441)	(100 600)
Investments in non-fixed income securities	(7 144 978)	(1 346 968)
Debt securities and other fixed income securities	(4 410 298)	(3 655 497)
Investment funds	(29 055)	–
Mortgage loans	(3 735 075)	(1 991 475)
Other loans	(3 690 211)	(1 740 562)
Term deposits with credit institutions	(51 914 674)	(46 479 892)
Disposal of investments:	67 104 186	51 009 110
Investments in non-fixed income securities	7 183 061	580 396
Debt securities and other fixed income securities	3 904 043	1 660 001
Mortgage loans	2 807 900	857 119
Other loans	3 270 366	1 585 264
Term deposits with credit institutions	49 938 816	46 322 200
Other investments	–	4 130
Investment income:	886 487	560 021
Land and buildings	500	–
Investments in non-fixed income securities	191 227	–
Debt securities and other fixed income securities	407 689	360 371
Mortgage loans	83 186	58 741
Other loans	132 547	65 002
Term deposits with credit institutions	66 998	74 750
Other investments	4 340	1 157
Other payments received	–	1 258
Other payment made	(126 691)	(33 477)
CASH FLOW FROM FINANCING ACTIVITIES	(293 579)	550 687
Proceeds from issue of shares/debentures	949 175	548 020
Proceeds of subordinated loans	374 000	–
Dividends paid	(174 127)	(191 307)
Other payments received	29 659 747	14 833 108
Other payment made	(31 102 374)	(14 639 134)
NET INCREASE / (DECREASE) OF CASH AND CASH EQUIVALENTS	1 002 001	(553 002)
IMPACT OF CURRENCY EXCHANGE RATE FLUCTUATIONS ON CASH AND CASH EQUIVALENTS	28 038	5 712
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	1 069 908	1 617 198
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	2 099 947	1 069 908



Gints Dandzbergs
Chairman of the Board



Aleksandrs Rimars
Chairman of the Council



Agris Dambenieks
Member of the Board

20 April 2006

STATEMENT OF CHANGES IN CAPITAL AND RESERVES FOR 2005

	Share capital LVL	Share premium LVL	Revaluation reserve LVL	Reserve capital and other reserves LVL	Profit (loss) of the prior year LVL	Profit (loss) of the reporting year LVL	Total capital and reserves LVL
31.12.2003 AS REPORTED	1 600 000	219 004	196 294	295 562	-	217 028	2 527 888
Changes in accounting policy	-	-	-	-	126 112	175 631	301 743
Deferred tax effect on long-term investments	-	-	(26 782)	-	-	-	(26 782)
31.12 2003 AS RESTATED	1 600 000	219 004	169 512	295 562	126 112	392 659	2 802 849
Issued shares in the reporting year	900 000	408 599	-	-	-	-	1 308 599
Profit for the reporting year as reported	-	-	-	-	-	701 505	701 505
Changes in accounting policy	-	-	-	-	-	(64 020)	(64 020)
Increase/decrease in reserve capital and other reserves	-	-	-	21 828	-	(21 828)	-
Changes in market value of investments classified as available-for-sale	-	-	7 568	-	-	-	7 568
Dividends	-	-	-	-	-	(195 200)	(195 200)
Profit transferred to retained earnings due to changes in accounting policy	-	-	-	-	175 631	(175 631)	-
31.12.2004	2 500 000	627 603	177 080	317 390	301 743	637 485	4 561 301
Issued shares in the reporting year	800 000	102 400	-	-	-	-	902 400
Profit for the reporting year	-	-	-	-	-	618 334	618 334
Losses transferred to retained earnings due to changes in accounting policy	-	-	-	-	(64 020)	64 020	-
Increase/decrease in reserve capital and other reserves	-	-	-	381 505	-	(381 505)	-
Release of available-for-sale financial asset revaluation reserve	-	-	(25 315)	-	-	-	(25 315)
Dividends	-	-	-	-	-	(320 000)	(320 000)
31.12.2005	3 300 000	730 003	151 765	698 895	237 723	618 334	5 736 720



Gints Dandzbergs
Chairman of the Board



Aleksandrs Rimars
Chairman of the Council



Agris Dambenieks
Member of the Board

20 April 2006

NOTES TO THE FINANCIAL STATEMENTS

(1) General information

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

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

The head office is located in Riga, 63 K. Valdemara Street, 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 – 4 legal entities and 32 individuals.

The company has a subsidiary in Lithuania – BTA Draudimas UAB, legal address – Verkiu 29–18, Vilnius. As at 31 December 2005, BTA holds 63.35% of its shares. (31 December 2004 – 100%)

(2) Accounting policies

The accounting records of the Company are maintained in accordance with the Latvian legislation. Balances as at 31 December 2005 represent the company's financial position at the end of the day. The financial statements were prepared in accordance with the following policies:

- a) Going concern assumption that the Company will continue as a going concern.
- b) Valuation principles consistent with those used in the prior year.
- c) Items were valued in accordance with the principle of conservatism, i.e.:
 - the financial statements reflect only the profit generated to the date of the balance sheet;
 - all incurred liabilities and current or prior year losses have been taken into consideration even if discovered within the period after the date of the balance sheet and preparation of the financial statements; and,
 - all impairments and depreciation have been taken into consideration irrespective of whether the financial result was a loss or profit.
- d) Income and expenses incurred during the reporting year have been taken into consideration irrespective of the payment date or date when the invoice was issued or received. Expenses were matched with revenue for the reporting period.
- e) Assets and liabilities have been valued separately.
- f) The opening balance agrees with the prior year closing balance.
- g) All material items, which would influence the decision-making process of users of the financial statements, have been recognized and insignificant items have been combined and their details disclosed in the notes.
- h) Business transactions are recorded taking into account their economic contents and substance, not the legal form.

