



BTA AAS

Annual report

for 2008

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Information about the Company

Name of company	<i>BTA AAS</i>
Legal status	<i>Insurance Joint Stock Company</i>
Number, place and date of registration	<i>40003159840, was registered in Riga, Latvia, in 1993 as a Joint Stock Insurance Company.</i>
Address	<i>Kr.Valdemāra 63, Riga</i>
Board members and their positions	<i>Gints Dandzbergs – Chairman of the Board Jeļena Alfejeva – Member of the Board Agris Dambeniēks – Member of the Board Jānis Lucaus - Member of the Board from 18.02.2009 Aivars Neimanis - Member of the Board until 18.02.2009 Jānis Maļinovskis - Member of the Board until 20.10.2008</i>
Council members and their positions	<i>Pauls Dandzbergs – Chairman of the Council Andrejs Galanders – Member of the Council Marts Dandzbergs – Member of the Council</i>
Reporting year	<i>01.01.2008 – 31.12.2008</i>
Information on shareholders	<i>Residents of Latvia</i>
Auditors	<i>KPMG Baltics SIA Vesetas iela 7 Riga, LV-1013 Licence No 55</i>

Management Report

Management report for the annual report for 2008

Despite the slowdown of economic development in the second half of 2008, the non-life insurance market of Latvia continued to grow and total gross written premiums increased by 12% compared to 2007.

2008 was a year of large scale recession in the global economy with many financial companies ceasing to exist or being taken over by governments. In the current economy cycle, the key task for BTA was to maintain its assets and, looking back today, one must admit that this task was completed successfully.

During 2008, BTA ensured gross written premiums grew by 12.7% and retained its market share of 24.1%. We continued to develop our existing insurance products and to improve the claims handling process, and we also continued to improve the availability of various policies on-line.

In 2008, gross written premiums of BTA were LVL 72.5 million and net claims incurred were LVL 38.8 million. A positive trend observed during 2008 was the decrease of maintenance expenses from 32.6 % in 2007 to 27.9% in 2008, which is an indication of increased efficiency of the Company.

The amount of gross technical reserves in 2008 was nearly LVL 50 million and also by this indicator BTA is the market leader in non-life insurance in Latvia. BTA historically uses a conservative approach to calculating and investing technical reserves. One of the key principles is consistently increasing the share of EUR denominated investments. As a result of the above principle, at the end of 2008 EUR denominated investments covered one third of the technical reserve in LVL. Although this policy has an adverse effect on the return on investment, it will be continued in 2009 in order to limit the potential impact of changing the government policy regarding the currency.

In 2008, we continued paying significant attention to the reinsurance cover. From 2008, BTA has introduced slight changes in the reinsurance policy to make it more conservative, i.e. reinsurers are now attracted not only for large risk insurance but additional cover is acquired for non-typical accumulations of common and rather small risks. Such reinsurance cover has been obtained also for 2009. In view of the developments in the global financial markets, BTA seeks to avoid risk concentrations with one reinsurer, and constantly monitors the financial stability of reinsurers.

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

The above has resulted in a gross profit of LVL 6,761,191, which represents profit after tax of LVL 5,421,193. It is the best result in the insurance market of Latvia since regaining independence in 1991, and a major achievement for the Company.

During the reporting year, BTA was in compliance with the requirements of the Commercial Law. No events have occurred since the year end that according to the Board of BTA may have a significant impact on the financial statement presentation.

As part of operating activities, BTA is subject to various financial risks. A comprehensive risk management policy has been developed, which comprises both the insurance risks, as well as risks arising from the Company's investment activities. Management and control functions of insurance risks are implemented into day-to-day operations of the Company through insurance risks underwriting methodologies, fixing of risk limits for underwritten exposures and reinsurance policy. Risks in connection with investments made by BTA are controlled in accordance with the Company's approved investment policy.

The Board of BTA considers the financial result of 2008 to be good. Despite recession on the global and local markets, BTA has managed to retain the pace of development and increase profit of the reporting year by 35%.

Management Report

In view of the trends on the insurance market and legislation, the Board recommends to retain at least 25% of profit for further development in order to implement the plans for entering and extending operations in the EU markets.


In light of the present economic downturn it is very difficult to forecast the development of the non-life insurance market of Latvia in 2009 as the growth of this market is closely linked with government decisions on reorganizing state administration and aspects of economy. Therefore, the Board has prepared a number of budgets to enable the Company to take appropriate action in response to changes in the overall insurance market of Latvia. The Board will continue to focus on maintaining operational stability and providing quality client service.

Also, the times of economic downturn do not present just challenges. There are a number of opportunities for our clients. In the year 2009, competition among car repair shops has increased dramatically, and it means that cost reductions are expected in the car related segments. The same trend is observed in the second largest market segment – health insurance where due to reduced state funding health care institutions are forced to increase their competitive ability and that will result in lower prices. We expect similar trends in other insurance market segments in Latvia.

One must note that the market economy develops in cycles and Latvia is not the only affected country. Almost all countries of the world undergo difficulties. However, one of the best features of market economy is the ability to self-organize taking into account previous errors and deficiencies, and downturn is always followed by an upturn. Therefore, crisis is the time for assessment and new opportunities. Our wish to everyone is that they keep up their spirits and do not treat the present economic developments as something extraordinary and tragic.

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

We wish success to everyone with their further activities.



Gints Dandzbergs
Chairman of the Board

Pauls Dandzbergs
Chairman of the Council

Agris Dambenieks
Member of the Board

20 April 2009

Statement of management responsibility

The insurance joint stock company BTA in 2008 was led by a board of directors consisting of six board members. The Company regularly informed the Council about the processes in the Company and provided all the necessary explanations.

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

The management is responsible for the preparation of the Company's annual report for 2008 which reflects BTA activities in the period from January 1, 2008 to 31 December 2008.

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

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

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

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



Gints Dandzbergs
Chairman of the Board

Pauls Dandzbergs
Chairman of the Council



Agris Dambenieks
Member of the Board

20 April 2009

Income Statement for 2008

	Notes	2008 LVL	2007 LVL
Earned premiums			
Written premiums			
Gross written premiums	5	72 537 305	64 338 596
Reinsurers' share in written premiums	5	(3 562 089)	(7 462 208)
<i>Net written premiums</i>	5	68 975 216	56 876 388
Change in unearned premium and unexpired risk technical reserves			
Gross change	7	(2 838 757)	(11 643 419)
Reinsurers' share	7	516 645	23 001
<i>Change in net unearned premium and unexpired risk technical reserves</i>	7	(2 322 112)	(11 620 418)
Net earned premiums	6	66 653 104	45 255 970
Other technical income, net	8	245 085	438 874
Premium refunds		(4 920)	(2 190)
Incurred claims, net			
Paid claims, net			
Gross claims paid	9	(38 205 739)	(28 421 533)
Paid claims		(39 321 286)	(28 786 817)
Loss adjustment expenses		(2 056 244)	(1 268 442)
Recovered losses		3 171 791	1 633 726
Reinsurers' share of claims paid	9	1 001 771	4 274 721
<i>Net paid claims</i>	9	(37 203 968)	(24 146 812)
Change in outstanding claim technical reserve			
Change in gross outstanding claim technical reserve	10	925 549	(9 096 387)
Reinsurers' share	10	(2 494 933)	4 845 867
<i>Change in net outstanding claim technical reserve</i>	10	(1 569 384)	(4 250 520)
Net incurred claims	11	(38 773 352)	(28 397 332)
Operating expenses/ income			
Client acquisition costs	12	(7 464 909)	(6 260 462)
Change in deferred client acquisition costs	13	553 009	1 057 203
Administrative expenses	14	(11 631 552)	(10 148 430)
Depreciation and amortisation	25, 26, 27	(422 788)	(353 704)
Reinsurance commission income, net	15	444 222	1 035 914
Change in unearned reinsurance commission	16	(55 310)	(65 071)
Net operating expenses		(18 577 328)	(14 734 550)
Other technical expenses, net	17	(498 008)	(403 013)

Income statement for 2008

	Notes	2008 LVL	2007 LVL
Investment management charges	18	(189 738)	(25 486)
Interest income and dividend income, net	19	2 064 803	1 620 077
Loss from financial assets and liabilities at fair value through profit or loss, net	20	(1 575 639)	(228 376)
Loss on foreign currency fluctuation		(81 378)	(234 508)
Revaluation of investment property	26	(154 359)	2 133 822
Impairment loss	21	(2 178 679)	(596 108)
Other expenses, net	22	(168 400)	(99 913)
Profit before tax		6 761 191	4 727 267
Income tax expense	23	(1 339 998)	(723 988)
Net profit for the year		5 421 193	4 003 279

The accompanying notes on pages 13 to 68 form an integral part of these financial statements.



Gints Dandzbergs
Chairman of the Board



Pauls Dandzbergs
Chairman of the Council



Agris Dambenieks
Member of the Board

20 April 2009

Balance sheet as at 31 December 2008

Assets	Notes	2008 LVL	2007 LVL
<u>Land and buildings</u>	26	3 956 424	3 516 244
<u>Property and equipment</u>	25	530 965	470 266
<u>Intangible assets</u>	27	98 046	9 800
<u>Investment property</u>	26	3 072 278	3 821 837
Non current assets held for sale		-	2 000
Investments in associates	28	491 963	491 963
Investments at fair value through profit or loss			
Shares and other non-fixed income securities	29	2 993 405	4 138 210
Debt securities and other fixed income securities	29	16 378 069	9 420 240
<i>Total investments at fair value through profit or loss</i>		19 371 474	13 558 450
Available-for-sale financial assets			
Shares and other non-fixed income securities	30	769 854	769 854
Deposits with banks	31	17 634 389	12 709 104
<u>Total financial investments</u>		38 267 680	27 531 371
Loans and receivables			
Loans			
Mortgage loans		5 763 452	8 016 918
Other loans		2 558 589	3 262 048
<i>Total loans issued</i>	32	8 322 041	11 278 966
Receivables			
Receivables from direct insurance activities			
Due from policy holders		10 014 437	8 901 484
Due from intermediaries		1 707 335	1 860 379
<i>Total receivables from direct insurance activities</i>	33	11 721 772	10 761 863
Receivables from reinsurance activities	34	510 564	135 271
Other receivables	35	938 719	968 714
<i>Total receivables</i>		13 171 055	11 865 848
<u>Total loans and receivables</u>		21 493 096	23 144 814
Accrued income and deferred expenses			
Deferred client acquisition costs	13	3 105 191	2 552 182
Other accrued income and deferred expenses		266 171	255 668
<u>Total accrued income and deferred expenses</u>		3 371 362	2 807 850
Reinsurance contract assets			
Reinsurers' share in unearned premiums technical reserve	7	1 599 357	1 082 712
Reinsurers' share in outstanding claim technical reserve	10	3 175 112	5 670 045
<u>Total assets from reinsurance contracts</u>		4 774 469	6 752 757
<u>Cash and cash equivalents</u>	36	1 227 021	1 446 156
Total assets		76 791 341	69 501 095

The accompanying notes on pages 13 to 68 form an integral part of these financial statements.

Balance sheet as at 31 December 2008

Equity and liabilities	Notes	2008 LVL	2007 LVL
Equity			
Share capital	38	6 000 000	6 000 000
Share premium		1 219 103	1 219 103
Revaluation reserve	38	2 481 585	2 459 859
Equalisation reserve		26 491	22 284
Reserve capital and other reserves		698 895	698 895
Retained earnings:			
Retained earnings from prior years		4 182 733	179 454
Current year profit		5 416 986	4 003 279
<u>Total equity</u>		<u>20 025 793</u>	<u>14 582 874</u>
Liabilities			
Technical reserves			
Technical reserves for unearned premiums and unexpired risks	7	33 131 557	30 292 800
Outstanding claim technical reserve	10	16 527 669	17 453 218
<u>Total technical reserves</u>		<u>49 659 226</u>	<u>47 746 018</u>
<u>Subordinated liabilities</u>	39	<u>1 053 152</u>	<u>1 053 152</u>
Creditors			
Direct insurance creditors			
Due to policy holders		762 170	1 251 880
Due to intermediaries		794 093	785 090
<i>Total direct insurance creditors</i>		<u>1 556 263</u>	<u>2 036 970</u>
Reinsurance creditors	42	1 126 765	1 225 786
Taxes and social contributions	41	1 267 010	733 218
Other creditors	43	833 271	790 288
<u>Total creditors</u>		<u>4 783 309</u>	<u>4 786 262</u>
<u>Deferred tax liabilities</u>	40	<u>459 304</u>	<u>703 773</u>
<u>Provisions</u>	45	<u>491 643</u>	<u>365 412</u>
<u>Unearned reinsurance commission income</u>	16	<u>318 914</u>	<u>263 604</u>
<u>Total liabilities</u>		<u>56 765 548</u>	<u>54 918 221</u>
<u>Total equity and liabilities</u>		<u>76 791 341</u>	<u>69 501 095</u>

The accompanying notes on pages 13 to 68 form an integral part of these financial statements.