Changes in accounting policies

During 2005, BTA changed its accounting policy for the measurement of its investment in subsidiary from a policy of equity accounting for that investment to one where the investment is recognized at cost less impairment. The change in accounting policy was applied retrospectively to 31 December 2003. Comparatives have been restated for 2004. Due to the change in accounting policy the following adjustments were made:

	As reported in prior year LVL	As restated due to changes in accounting policies LVL
Capital and reserves as at 31.12.2003	2 527 888	2 802 849
Profit for the year 2004	701 505	637 485
Capital and reserves as at 31.12 2004	4 350 360	4 561 301

NOTES TO THE FINANCIAL STATEMENTS

Basis for the preparation of financial statements

These financial statements have been prepared in accordance with the regulations of the Financial and Capital Market Commission "On the preparation of annual reports and consolidated annual reports of insurance joint stock companies, mutual co-operative insurance societies, and the branches of insurers from non-EU countries".

Reporting period

Reporting period is the 12 months from 1 January 2005 to 31 December 2005.

Currency unit and revaluation of foreign currency

All amounts in these financial statements are expressed in the Latvian national currency – lats (LVL).

Transactions in foreign currency are translated in lats using the exchange rate as at the date of transaction.

All monetary asset and liability items were revalued to lats according to the exchange rate of the Bank of Latvia on the last day of the reporting year.

	31.12.2005	31.12.2004
EUR	0.7028	0.7030
USD	0.5930	0.5160
EEK	0.0449	0.0449
LTL	0.2040	0.2030
RUR	0.0206	0.0186

Profit or loss arising from the fluctuations in the exchange rate on assets and liabilities denominated in a foreign currency are recognized in the profit and loss statement under technical and non-technical results in the respective period in which the fluctuation occurs.

Fluctuations of the currency exchange rate resulting from revaluation of investments are allocated to non-technical result and disclosed under "gain from revaluation of investments" and "Loss from revaluation of investments". Other fluctuations of foreign exchange rates are disclosed under non-technical items "Other income" and "Other expenses".

Income recognition

All significant income and expense categories, including interest income and expense, are recognized on an accrual basis and in line with the effective interest rate method.

Premiums

Written premiums include the premium on contracts, which become effective during the reporting period, irrespective of whether the premium has been received or not. Written premiums are decreased by the amount of premiums cancelled or suspended during the reporting period.

The reinsurers' share in written premiums is calculated in accordance with reinsurance contracts in force.

Claims incurred

Claims incurred include claims attributable to the reporting period and loss adjustment expenses. Claims paid are decreased from salvage or subrogation.

Client acquisition costs

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

Deferred client acquisition costs include intermediary commissions, attributable to expenses in accordance with the insurance period of respective policies.

Unearned reinsurance commission

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

NOTES TO THE FINANCIAL STATEMENTS

Investment income and expenses

Investment income and expenses reflect income and expenses earned on the Company's investment portfolio during the reporting period, including interest income, profit or loss on the sale of investments, exchange rate fluctuation, and financial asset revaluation. Investment charges reflect bank and brokerage commission expenses related to the above investment portfolio. All investment income and expenses are accounted for on an accrual basis.

Allocation of investment result from non-technical to technical account

Part of the total investment result that is allocated to the technical account is calculated applying the ratio of technical reserves to the sum of technical reserves and equity at the end of the reporting period.

Gratifications, net

Net non-life gratifications represents a portion of the premiums paid back to insured parties, which the company was obliged to pay at the end of the insurance contract according to the insurance policy.

Financial instruments

Criteria of classification

Financial assets and liabilities at fair value through profit and loss are those that have been designated by the Company at inception as at fair value through profit and loss and those assets and liabilities classified as held for trading. Financial assets and financial liabilities held for trading are assets and liabilities, which have been acquired mainly to gain profit as a result of short-term price fluctuations.

Loans and similar claims are non-derivative financial assets originated by the Company by lending cash, other assets or providing services directly to the debtor and which are not assets created with a purpose of selling them immediately or in a short time period.

Held-to-maturity investments are non-derivative financial assets with a fixed or determinable payments and fixed term which the Company has the ability and intent to hold to maturity.

Available-for-sale assets are non-derivative financial assets that are designated as available-or-sale or are not classified as financial assets at fair value through profit or loss, loans originated by the Company, or held to maturity.

Measurement

Financial instruments are measured initially at cost, including transaction costs.

Subsequent to initial recognition all financial assets at fair value through profit or loss and all available-for-sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses. Changes in fair value for financial assets at fair value through profit or loss are recognized in the profit and loss statement and changes in the fair value of financial assets classified as available for sale are recognized in the equity as changes in the revaluation reserve.

All financial liabilities, loans and receivables and held-to-maturity assets are measured at amortized cost in accordance with the effective interest rate method, less impairment losses, if any.

Impairment loss of financial instruments is recognized in the profit and loss statement for the period.

Derecognizing

A financial asset is derecognized when the Company loses control over the contractual rights that comprise that asset after expiry or in case the Company refuses from such rights. A financial liability is derecognized when it is extinguished.

Investments

Investment in subsidiaries

Subsidiaries are those entities, in which the Company owns 50% to 100% of the voting rights and over which the Company exercises significant influence and control.

Investment in shares of subsidiaries is initially measured at cost. Investments are subject to revaluation if impaired.