Gints Dandzbergs
Chairman of the Board

Pauls Dandzbergs
Chairman of the Council



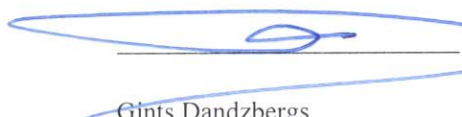
Agris Dambeniaks
Member of the Board


20 April 2009

Cash flows statement for the year ended 31 December 2008

	Notes	2008 LVL	2007 LVL
Cash flow from insurance activities			
Premiums received in direct insurance		69 103 401	58 935 780
Claims paid in direct insurance		(36 972 970)	(28 526 051)
Premiums received in co-insurance		-	89 284
Payments received from reinsurers		467 427	-
Payments made to reinsurers		(1 616 580)	(1 909 510)
Payments received in assumed reinsurance		228 830	289 430
Payments made for assumed reinsurance		(131 542)	-
Income tax paid	41	(1 050 812)	(72 837)
Obligatory payments	37	(836 745)	(947 396)
Payments to employees		(8 435 654)	(5 981 034)
Payments to intermediaries		(2 546 424)	(1 419 827)
Other payments made		(7 013 750)	(5 411 931)
Other payment received		913 836	905 008
Total cash flow from insurance activities		12 109 017	15 950 916
Cash flow from investing activities			
Acquisition of investments:		(164 786 579)	(459 428 202)
Disposal of investments:		150 047 581	444 398 616
Investment income received		1 589 995	1 459 134
Dividends received		18 974	270
Total cash flow from investing activities		(13 130 029)	(13 570 182)
Cash flow from financing activities			
Proceeds in increase in shares		-	1 324 634
Proceeds from subordinated liabilities	39	-	1 053 152
Dividends paid		-	(318 624)
Total cash flow from financing activities		-	2 059 162
Cash and cash equivalent net increase/decrease		(1 021 012)	4 439 896
Effect of exchange rate fluctuations on cash and cash equivalents held		(23 060)	(35 702)
Cash and cash equivalent at the beginning of the year		8 376 921	3 972 727
Cash and cash equivalent at the end of the year	36	7 332 849	8 376 921

The accompanying notes on pages 13 to 68 form an integral part of these financial statements.


Gints Dandzbergs
Chairman of the Board



Pauls Dandzbergs
Chairman of the Council


Agris Dambenieks
Member of the Board


20 April 2009

Statement of changes in capital and reserves for 2008


	Share capital LVL	Share premium LVL	Revalua- tion reserve LVL	Equalisa- tion reserves, LVL	Reserve capital and other reserves LVL	Retained earnings LVL	Profit of the reporting year LVL	Total capital and reserves LVL
31.12.2006	4 300 000	942 003	709 057	16 638	698 895	204 057	413 197	7 283 847
Issued shares in the reporting year	1 700 000	277 100	-	-	-	-	-	1 977 100
Profit for the reporting year	-	-	-	-	-	-	4 003 279	4 003 279
Transfer of retained earnings	-	-	-	-	-	397	(397)	-
Increase in equalisation reserve	-	-	-	5 646	-	-	-	5 646
Discounts for preference stock	-	-	-	-	-	(25 000)	-	(25 000)
Increase in revaluation reserve land and buildings	-	-	2 059 767	-	-	-	-	2 059 767
Deferred tax effects on revaluation of land and buildings	-	-	(308 965)	-	-	-	-	(308 965)
Dividends for 2006	-	-	-	-	-	-	(412 800)	(412 800)
31.12.2007	6 000 000	1 219 103	2 459 859	22 284	698 895	179 454	4 003 279	14 582 874
Profit for the reporting year	-	-	-	-	-	-	5 421 193	5 421 193
Transfer of retained earnings	-	-	-	-	-	4 003 279	(4 003 279)	-
Increase in equalisation reserve	-	-	-	4 207	-	-	(4 207)	-
Increase in revaluation reserve land and buildings	-	-	25 559	-	-	-	-	25 559
Deferred tax effects on revaluation of land and buildings	-	-	(3 833)	-	-	-	-	(3 833)
31.12.2008	6 000 000	1 219 103	2 481 585	26 491	698 895	4 182 733	5 416 986	20 025 793



Gints Dandzbergs
Chairman of the Board



Pauls Dandzbergs
Chairman of the Council



Agris Dambenieks
Member of the Board

20 April 2009

The accompanying notes on pages 13 to 68 form an integral part of these financial statements.

Notes to the financial statements

(1) General information

(a) Principal activities

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

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

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

(b) Shareholders

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

The Company has a 19.99% interest in a related company, BTA Draudimas UAB, legal address – Verkiu 29-18, Vilnius, Lithuania (2007: 19.99%).

The Company has a 49% interest in an associated company, OOO KROHA, Gagarina 74 -76A, Kaliningrad, Russia (2007: 49%).

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

The financial statements were approved by the Board of Directors on 20 April 2009. The financial statements will be approved by the annual shareholders’ meeting which has the power to amend the authorised financial statements.

(2) Basis of preparation

(a) Statement of compliance

The accompanying financial statements have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) as adopted by the European Union, and the regulations of the Financial and Capital Market Commission of Latvia (“FCMC”) in force as at the reporting date.

(b) Functional and Presentation Currency

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

Notes to the financial statements

(c) Reporting period

Reporting period includes 12 months from January 1, 2008 to December 31, 2008.

(d) Basis of measurement

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

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

(3) Significant accounting policies

3.1 New standards and interpretations, amendments that are not yet effective

A number of new standards, amendment to standards and interpretations are not yet effective for the year ended 31 December 2008, and have not been applied in preparing these financial statements:

IFRIC 13 Customer Loyalty Programmes addresses the accounting by entities that operate or otherwise participate in customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC becomes mandatory for an entity's 2009 financial statements and is to be applied retrospectively. The interpretation is not relevant to the Company.

The amendment to *IFRS 2 Share-based Payment – Vesting Conditions and Cancellations* clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The amendment is not relevant to the Company.

The revised *IFRS 3 Business Combinations (2008)* incorporates the following changes:

- the definition of a business has been broadened
- contingent consideration will be measured at fair value, with subsequent changes in fair value recognised in profit or loss
- transaction cost, other than share and debt issue costs, will be expensed as incurred
- any pre-existing interest in an acquiree will be measured at fair value, which the related gain or loss recognised in profit or loss
- any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of an acquiree, on a transaction-by-transaction basis.

Management will assess the potential impact of the revised IFRS 3 on the Company's financial statements.

IFRS 8 Operating Segments introduces the "management approach" to segment reporting. The Company does not have to disclose reporting according to segment; therefore the new standard is not applicable to its financial statements.

The revised *IAS 1 Presentation of Financial Statements (2007)* introduces the term "total comprehensive income," which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income. The Company will apply this amendment from the annual period beginning 1 January 2009.

Notes to the financial statements

The revised *IAS 23 Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised *IAS 23* is not relevant for the Company; therefore there will be no impact on prior periods in the Company's 2009 financial statements.

The amended *IAS 27 Consolidated and Separate Financial Statements (2008)* requires accounting for changes in ownership interests in a subsidiary that occur without loss of control, to be recognised as an equity transaction. The standard is not relevant for the Company's financial statement.

Amendments to *IAS 32 and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* require puttable instruments and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity if certain conditions are met. The amendments, which become mandatory for the Company's 2009 financial statements with retrospective application required, are not expected to have any impact on the financial statements.

Amendments to *IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items* clarify the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. The amendments are not expected to have any impact on the financial statements.

IFRIC 15 Agreements for the Construction of Real Estate clarifies that revenue arising from agreements for the construction of real estate is recognised by reference to the stage of completion of the contract activity in the following cases:

- the agreement meets the definition of a construction contract in accordance with *IAS 11.3*;
- the agreement is only for the rendering of services in accordance with *IAS 18* (e.g., the entity is not required to supply construction materials); and
- the agreement is for the sale of goods but the revenue recognition criteria of *IAS 18.14* are met continuously as construction progresses.

In all other cases, revenue is recognised when all of the revenue recognition criteria of *IAS 18.14* are satisfied (e.g., upon completion of construction or upon delivery). *IFRIC 15* is not relevant to the Company's operations as the Company does not provide real estate construction services or develop real estate for sale.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation clarifies that:

- net investment hedging can be applied only to foreign exchange differences arising between the functional currency of a foreign operation and the parent entity's functional currency and only in an amount equal to or less than the net assets of the foreign operation
- the hedging instrument may be held by any entity within the group except the foreign operation that is being hedged
- on disposal of a hedged operation, the cumulative gain or loss on the hedging instrument that was determined to be effective is reclassified to profit or loss.

The Interpretation allows an entity that uses the step-by-step method of consolidation an accounting policy choice to determine the cumulative currency translation adjustment that is reclassified to profit or loss on disposal of a net investment as if the direct method of consolidation had been used. *IFRIC 16*, which becomes mandatory for the Company's 2009 financial statements, applies prospectively to the Company's existing hedge relationships and net investments. The amendments are not expected to have any impact on the financial statements.

Notes to the financial statements

IFRIC 17 Distributions of Non-cash Assets to Owners applies to non-reciprocal distributions of non-cash assets to owners acting in their capacity as owners and is effective prospectively for annual periods beginning on or after 15 July 2009. In accordance with the Interpretation a liability to pay a dividend shall be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity and shall be measured at the fair value of the assets to be distributed. The carrying amount of the dividend payable shall be remeasured at each reporting date, with any changes in the carrying amount recognised in equity as adjustments to the amount of the distribution. When the dividend payable is settled the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable shall be recognised in profit or loss. As the Interpretation is applicable only from the date of application, it will not impact on the financial statements for periods prior to the date of adoption of the interpretation. Further, since it relates to future dividends that will be at the discretion of the board of directors/shareholders it is not possible to determine the effects of application in advance.

3.2 Foreign currency, foreign currency transactions

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

Profit or loss relating to fluctuations in the exchange rate on assets and liabilities denominated in a foreign currency are recognised in the profit or loss account in the period in which the fluctuation occurs. Foreign exchange differences arising on translation are recognised in the income statement.

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

	31.12.2008	31.12.2007
EUR	0.7028	0.7028
USD	0.4950	0.4840
EEK	0.0449	0.0449
LTL	0.2030	0.2040
RUR	0.0171	0.0197

3.3 Insurance contracts

(a) Classification of insurance contracts

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

Non-life insurance contracts include the following contracts:

- in which the insurer assumes substantial insurance risk on behalf of the other contracting party – the policy holder, by agreeing to compensate losses to the policy holders if a certain unexpected future event (insured occurrence) has been previously agreed, which adversely impact the policy holder. An unexpected future event is considered to be a situation when at the time of signing the insurance contract is not known:
 1. whether the insured occurrence will occur;
 2. when it will occur;
 3. how much the insurer will have to pay if it occurs.

Notes to the financial statements

- in which the insured event is the discovery of a loss during the term of the contract, even if the loss arises from an event that occurred before the inception of the contract
- in which the insured event is an event that occurred during the term of the contract, even if the resulting loss is discovered after the end of the contract term.
- which comprise events, which have already occurred, but whose financial impact is not yet fixed. For example, reinsurance contracts that protect direct insurance from the adverse development of claims already reported by the policy holder.
- which require or permit payment in kind, i.e., the insurer directly replaces a stolen thing rather than compensates the claim to the policy holder in money.
- which stipulate a fixed charge services, in which the service level depends on an unexpected event. Fixed charge services are based on the number of expected equipment malfunctions, but it cannot be fixed on whether some specific equipment will not function.
- in which one insurer (reinsurer) compensates the losses of one or several contracts closed with other insurers (cedents).

Recognition and evaluation of insurance contracts

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

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

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

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

(b) Insurance premium and premium income

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

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

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

Premium refunds

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

Notes to the financial statements

(c) Unearned premium and unexpired risk reserves

Unearned premium reserves (UPR)

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

Unexpired risk reserve (URR)

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

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

(d) Claims incurred

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

(e) Outstanding claim technical reserves

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

Reported but not settled claims reserve (RBNS)

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

Incurred but not reported claims reserve (IBNR)

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

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

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

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

Notes to the financial statements

Where available statistics are considered to be not sufficient, IBNR reserve is calculated as a percentage of premiums written in the prior year for the following lines of business:

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

(f) Equalisation reserve

An equalisation reserve is established in order to seek to equalise the future loss ratio in an insurance line where the loss ratio may be significantly different from year to year, as a result of future claims.