Impairment losses in investments are recognized in the profit and loss statement for the period.

Consolidated financial statements are prepared separately.

NOTES TO THE FINANCIAL STATEMENTS

Investments in land and buildings

Investment in land and buildings used for investment activities are disclosed at fair value. Fair value is determined by separate evaluation of each land plot and building at least once in three years with the revaluation result recognized in the profit and loss statement.

The value is assessed by an independent or certified evaluator of real estate.

Buildings used for Company's operating activities are initially stated at cost less depreciation. In case 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 may be assumed as 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.

Investments in shares and other non-fixed income securities

Shares and other non-fixed income securities are classified as financial assets at fair value through profit or loss. Initially they are recognized at cost.

Listed securities as well as investment certificates are subsequently re-measured at fair value based on bid prices quoted on listed securities or over-the-counter market prices. Gains or losses arising from the sale or revaluation of these securities are included in the profit and loss statement.

Investments in fixed income securities

Investments in fixed-income securities are classified as financial assets at fair value through profit or loss. Initially they are recognized at purchase cost. Subsequently securities are recognized at fair value using the quoted market rates. Gains or losses from the revaluation of these securities are recognized in the profit and loss statement.

Loans and impairment allowances for loans

Loans originated by the company directly to borrowers are classified as loans and carried at amortized cost using effective interest rate method. All loans and advances are recognized when cash is advanced to borrowers.

Impairment allowances for loans are recognized when there is objective evidence that the company will not be able to collect all amounts due according to the original contractual terms of the loans. The amount of the impairment is the difference between the carrying amount and the recoverable amount.

Deposits

Deposits are classified as held-to-maturity financial assets and carried at amortized cost.

Sales and repurchase agreements

Sale and repurchase agreements are accounted for as financing transactions. Under sale and repurchase agreements, where the company is the transferor, assets transferred remain on the company's balance sheet and are subject to the company's usual accounting policies, with the purchase price received stated as a liability to the transferee.

Where the company is the transferee, the assets are not recognized in the company's balance sheet, but the purchase price paid to the transferor is included as a receivable from the transferor. Interest income or expense arising from outstanding sale and repurchase agreements is recognized in the profit and loss statement over the term of the agreement.

Derivative financial instruments

Derivative financial instruments are measured at fair value with gain and loss accounted for in the profit and loss account with the net assets or liabilities accounted for in the balance sheet.

NOTES TO THE FINANCIAL STATEMENTS

Amortization and depreciation

Intangible assets and fixed assets are recognized at historical cost, less accumulated amortization and depreciation. No depreciation is calculated for land. Amortization and depreciation is calculated on the straight-line basis and written-off over the useful lives of the assets applying the following annual rates set by management:

Intangible assets	
Licenses	20%
Software	20%
Fixed assets:	
Buildings and construction used for operating activities	5%
Vehicles	20%
Computer equipment	35%
Equipment	10%
Furniture	20%
Other fixed assets	20%

Gains and losses on disposals of fixed and intangible assets are recorded in the profit and loss statement as incurred.

Repairs and renewals extending the useful life of the building or increasing its value are depreciated over their useful economic life while other repairs and renewals are charged directly to the profit and loss statement as incurred.

Expenses related to repairs and renewals of the rented space are charged to the profit and loss statement over the shorter period of useful economic life or renting period of the respective space.

Receivables

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.

Technical 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.

■ Provision for outstanding claims

Provisions for outstanding claims are amounts provided at the end of the reporting period in respect of estimated losses incurred.

Reported but not settled claims provision (RBNS)

The RBNS claims provision is calculated on a case-by-case basis by the company's loss adjusters.

Incurred but not reported claims provision (IBNR)

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

The IBNR provision has been calculated using statistical methods (triangle, coefficient methods or its modifications) for the following lines of insurance:

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

NOTES TO THE FINANCIAL STATEMENTS

The IBNR reserve was calculated by using the formula: $IBNR = 5\% * \text{prior year written premium} + 5\% * \text{of resultant IBNR}$, for the following lines of insurance:

- 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.

The IBNR reserve was applied in conjunction with the combined triangle and loss rate method in the calculation of the following reserve:

- motor compulsory third party liability.

■ Equalization reserve

Equalization reserve is established in order to equalize the loss ratio in an insurance line where the loss ratio may be significantly different from year to year, and to adjust the technical result of the profit and loss statement.

Equalization reserves are established for the following lines of insurance:

- aircraft third party liability insurance,
- marine third party liability insurance,
- general third party liability,
- credit insurance,
- guarantee insurance,
- various financial risk insurance,
- property insurance (fire risks).

■ 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.

URR is established when the ratio of claims incurred and net operating expenses in an insurance line versus net written premiums and changes to the net unearned premium reserve is higher than 105%, and the net written premiums in this line exceed 10% of total net written premiums during the reporting year. The above ratio is determined on a regular basis and the reserve is provided is applicable.

■ Other technical reserves

Other technical reserves are formed in those insurance lines of businesses where according to management large losses may be incurred. If an accident has taken place but IBNR provision is insufficient to cover the incurred claim due to rare insurance accidents and equalization reserve might not cover the incurred losses.

Other technical reserves are formed in the following line of businesses:

- marine insurance,
- aircraft insurance,
- cargo insurance,
- property insurance,
- aircraft third party liability insurance,
- financial risk insurance,
- guarantee insurance,
- compulsory motor third party liability insurance.

Related parties

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

Allocation of administrative expenses by insurance lines

Administrative expenses, which are not directly attributable to a specific insurance line, are allocated among insurance lines in proportion to the gross premiums written.