(g) Reinsurance

Assumed reinsurance

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

Ceded reinsurance

The Company cedes reinsurance in the normal course of business for the purpose of limiting its potential net loss through the diversification of its risks. Assets, liabilities and income and expense arising from ceded reinsurance contracts are presented separately from the related assets, liabilities, income and expense from the related insurance contracts because the reinsurance arrangements do not relieve the Company from its direct obligations to its policyholders.

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

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

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

(h) Client acquisition costs

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

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

Notes to the financial statements

(i) Allocation of administration expenses among insurance types

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

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

(j) Liability adequacy test

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

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

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

(k) Insurance receivables and payables

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

3.4 Financial instruments

(a) Classification

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

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

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

Held-to-maturity financial instruments are non-derivative financial assets with fixed or determinable payments and a fixed maturity with respect to which the Company has a positive intent and ability to hold to maturity. The Company did not classify any financial instruments to this category in 2008 (2007: nil).

Notes to the financial statements

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

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

Derivative financial instruments

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

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

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

The Company has no embedded derivatives in its insurance contracts as at 31 December 2008 and 2007 respectively.

Amendments to IAS 39 and IFRS 7

In October 2008 the IASB issued Reclassification of Financial Assets (Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures). The amendment to IAS 39 permits an entity to reclassify non-derivative financial assets, other than those designated at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss (i.e., trading) category if they are no longer held for the purpose of being sold or repurchased in the near term, as follows:

- If the financial asset would have met the definition of loans and receivables, and if the financial asset had not been required to be classified as held for trading at initial recognition, then it may be reclassified if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity.
- If the financial asset would not have met the definition of loans and receivables, then it may be reclassified out of the trading category only in 'rare circumstances'.

The amendment to IAS 39 permits an entity to transfer from the available-for-sale category to the loans and receivables category a non-derivative financial asset that otherwise would have met the definition of loans and receivables if the entity has the intention and ability to hold that financial asset for the foreseeable future or until maturity.

The amendment to IFRS 7 introduces additional disclosure requirements if an entity has reclassified financial assets in accordance with the amendment to IAS 39. The amendments are effective retrospectively from 1 July 2008.

During the year the Company did not reclassify its financial assets in accordance to the above amendment.

(b) *Recognition and derecognition*

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

Notes to the financial statements

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

(c) Initial and subsequent measurement

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

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

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

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

(d) Fair value measurement

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

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

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

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

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

(e) Investments in associates

Associates are those entities in which the Company has significant influence, but no control, over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20 to 50 percent of the voting power of another entity. The Company's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The individual financial statements include the Company's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Company's share of losses exceeds its interest in the associate, the Company's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of an associate.

Notes to the financial statements

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

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

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

3.5 Impairment

(a) Financial assets

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

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

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

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

(b) Non financial assets

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

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

3.6 Property and equipment

Property and equipment are disclosed at cost less accumulated depreciation and impairment. Depreciation is

Notes to the financial statements

calculated using a linear method over the entire useful life of the respective asset in order to write their value down to the residual value at the end of the useful life based on the following rates:

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

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

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

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

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

3.7 Intangible assets

Software licences

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

Software licences	20% per year
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3.8 Investment property

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

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

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

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

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

Notes to the financial statements

3.9 Leases

The Company as lessor

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

The Company as lessee

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

The company does not have assets under a finance lease.

3.10 Corporate income tax

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date (15% 2008 and 2007), and any adjustment to tax payable in respect of previous years.

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

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

Deferred tax assets and liabilities are not discounted.

3.11 Cash and cash equivalents

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

3.12 Dividends

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

3.13 Related parties

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

3.14 Employee benefits

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

Notes to the financial statements

3.15 Provisions

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

3.16 Subordinated liabilities

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

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

Critical accounting estimates and judgement in applying accounting policies

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

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

Key sources of estimation uncertainty:

Insurance technical reserves

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

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

Valuation of financial instruments

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

Impairment of financial instruments

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

Notes to the financial statements

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

As at 31 December 2008, for all financial instruments carried at fair value the fair value was measured based on market prices quoted in active markets.

Valuation of investment property

Investment property is stated at its fair value with all changes in fair value recorded to profit and loss. When measuring the fair value of the investment property, the management relies on external valuations and assesses the reliability of such valuation in light of the current market situation.

Impairment of loans and receivables

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

Recognition of provisions

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

Current market situation

The ongoing global liquidity crisis that commenced in the middle of 2007 resulted in, among other things, lower liquidity levels in financial and real estate markets, a lower level of capital market funding and lower liquidity across the banking sector. Additionally, Latvia has been experiencing an economic downturn which has affected, and may continue to affect, the activities of enterprises operating in this environment. The accompanying financial statements reflect management's assessment of the impact of the Latvian and global business environment on the operations and the financial position of the Company. Future developments in the business environment may differ from management's assessment.

(4) Risk and risk management

4.1 Risk and risk management

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

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

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

- Insurance risks
- Financial risks
- Operating risks

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

Notes to the financial statements

4.2 Insurance risks and risk management

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

(a) Underwriting strategy

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

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

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

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

(b) Basic product features

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

Casco insurance

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

Motor third party liability insurance.

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

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

Most of the motor third party liability insurance indemnities are for property damage and lump sum personal injuries, mostly medical treatment costs, and temporary incapacity for work benefits. However, long-term indemnities may also be possible, such as pensions and permanent incapacity for work benefits which may be paid out over the long term also as annuities.

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

The key risks associated with this product are underwriting risk, competitive risk, and claims experience risk. Calculating a premium commensurate with the risk for these policies will be subjective, and hence risky. Insurance risk is managed primarily through sensible pricing, product design, risk selection,

Notes to the financial statements

appropriate investment strategy, rating and reinsurance. The Company therefore monitors and reacts to changes in the general economic and commercial environment in which it operates.

Health insurance

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

Because health insurance is a mass product with a large number of small indemnities, with proper management the risk from this product is considered to be small.