NOTES TO THE FINANCIAL STATEMENTS

Provisions

Provisions are recognized in order to cover certain losses, liabilities or costs relating to the reporting period or previous periods which are expected or certain on the balance sheet date, but the amount or date of occurrence or settlement of which is not certain.

As at the year end, the following provisions have been recognized:

- provision for unused vacations, calculated in accordance with the number of vacation days unused as at 31 December 2005 and the average remuneration during the last six months of the reporting year;

Corporate income tax

Profits tax comprises current and deferred tax. Profits tax is recognized in the profit and loss statement.

Current tax

Current profits tax is calculated in accordance with the law "On Corporate Income Tax" by setting the amount of taxable income and applying a tax rate of 15%.

Deferred tax

Deferred tax is provided on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. These differences have primarily occurred due to different depreciation rates used for fixed assets in tax accounting and financial accounting, recognized provisions and tax losses available to be carried forward according to the tax declaration. Deferred tax is calculated based on the statutory rate of 15%.

A deferred tax asset is recognized only to the extent that it is probable that the deferred tax asset is recoverable.

The amount of deferred tax related to revaluation of long term investments, which are charged or credited directly to equity, is also credited or charged directly to equity.

Reclassification

Certain balances for 2005 have been classified differently from the prior year, due to management judgment and changes in legislation. There is no impact on the financial result from this change in classification. Prior year balances have been reclassified, where appropriate, to conform to current year presentation.

(3) Written premiums

	Gross amount		Reinsurer's part	
	2005	2004	2005	2004
Property insurance	2 659 567	1 445 630	837 311	384 843
Various financial risks	317 031	265 967	139 524	110 816
Cargo insurance	268 062	1 596 716	157 308	812 905
General third party liability	1 359 428	408 814	996 308	157 478
Personal accident insurance	230 366	222 998	20 401	17 083
Travel accident insurance	1 086 567	874 086	32 465	35 167
Health insurance	4 517 174	3 458 013	–	–
Marine insurance	480 406	355 630	385 207	338 667
Marine third party liability insurance	6 005	(1 227)	3 915	(9 597)
Railway insurance	97 070	56 972	70 403	43 147
Compulsory motor third party liability	6 930 436	6 370 319	329 230	383 742
Voluntary motor third party liability	1 926 918	647 762	–	–
Aircraft third party liability insurance	274 024	235 881	230 041	197 536
Aircraft insurance	187 599	249 445	149 078	192 697
Credit insurance	95 985	108 207	65 946	86 052
Motor own damage insurance	7 879 798	5 024 094	1 018 447	706 134
Guarantee insurance	143 946	249 781	51 870	81 123
	28 460 382	21 569 088	4 487 454	3 537 793

The majority of premiums are written with clients operating in Latvia.

NOTES TO THE FINANCIAL STATEMENTS

Gross written premiums include assumed reinsurance from:	2005 LVL	2004 LVL
Insurance companies located in Latvia	3 725	6 618
Insurance companies located in Lithuania (subsidiary)	1 026 971	118 541
Insurance companies located in Russia	1 172 300	821 607
Insurance companies located in Kazakhstan	(835)	–
Insurance companies located in Belarus	–	63
Insurance companies located in Uzbekistan	(61 523)	1 420 701
	2 140 638	2 367 530

Motor compulsory third party liability insurance premiums are disclosed by decreased gross premiums by obligatory deductions. In accordance with the law "On motor third party liability obligatory insurance" and the related Cabinet of Ministers regulations, the Company is liable to paying the following obligatory deductions from gross written premiums in this insurance line:

For operations of the Latvian Vehicle Insurance Office	LVL 0.8 per contract; 3% (until March 2005)
Guarantee fund and Interests protection fund –	4%
Guarantee fund for sold Green Cards –	9%
Road traffic safety fund –	2% (until March 2005 0.6%)

Gross written premiums by countries:	2005 LVL	2004 LVL
Latvia	25 518 603	19 208 176
EU	1 747 623	–
Other	1 194 156	2 360 912
	28 460 382	21 569 088

(4) Technical reserves of unearned premiums

	Gross amount	Reinsurer's share	Net amount
Balance as at 31 December 2003	6 998 916	(1 712 073)	5 286 843
Actual changes in reserves during the period	804 183	975 624	1 779 807
Balance as at 31 December 2004	7 803 099	(736 449)	7 066 650
Actual changes in reserves during the period	4 486 034	(729 558)	3 756 476
Balance as at 31 December 2005	12 289 133	(1 466 007)	10 823 126

(5) Other technical income

	2005 LVL	2004 LVL
Income from policy cancellation	14 059	14 945
Income from distribution of policies of other insurers	3 858	111 637
Other technical income	27 840	49 625
	45 757	176 207

NOTES TO THE FINANCIAL STATEMENTS

(6) Claims paid

	Gross amount		Reinsurer's share	
	2005	2004	2005	2004
Property insurance	745 056	236 111	4 646	90 783
Various financial risks	72 278	37 978	4 263	–
Cargo insurance	17 384	391 909	14 468	329 733
General third party liability	63 747	59 419	26 204	39 842
Personal accident insurance	69 244	52 378	3 494	464
Travel accident insurance	198 416	112 933	35 499	1 047
Health insurance	3 062 380	2 469 998	–	–
Marine insurance	69 584	192 046	32 640	90 856
Marine third party liability insurance	–	12 212	–	–
Railway insurance	526	–	–	–
Motor compulsory third party liability	3 679 433	2 480 205	26 717	282 827
Motor third party liability	308 087	2 112	–	–
Motor own damage insurance	3 549 220	2 407 611	1 051 341	351 097
Aircraft insurance	20 629	198 144	–	136 176
Credit insurance	1 160	5 958	928	4 767
Aircraft third party liability insurance	392	6 169	–	6 393
Guarantee insurance	6 120	6 369	–	–
	11 863 656	8 671 552	1 200 200	1 333 985

All claims were paid to policy holders operating in Latvia.

(7) Technical provisions for outstanding claims

	Gross amount	Reinsurer's share	Net amount
Balance as at 31 December 2003	3 313 322	855 004	2 458 318
Changes during the period	1 076 486	92 061	984 425
Balance as at 31 December 2004	4 389 808	947 065	3 442 743
Changes during the period	3 560 614	1 874 975	1 685 639
Balance as at 31 December 2005	7 950 422	2 822 040	5 128 382

(8) Client acquisition costs

	2005 LVL	2004 LVL
Commission fees paid to intermediaries	1 905 621	2 169 288
Commission fee paid for reinsurance	228 772	629 773
Salaries to agents	607 427	411 841
	2 741 820	3 210 902

NOTES TO THE FINANCIAL STATEMENTS

(9) Deferred client acquisition costs

Balance as at 31 December 2003	1 168 973
Changes during the period	(417 238)
Balance as at 31 December 2004	751 735
Changes during the period	321 203
Balance as at 31 December 2005	1 072 938

(10) Administrative expenses

	2005 LVL	2004 LVL
Salaries	2 554 649	1 670 326
Depreciation	197 135	201 567
Office expenses and rent	683 107	425 230
Post and communication expenses	299 641	291 563
Transportation	325 136	240 336
Advertisement and public relations	298 281	257 532
FCCM/Interests Protection Fund	195 422	153 443
Representation	129 895	71 918
Business trips	64 842	59 136
Staff training	17 755	9 723
Other expenses	329 546	269 645
	5 095 409	3 650 419

(11) Unearned reinsurance commission

Balance as at 31 December 2003	283 010
Changes during the period	(185 159)
Balance as at 31 December 2004	97 851
Changes during the period	86 651
Balance as at 31 December 2005	184 502

(12) Other technical expenses

	2005 LVL	2004 LVL
Expenses related to signing insurance contracts	227 242	419 137
Reserves for ordinary liabilities and expenses	118 245	90 564
Expenses related to distribution of policies of other insurers	641 691	468 909
Interest paid on overdrafts	–	230
	987 178	978 840

Expenses related to distribution of policies of other insurers are related to assumed reinsurance from an insurance company in Russia.

NOTES TO THE FINANCIAL STATEMENTS

(13) Income from other financial investments

	2005 LVL	2004 LVL
Interest on term deposits with credit institutions	94 260	74 750
Interest on investments in debt securities	405 316	360 371
Interest on loans	225 784	131 489
Interest on account balance with credit institutions	1 474	1 157
Other income	19 989	8 038
	746 823	575 805

(14) Gain on revaluation of investments

	2005 LVL	2004 LVL
Gain on revaluation of debt securities, net	150 623	93 569
Gain on fluctuations of currency exchange rates, net	300 932	–
	451 555	93 569

(15) Profit from sales of investments

	2005 LVL	2004 LVL
Profits from sales of shares and other listed equity securities	149 313	–
	149 313	–

(16) Investment management expenses

	2005 LVL	2004 LVL
Interest payments on transactions	59 292	63 667
Investment management expenses	67 399	–
Other expenses	13 130	47 129
	139 821	110 796

(17) Loss on revaluation of investments

	2005 LVL	2004 LVL
Loss on fluctuations of currency exchange rates	–	99 073
Provision for losses from other alienation	–	2 612
	–	101 685

(18) Loss on sales of investments

	2005 LVL	2004 LVL
Loss on sales of shares in subsidiary	36 933	–
	36 933	–

NOTES TO THE FINANCIAL STATEMENTS

(19) Other income

	2005 LVL	2004 LVL
Income from fines	1 125	582
Gains from currency exchange fluctuations, net	93 771	–
Other income	11 053	10 647
	105 949	11 229

(20) Other expenses

	2005 LVL	2004 LVL
Gifts to staff	30 863	26 459
Other discounts for employees	25 000	–
Loss from currency exchange fluctuations and translation	–	20 633
Increase of provisions	152 324	–
Donations	24 700	15 562
Membership fees	4 992	4 301
Other expenses	12 009	8 079
	249 888	75 034

(21) Profits tax for the reporting year

	2005 LVL	2004 LVL
Current tax	185 201	120 328
Deferred tax	(44 183)	(8 851)
	141 018	111 477

(22) Cash and cash equivalents, cash flow

	2005 LVL	2004 LVL
Cash on hand	92 276	26 561
Current accounts with credit institutions	434 526	432 927
Cash on hand	526 802	459 488
Deposits with maturity up to 3 months	1 573 145	610 420
Cash and cash equivalents	2 099 947	1 069 908

Cash equivalents represent short term investments of high liquidity which may be sold in a short period of time and changes to whose value are rather unlikely. The initial maturity of such investments should not exceed three months from the date of acquisition. Investments in shares are not treated as cash equivalents except investments in preference shares, if their maturity is three months or less.