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

Property insurance

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

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

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

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

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

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

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

(c) Insurance risk concentration

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

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

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

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

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

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

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

Insurance type	Total insured amount LVL	Reinsurance amount LVL	Net retention		
			(after reinsurance) LVL	Number of contracts in force	Average amount insured
Motor own damage insurance	616 557 122	-	616 557 122	55 3	11 1
Compulsory motor third party liability	1 650 000	-	1 650 000	1	50 0
Health insurance *	242 190 133	-	242 190 133	3 2	73 9
Property insurance	7 821 014 371	4 768 141 170	3 052 873 201	82 70	36 9
Various financial risks	202 189 117	162 014 995	40 174 122	3 4	11 7
Cargo insurance *	121 664 638	72 898 460	48 766 178	19	251 1
General third party liability	338 227 536	147 325 580	190 901 956	6 6	28 0
Personal accident insurance *	148 648 196	22 104 324	126 543 872	5 7	22 2
Travel accident insurance	466 937 681	215 846 490	251 091 191	31 30	8 0
Marine insurance	21 183 249	18 816 136	2 367 113	0	38 8
Marine third party liability insurance	449 560	404 604	44 956	0	7 4
Railway insurance *	81 399 056	16 279 811	65 119 245	0	4 341 1
Voluntary motor third party liability **	-	-	-	188 4	0
Aircraft third party liability insurance	805 831 533	781 656 587	24 174 946	0	366 1
Aircraft insurance	9 757 032	8 927 081	829 951	4	18 4
Credit insurance	5 337 476	3 598 955	1 738 521	1	20 4
Guarantee insurance	39 218 600	21 972 750	17 245 850	5	30 1
Total	10 922 255 300	6 239 986 943	4 682 268 357	377 90	

* in one contract several objects/ persons can be covered

** maximum limit is determined by EU and maximum net insurance limit per one insurance event is EUR400,000. Losses in excess of EUR400,000 are covered by reinsurance.

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(d) Catastrophes

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

(e) Insurance risk management

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

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

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

(f) Liabilities adequacy test

The Company has assessed its insurance liabilities shown in the balance sheet on 31 December 2008 by the liability adequacy test ("LAT").

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

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The test is performed by product groups each comprising a group of insurance contracts with similar risk profiles. Sufficiency of technical reserves by LAT test as at 31 December 2008 is showed in following table:

	LVL thousand	Year					
		2009	2010	2011	2012	2013	2014
Undiscounted future cash flow from expected claims and claim handling costs	(38 648)	(31 726)	(4 811)	(1 251)	(704)	(156)	-
Undiscounted future cash flow from expected claims and claim handling costs including 2% inflation for year 2009	(39 261)	(32 042)	(4 956)	(1 321)	(766)	(176)	-
Present value of future cash flow using refinancing rate of 6% p.a. (Bank of Latvia)	(37 036)	(31 122)	(4 541)	(1 142)	(96)	(135)	-
DAC as at 31 December 2008	(3 105)						-
Expected administration expenses	(3 763)	(2 896)	(531)	(138)	(112)	(86)	-
Total expected outflow	(43 904)						
Total gross technical reserve as at 31 December 2008	49 659						
LAT surplus as at 31 December 2008	5 755						

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

General assumptions and sensitivity analysis

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

It is very important to be sure that the existing reserves would be sufficient for covering the liabilities under the insurance contracts. Therefore, it is very important to check the sensitivity of the test outcome to the different assumptions. The results are shown in following table.

	Adjusted LAT surplus	Surplus according LAT test	Change
	LVL thousand	LVL thousand	%
Changes in LAT result as at 31 December 2008			
Due to changes in refinancing rate used determining present value of future cash flow:			
Using 5 % instead of 6% p.a.	5 442	5 755	5.5
Using 7 % instead of 6% p.a.	6 058	5 755	(5.2)
Due to changes in expected decrease in administration expenses used determining expected outflow			
Decrease by 60% instead of decrease by 75%	3 498	5 755	39.2
Decrease by 40% instead of decrease by 75%	488	5 755	91.5
Due to increase of loss ratio in all business lines by 5% in the year 1	2 493	5 755	56.7

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(g) Claims development

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

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

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

Although the information provided in the table reflects the estimates of historical unpaid claims made in the prior years, the users of these financial statements should avoid extrapolation of past remains or deficits in respect to the balance of unpaid losses of this period. Management considers evaluation of technical reserves as at 31 December 2008 as adequate.

Claim development analysis, LVL thousand

	2004 and before	Year of insured occurrence				Total
		2005	2006	2007	2008	
Estimate of cumulative claims at end of accident year	13 262	14 890	22 561	38 518	39 723	39 723
- one year later	13 590	12 891	22 027	35 201		35 201
- two years later	12 804	12 917	22 200			22 200
- three years later	12 505	13 033				13 033
- four years later	12 596					12 596
Cumulative payments to date	(12 524)	(12 813)	(21 679)	(31 121)	(28 089)	(106 226)
Outstanding claims reserves at 31.12.2008	72	220	521	4 080	11 634	16 527

(h) Sensitivity analysis assumption made for general business

Process used to determine the assumptions

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

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

Sixty-two per cent of IBNR as at 31 December 2008 consists of the following lines of business: compulsory motor TPL, guarantees and property (fire and catastrophes) insurance. Considering the current market situation, the Company believes that the most volatile assumption is inflation. The table below presents the

Notes to the financial statements

change in IBNR as at 31 December 2008 in the case if the annual inflation used in the IBNR estimation would change as a result of a 3% change in inflation.

LVLthousand		Increase in IBNR if projected annual inflation increased by 3%	Decrease in IBNR if projected annual inflation decrease by 3%
Line of business	IBNR, as at 31.12.2008		
Compulsory motor TPL	3 590	107	(107)
Guarantees	64	1	(1)
Property (fire and catastrophes)	134	2	(2)

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

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

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

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

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

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

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

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

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In 2008, the chain ladder methods which are used to calculate the costs of outstanding IBNR reserves were modified to include inflation, which was decreased as compared to previous year because of current situation in the Latvian economy.

LVL'000	IBNR based on previous method as at 31.12.2008	Current IBNR, as at 31.12.2008	Effect of change in assumptions
Line of business			
Accident insurance	90 017	91 243	1%
Health insurance	1 252 530	1 263 014	1%
Casco insurance	579 407	617 830	7%
Cargo insurance	70 006	70 006	0%
Property (fire and catastrophes)	141 270	142 665	1%
Property (other)	74 788	74 788	0%
General liability insurance	166 037	167 631	1%
Financial loss insurance	66 171	66 171	0%
Assistance insurance	59 067	67 445	14%
Compulsory motor TPL	3 345 705	3 830 903	15%
Other	95 341	95 341	0%
Total	5 940 339	6 487 037	9%

IBNR provisions are estimated at a gross level.