Obligatory payments in cash flow statement	2005 LVL	2004 LVL
LTAB (Latvian Vehicle Insurance Office)	674 266	572 519
FCCM (Financial and Capital Market Commission)	134 461	106 229
Interests Protection Fund	41 158	32 427
	849 885	711 175

NOTES TO THE FINANCIAL STATEMENTS

(23) Intangible assets

	Software and licenses LVL	Total LVL
Historical cost 31.12.2004	55 991	55 991
Historical cost 31.12.2005	55 991	55 991
Accumulated amortization 31.12.2004	(13 975)	(13 975)
Amortization	(11 198)	(11 198)
Accumulated amortization 31.12.2005	(25 173)	(25 173)
Balance at 31.12.2004	42 016	42 016
Balance at 31.12.2005	30 818	30 818

(24) Land and buildings

	For own use LVL	Investment property	Total LVL
Historical cost 31.12.2004	782 001	1 101 700	1 883 701
Additions	155 429	29 171	184 600
Historical cost 31.12.2005	937 430	1 130 871	2 068 301
Accumulated depreciation 31.12.2004	(60 380)	–	(60 380)
Depreciation	(37 109)	–	(37 109)
Accumulated depreciation 31.12.2005	(97 489)	–	(97 489)
Balance at 31.12.2004	721 621	1 101 700	1 823 321
Balance at 31.12.2005	839 941	1 130 871	1 970 812

Historical cost of land and buildings for own use includes revaluation as at 31.12.2005 amounting to LVL 178 547 (2004: LVL 178 547). Historical cost of investment property includes revaluation as at 31.12.2005 amounting to LVL 390 464 (2004: LVL 390 464). The latest revaluation was performed in year 2003.

(25) Related parties

Related parties comprises an investment in subsidiary at cost, less impairment, after restatement.

	2005 LVL	2004 LVL
Balance at 31.12.2004	697 983	697 983
Issue of shares	764 041	–
Disposal of shares	(444 993)	–
Balance at 31.12.2005	1 017 031	697 983

NOTES TO THE FINANCIAL STATEMENTS

During 2005 36.65 % of shares of the subsidiary were sold to one of the shareholders of the Company.

Information about the subsidiary BTA Draudimas UAB, Lithuania, Vilnius	2005	2004
Holding, %	63.35	100
Book value of investment at cost after restatements (see Note 1)	1 017 031	697 983
Subsidiary's equity as at the end of the year*	1 576 214	568 490
Profit for the year*	86 924	61 306

*Data for the year ended 31.12.2005 have not been audited as at the date of signing of this annual report.
Market value of the shares in the subsidiary has not been determined.

(26) Investments in non-fixed income securities

	2005 LVL	2004 LVL
Shares and other listed equity securities	47 374	70 484
Investment certificates of investment funds or similar listed securities	133 640	35 064
Other non-fixed income securities	593 767	797 982
	774 781	903 530
Cost of investments	706 226	859 243

(27) Debt securities and other fixed income securities

	2005 LVL	2004 LVL
Debt securities issued or guaranteed by central governments or municipalities	4 230 487	3 711 126
Debt securities and other listed fixed income securities	1 614 194	1 287 336
Mortgage bonds	1 595 746	2 065 913
Other fixed income securities	126 783	430 506
	7 567 210	7 494 881
Cost of investments	7 414 088	7 340 430

(28) Investment funds

	2005 LVL	2004 LVL
Latvia	35 977	–
	35 977	–
Cost of investments	30 989	–

(29) Mortgage loans

	2005 LVL	2004 LVL
Individuals	1 261 272	741 711
Legal entities	1 315 070	879 956
Allowance for doubtful loans	(103 886)	(5 704)
	2 472 456	1 615 963

NOTES TO THE FINANCIAL STATEMENTS

(30) Other loans

	2005 LVL	2004 LVL
Individuals	181 582	193 735
Legal entities	1 306 578	778 973
Allowance for doubtful loans	(84 308)	(68 430)
	1 403 852	904 278

(31) Term deposits with credit institutions

	2005 LVL	2004 LVL
LVL	3 444 026	1 650 000
USD	459 072	208 424
EUR	56 459	81 695
	3 959 557	1 940 119

Ageing of deposits:	2005 LVL	2004 LVL
Maturity of up to 3 months	1 573 145	610 420
Maturity of 3 to 6 months	223 732	9 652
Maturity of 9 to 12 months	633 680	161 047
Maturity of 1 to 5 years	1 529 000	1 159 000
	3 959 557	1 940 119

(32) Other investments

	2005 LVL	2004 LVL
Equity investments at cost	67 937	68 718
Impairment	(28 416)	(5 500)
	39 521	63 218

(33) Direct insurance receivables

	2005 LVL	2004 LVL
Policy holders	3 023 614	2 087 719
Intermediaries	973 048	768 416
Allowance for doubtful debts	(56 486)	(49 092)
	3 940 176	2 807 043

Within direct insurance receivables, related companies debt in 2005 was nil (2004: LVL 15 237).

NOTES TO THE FINANCIAL STATEMENTS

(34) Reinsurance receivables

	2005 LVL	2004 LVL
Reinsurers	24 416	246
Cedents	54 411	31 581
	78 827	31 827

(35) Other receivables

	2005 LVL	2004 LVL
Company staff	27 855	20 950
Prepayments	87 286	60 196
Other receivables	1 302 773	387 867
Provision for doubtful debts	(53 563)	(45 610)
	1 364 351	423 403

Other receivables include due from subsidiary of LVL 662 070 (2004: LVL 128 395).

(36) Tangible assets

	Vehicles LVL	Other fixed assets LVL	Total LVL
Historical cost 31.12.2004	135 725	1 018 951	1 154 676
Additions	–	267 979	267 979
Disposals	–	(11 770)	(11 770)
Historical cost 31.12.2005	135 725	1 275 160	1 410 885
Accumulated depreciation 31.12.2004	(129 630)	(763 130)	(892 760)
Depreciation	(4 935)	(143 891)	(148 826)
Depreciation of disposed fixed assets	–	11 247	11 247
Accumulated depreciation 31.12.2005	(134 565)	(895 774)	(1 030 339)
Balance at 31.12.2004	6 095	255 821	261 916
Balance at 31.12.2005	1 160	379 386	380 546

(37) Accrued interest and rent

	2005 LVL	2004 LVL
Accrued interest on term deposits with credit institutions	113 116	83 742
Accrued interest on a loan	71 608	39 249
	184 724	122 991

NOTES TO THE FINANCIAL STATEMENTS

(38) Other accrued income and deferred expenses

	2005 LVL	2004 LVL
Insurance	18 656	12 916
Rent of premises and guarantees	6 137	4 190
Subscription of periodicals	4 342	6 597
Repairs of premises	1 924	–
Other	20 595	4 151
	51 654	27 854

(39) Share capital

Share capital of the company as at 31 December 2005 is LVL 3 300 000 and it is divided into 33 000 shares with the nominal value of LVL 100.

	2005		2004	
	Amount	LVL	Amount	LVL
Ordinary shares with voting rights	31 000	3 100 000	24 000	2 400 000
Staff shares without voting rights	2 000	200 000	1 000	100 000
	33 000	3 300 000	25 000	2 500 000

Shareholders:	Number of shares	% of share capital	Number of shares	% of share capital
BMGS AS	4 323	13,10%	3 347	13,39%
Transporta Informācijas Aģentūra AS	3 098	9,39%	2 398	9,59%
Rīgas Transporta Flote AS	2 193	6,65%	1 698	6,79%
Latvijas tirdzniecības flotes jūrnieku arodbiedrība	1 430	4,33%	1 107	4,43%
Transventa shipping agency SIA	–	–	3 831	15,32%
Natālija Nikolajeva	6 095	18,47%	2 344	9,38%
Aleksandrs Rimars	4 451	13,49%	2 344	9,38%
Gints Dandzbergs	3 100	9,39%	2 400	9,60%
Pauls Dandzbergs	2 240	6,79%	1 666	6,66%
Other individuals	6 070	18,39%	3 865	15,46%
	33 000	100%	25 000	100%

No other shareholder held more than 5% of the shareholding in the company as at 31.12.2004 or 31.12.2005.

New share issues and related share premiums in 2004 and 2005 were as follows:

	2005 LVL	2004 LVL
Share capital	2 500 000	1 600 000
Share premium	627 603	219 004
	3 127 603	1 819 004
Paid in cash for issued shares	949 175	548 020
Dividends paid for issued shares	147 837	2 447
Subordinated liabilities paid for issued shares	96 490	467 030
Written capital paid in the following year	(291 102)	291 102
	4 030 003	3 127 603
Including:		
Share capital	3 300 000	2 500 000
Share premium	730 003	627 603

NOTES TO THE FINANCIAL STATEMENTS

(40) Revaluation reserves

	2005 LVL	2004 LVL
Fixed assets revaluation reserve	178 547	178 547
Revaluation reserve of available for sale financial assets	–	25 315
Decrease of revaluation reserves by the effect of deferred tax	(26 782)	(26 782)
	151 765	177 080

Securities classified as available-for-sale as at 31.12.2004 were sold during 2005, and the related reserve in the amount of LVL 25 315 was released.

(41) Reserve capital and other reserves

According to the decisions made by the shareholders, a part of the profit has been transferred to reserve capital and other reserves.

(42) Subordinated loan

	2005 LVL	2004 LVL
Balance at the beginning of the year	150 970	618 000
Increase	374 000	–
Converted in share issue	(96 490)	(467 030)
Balance at the end of the year	428 480	150 970

Subordinated loans represent loans from shareholders with a maturity of over 5 years. Subordinated loans bear 6% p.a. interest.

(43) Provisions for deferred tax

	2005 LVL	2004 LVL
Deferred tax liability at the beginning of the year	120 432	102 501
Deferred tax during the reporting period attributable to profit	(44 185)	(8 851)
Deferred tax calculated on revaluation reserve	–	26 782
Deferred tax liability at the end of the year	76 247	120 432

Deferred tax liabilities relate to the following items:

	2005		2004	
	Assets LVL	Liabilities LVL	Assets LVL	Liabilities LVL
Temporary differences between the book value of fixed assets in the financial accounting and for tax purposes	–	(128 343)	–	(124 578)
Effect of various provisions	78 878	–	30 928	–
Effect of the revaluation reserve	–	(26 782)	–	(26 782)
Net result	–	(76 247)	–	(120 432)

NOTES TO THE FINANCIAL STATEMENTS

(44) Other provisions

	2005 LVL	2004 LVL
Provision for vacations	199 188	80 943
Other provisions	–	4 776
	199 188	85 719

(45) Direct insurance liabilities

	2005 LVL	2004 LVL
Prepayments from policy holders	395 262	390 336
Due to policy holders	28 739	10 699
Due to insurance intermediaries	403 777	511 727
	827 778	912 762

(46) Reinsurance liabilities

	2005 LVL	2004 LVL
Insurance companies located in EU member states	1 051 790	673 418
Insurance companies located in CIS, Middle Asia	157 068	289 798
Insurance companies located in USA	453 476	210 688
	1 662 334	1 173 904

(47) Loans from credit institutions

	2005 LVL	2004 LVL
LVL	–	460 000
USD	–	750 780
LTL	–	138 040
EUR	–	28 120
	–	1 376 940

Loans from credit institutions were received on the basis of repo transactions and were repaid until March 2005.

(48) Related party transactions

Related parties are entities that are subsidiaries of the company which prepares the financial statements.

During the course of operations the company reinsures written risks with related parties. In 2005, 34% of all ceded premiums with reinsurers were reinsured with related parties. The amounts of ceded reinsurance premiums and claims by insurance lines are the following:

	2005 LVL	2004 LVL
General third party liability	519 110	–
Motor own damage insurance	992 834	995 813
Other insurance lines	2 263	18 573
	1 514 207	1 014 386

NOTES TO THE FINANCIAL STATEMENTS

Risks were accepted for reinsurance from a related party. The amounts of written premiums and claims paid to the related party by insurance lines are the following:

Accepted reinsurance from related parties

	2005 LVL	2004 LVL
Motor third party liability	897 557	308 087
Other insurance lines	129 632	73 745
	1 027 189	381 832

Client acquisition commissions of LVL 19 125 were calculated in 2005 for related parties (in 2004: nil). Calculated assumed reinsurance commissions in 2005 amounted to LVL 52 250 (in 2004: nil).

(49) Taxes and social contributions

Type of tax	Balance at 31.12.2004 LVL	Calculated in 2005 LVL	Paid in 2005 LVL	Balance at 31.12.2005 LVL
Corporate income tax	32 139	185 201	(174 097)	43 243
Business risk state duty	(929)	4 356	(3 274)	153
Social contributions	48 359	711 436	(688 370)	71 425
Resident income tax	25 981	453 587	(435 100)	44 468
Real estate tax	1 389	29 246	(28 452)	2 183
	106 939	1 383 826	(1 329 293)	161 472

(50) Other liabilities

	2005 LVL	2004 LVL
Payments to the Traffic Office	83 975	89 249
Salary payable	115 620	97 830
Payments to FCMC	66 823	52 055
Due for regressions	94 253	–
Derivative financial instruments	3 104	–
Dividends payable	4 212	6 176
Other liabilities	202 494	298 519
	570 481	543 829

(51) Number of employees and information on branches

	2005	2004
Staff	671	570
Agents	41	333
	712	903

	2005	2004
Foreign representative offices	–	1
Representative office and sales points	107	95
	107	96

	2005	2004
Average number of employees	800	903
	800	903

NOTES TO THE FINANCIAL STATEMENTS

	2005	2004
Head office	238	260
Subsidiaries :		
RC "Rīga"	139	189
RC "Latgale"	66	116
RC "Kurzeme"	55	91
RC "Vidzeme"	55	93
RC "Zemgale"	129	103
RC "Daugava"	30	50
Uzbekistan	–	1
	712	903

(52) Information on the remuneration to Council and Board

	2005 LVL	2004 LVL
Council	19 060	12 210
Board	143 674	47 971
	162 734	60 181

Balances of issued loans to council and board:

	2005 LVL	2004 LVL
Issued mortgage loan balances for board and council	42 422	77 439
Issued other loan balances for board and council	722	83 205
	43 144	160 644

Collateral value of issued loans to council and board:

	2005 LVL	2004 LVL
Mortgage collateral	42 422	77 439
Collateral on demand	–	82 600
Without collateral	722	605
	43 144	160 644

(53) Off-balance-sheet items and contingent liabilities

During the course of operations the company receives claims from clients. Such claims have been assessed by management and management believes that no significant losses are expected beyond the level of appropriate reserves.

NOTES TO THE FINANCIAL STATEMENTS

(54) Derivative financial instruments

In order to minimize investment risk and increase the profitability AAS BTA uses interest rate and share index derivative financial instruments. Investments in financial instruments may be used taking into consideration the above mentioned restrictions:

- Interest rate futures – in cases when decreased current investment portfolio in debt securities pricing risk, concluded future deal amount cannot exceed 95% from debt security portfolio amount.
- Interest rate futures – in cases when facilitated more efficient investment portfolio profitability, concluded future deal amount cannot exceed 50% from AAS BTA consolidated own funds.
- Share index futures – in cases when facilitated more efficient investment portfolio profitability, concluded future deal amount cannot exceed 25% from AAS BTA consolidated own funds.

The net derivative financial liabilities as at 31.12.2005 are immaterial.

(55) Subsequent events

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



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Auditors' Report

To the shareholders of BTA AAS

We have audited the accompanying balance sheet of BTA AAS (The Company) as at 31 December 2005 and the related statements of profit and loss, shareholders' equity and cash flows for the year then ended as set out on pages 29 to 57. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audit. In addition, it is our responsibility to assess whether the accounting information included in the Management Report is consistent with the financial statements. The Company's financial statements as at 31 December 2004 were audited by another independent audit firm, whose report thereon dated 13 April 2005 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with International Standards on Auditing as promulgated by the International Federation of Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. 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. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present a true and fair view of the financial position of BTA AAS, as at 31 December 2005, and the results of its operations and its cash flows for the year then ended in accordance the regulations of the Financial and Capital Market Commission "Regulations on the Preparation of Annual Reports and Consolidated Annual Accounts of Insurance Joint Stock Companies and Mutual Co-operative Insurance Societies and the Branches of Insurers from Non-EU Countries". The management report is consistent with the financial statements.

Stephen Young

Stephen Young
SIA KPMG Baltics
Licence No 55
Riga, Latvia
20 April 2006

Inga Lipšāne

Inga Lipšāne
Sworn Auditor
Certificate No. 112

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