4.3 Financial risks and risk management

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

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

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

(a) Market risks

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

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

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

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

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

Investment analysis by ratings as at 31.12.2008:

Agency	Ratings	Shares and other listed equity instruments	Other non-fixed income securities	Mortgage bonds	Investment funds	Listed debt securities	Government bonds	Total
Fitch Ratings	A	-	-	-	-	503 958	-	503 958
	AA-	-	-	-	-	14 057	862 327	876 384
	BBB	-	-	-	-	108 562	-	108 562
Moody's	A1	-	-	-	-	243 719	69 849	313 568
	A2	-	-	-	-	438 366	107 377	545 743
	A3	-	-	-	-	753 171	97 392	850 563
	Aa2	-	-	-	-	244 358	-	244 358
	Aa3	-	-	-	-	122 134	-	122 134
	Aaa	-	-	-	-	-	1 403 737	1 403 737
	Baa1	-	-	1 293 768	-	-	5 309 853	6 603 621
	Baa2	-	-	-	-	37 310	-	37 310
	Baa3	-	-	336 697	-	-	99 286	435 983
Standard & Poor's	A-	-	-	-	-	-	169 735	169 735
	A+	-	-	-	-	243 186	-	243 186
	AA-	744 819	68 783	-	-	267 986	-	1 081 588
	AA+	84 336	-	-	-	-	-	84 336
	Aaa	-	-	-	-	-	3 350 999	3 350 999
	B	-	-	-	-	120 837	-	120 837
	BBB-	-	-	-	-	-	93 525	93 525
CCC	-	-	-	-	85 880	-	85 880	
No rating		107 374	-	-	1 988 093	-	-	2 095 467
Total		936 529	68 783	1 630 465	1 988 093	3 183 524	11 564 080	19 371 474

i) Currency risk

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

Some insurance risks are denominated in foreign currencies. The Company's policy is to restrict the currency risk with respect to known and expected transactions in foreign currencies. Currency risk management is based on investments in the respective currencies. Profit or loss is mainly sensitive only to changes in USD rates and is evaluated as low. The Company is not engaged in any speculative transactions that may increase the currency risk.

The Company is consistently increasing the share of EUR denominated investments. As a result of the above principle, at the end of 2008 EUR denominated investments covered one third of the technical reserves in LVL. Although this policy has an adverse effect on the return on investment, it will be continued in 2009 in order to limit the potential impact of any changes in the government policy regarding the currency.

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

31 December 2008

	LVL	EUR	USD	EEK	Other	Total
Investments and cash						
Investments in associates	491 963	-	-	-	-	491 963
Shares and other non-fixed income securities	-	2 777 721	187 265	28 419	-	2 993 405
Debt securities and other fixed income securities	6 823 296	9 299 158	255 615	-	-	16 378 069
Available-for-sale financial assets	769 854	-	-	-	-	769 854
Deposits with banks	9 611 999	3 665 517	1 573 390	2 700 598	82 885	17 634 389
Mortgage loans	3 313 329	2 317 960	132 163	-	-	5 763 452
Other loans	1 024 735	1 499 797	34 057	-	-	2 558 589
Receivables	10 246 392	1 436 901	274 999	1 212 763	-	13 171 055
Cash	950 400	183 994	48 574	38 124	5 929	1 227 021
Total financial assets	33 231 968	21 181 048	2 506 063	3 979 904	88 814	60 987 797
Technical reserves, net						
Technical reserves for unearned premiums and unexpired risks, net	25 024 032	2 696 809	307 121	3 473 249	30 989	31 532 200
Outstanding claim technical reserves, net	11 070 776	600 827	346 067	1 314 209	20 678	13 352 557
Total technical reserves, net	36 094 808	3 297 636	653 188	4 787 458	51 667	44 884 757
Creditors	2 603 392	2 179 917	-	-	-	4 783 309
Technical reserves, net and creditors	38 698 200	5 477 553	653 188	4 787 458	51 667	49 668 066
Open currency position	(5 466 232)	15 703 495	1 852 875	(807 554)	37 147	11 359 731

31 December 2007

	LVL	EUR	USD	EEK	Other	Total
Investments and cash						
Non current assets held for sale	2 000	-	-	-	-	2 000
Investments in associates	491 963	-	-	-	-	491 963
Shares and other non-fixed income securities	339	3 790 235	277 047	70 589	-	4 138 210
Debt securities and other fixed income securities	5 178 287	3 284 994	956 959	-	-	9 420 240
Available-for-sale financial assets	769 854	-	-	-	-	769 854
Deposits with banks	7 346 555	3 450 688	1 016 779	810 314	84 768	12 709 104
Mortgage loans	5 526 287	2 341 649	148 982	-	-	8 016 918
Other loans	1 251 089	1 985 854	25 105	-	-	3 262 048
Receivables	9 306 646	1 647 430	286 710	624 123	939	11 865 848
Cash	1 087 035	283 244	37 474	33 235	5 168	1 446 156
Total financial assets	30 960 055	16 784 094	2 749 056	1 538 261	90 875	52 122 341
Technical reserves, net						
Technical reserves for unearned premiums and unexpired risks, net	24 414 128	2 871 130	252 234	1 655 666	16 930	29 210 088
Outstanding claim technical reserves, net	10 458 274	684 735	445 545	172 167	22 452	11 783 173
Total technical reserves, net	34 872 402	3 555 865	697 779	1 827 833	39 382	40 993 261
Creditors	2 507 324	2 278 938	-	-	-	4 786 262
Technical reserves, net and creditors	37 379 726	5 834 803	697 779	1 827 833	39 382	45 779 523
Open currency position	(6 419 671)	10 949 291	2 051 277	(289 572)	51 493	6 342 818

The currency of other balancesheet items not disclosed in table above is LVL.

An analysis of the sensitivity of the Company's net income for the year and its equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2008 and 2007 and a

Notes to the financial statements

simplified scenario of a 5% change in EUR and USD to LVL exchange rates is as follows (in LVL thousand):

	2008		2007	
	Net income	Equity	Net income	Equity
5% appreciation of EUR against LVL	897	897	661	661
5% depreciation of EUR against LVL	(897)	(897)	(661)	(661)
5% appreciation of USD against LVL	93	93	103	103
5% depreciation of USD against LVL	(93)	(93)	(103)	(103)

ii) Price risk

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

An analysis of the sensitivity of the Company's net income for the year and equity to changes in securities prices based on positions existing as at 31 December 2008 and 2007 and a simplified scenario of a 5% change in all securities prices is as follows:

	2008		2007	
	LVL'000		LVL'000	
	Net income	Equity	Net income	Equity
5% increase in securities prices	1 010	1 010	716	716
5% decrease in securities prices	(1 010)	(1 010)	(716)	(716)

iii) Interest rate risk

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

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

31 December 2008

	Within 6 months	6-12 months	1-2 years	3-5 years	Over 5 years	Non-interest bearing	Total	Of which subject to fixed rates
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
Financial assets								
Investments at fair value through profit or loss	1 386 694	3 314 801	3 338 531	4 784 402	4 264 338	2 282 708	19 371 474	16 378 068
Available-for-sale financial assets	-	-	-	-	-	769 854	769 854	-
Deposits with banks	11 387 870	5 812 309	406 644	27 566	-	-	17 634 389	17 634 389
Loans issued	1 968 390	2 366 131	1 156 140	114 980	2 716 400	-	8 322 041	8 322 041
Receivables	-	-	-	-	-	13 171 055	13 171 055	-
Cash	1 217 144	-	-	-	-	9 877	1 227 021	1 217 144
Total financial assets	15 960 098	11 493 241	4 901 315	4 926 948	6 980 738	16 233 494	60 495 834	43 551 642

Notes to the financial statements

31 December 2007

	Within 6 months LVL	6-12 months LVL	1-2 years LVL	3-5 years LVL	Over 5 years LVL	Non- interest bearing LVL	Total LVL	Amounts subject to fixed rates LVL
Financial assets								
Investments at fair value through profit or loss	583 275	2 894 702	1 869 955	3 206 608	865 700	4 138 210	13 558 450	10 459 810
Available-for-sale financial assets	-	-	-	-	-	769 854	769 854	-
Deposits with banks	10 086 753	2 091 421	400 447	130 483	-	-	12 709 104	12 709 104
Loans issued	228 747	3 260 252	3 417 648	3 360 010	1 012 309	-	11 278 966	11 278 966
Receivables	-	-	-	-	-	11 865 848	11 865 848	-
Cash	1 414 258	-	-	-	-	31 898	1 446 156	1 414 258
Total financial assets	12 313 033	8 246 375	5 688 050	6 697 101	1 878 009	16 805 810	51 628 378	35 862 138

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

	2008	2007
Bonds	4.88%	5.37%
Deposits	6.87%	5.91%
Loans	2.97%	4.27%

Interest rate sensitivity analysis

An analysis of the sensitivity of the net income for the year and equity as a result of changes in fair value of financial assets available for sale and fair value through profit or loss due to changes in the interest rates based on positions existing as at 31 December 2008 and 2007 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves is as follows (in LVL thousand):

	2008		2007	
	Net income	Equity	Net income	Equity
100 bp parallel increase	(329)	(329)	(189)	(189)
100 bp parallel decrease	329	329	189	189

The above analysis assumes all financial assets available for sale are held one year from the balance sheet date.

(b) Liquidity risks

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

High liquidity investments are deemed to be the following assets:

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

Notes to the financial statements

The table below shows the allocation of the Company's assets and liabilities to maturity groups based on the time remaining from the balance sheet date to the contractual maturity dates as at 31 December 2008:

31 December 2008

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

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

Notes to the financial statements

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

31 December 2007

	Up to 12 months LVL	From 1 to 5 years LVL	Over 5 years LVL	No contractual maturity LVL	Total LVL
Assets					
Land and buildings	-	-	-	3 516 244	3 516 244
Property and equipment	-	-	-	470 266	470 266
Intangible assets	-	-	-	9 800	9 800
Investment property	-	-	-	3 821 837	3 821 837
Non current assets held for sale	-	-	-	2 000	2 000
Investments in associates	-	-	-	491 963	491 963
Investments at fair value through profit or loss	3 477 977	6 116 133*)	865 700*)	3 098 640*)	13 558 450
Available-for-sale financial assets	-	-	-	769 854	769 854
Deposits with banks	12 178 174	530 930	-	-	12 709 104
Loans issued	3 488 999	6 777 658	1 012 309	-	11 278 966
Receivables from direct insurance activities	10 761 863	-	-	-	10 761 863
Receivables from reinsurance activities	135 271	-	-	-	135 271
Deferred client acquisition costs	494 548	474 166	-	-	968 714
Other accrued income and deferred expenses	2 807 850	-	-	-	2 807 850
Reinsurance contract assets	6 752 757	-	-	-	6 752 757
Cash	1 446 156	-	-	-	1 446 156
Total assets based on the contractual date	41 543 595	13 898 887	1 878 009	12 180 604	69 501 095
Total assets taking into account liquidity	51 624 068	7 782 754	1 012 309	9 081 964	69 501 095
Equity and liabilities					
Equity	-	-	-	14 582 874	14 582 874
Technical reserves	47 441 245	304 773	-	-	47 746 018
Subordinated liabilities	-	-	1 053 152	-	1 053 152
Creditors	4 786 262	-	-	-	4 786 262
Deferred tax liabilities	-	-	-	703 773	703 773
Provisions	-	-	-	365 412	365 412
Unearned reinsurance commission income	263 604	-	-	-	263 604
Total equity and liabilities	52 491 111	304 773	1 053 152	15 652 059	69 501 095
Maturity gap on assets and liabilities	(10 947 516)	13 594 114	824 857	(3 471 455)	-
Maturity gap on assets and liabilities taking into account liquidity*)	(867 043)	7 477 981	(40 843)	(6 570 095)	-

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

Notes to the financial statements

(c) Credit risk

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

Impact from credit crisis, inactive real estate market

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

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

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

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

Maximum credit risk	2008		2007	
	Gross	Net	Gross	Net
Non-fixed income securities	2 993 405	2 993 405	4 138 210	4 138 210
Government bonds	11 564 081	11 564 081	5 820 533	5 820 533
Corporate bonds	3 183 523	3 183 523	1 144 941	1 144 941
Mortgage bonds	1 630 465	1 630 465	2 312 974	2 312 974
Other fixed income securities	-	-	141 792	141 792
Available for sale financial assets	769 854	769 854	769 854	769 854
Deposits with banks	17 634 389	17 634 389	12 709 104	12 709 104
Loans	8 322 041	2 558 589	11 278 966	3 262 048
Due from policy holders	10 014 437	10 014 437	8 901 484	8 953 484
Due from intermediaries	1 707 335	1 707 335	1 860 379	1 860 379
Receivables from reinsurance activities	510 564	510 564	135 271	135 271
Other debtors	938 719	938 719	968 714	968 714
Reinsurers' share in unearned premiums technical reserve	1 599 357	1 599 357	1 082 712	1 082 712
Reinsurers' share in outstanding claim technical reserve	3 175 112	3 175 112	5 670 045	5 670 045
Total	64 043 281	58 279 829	56 934 979	48 970 061

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

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

Insurance receivables

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

Notes to the financial statements

Carrying amounts versus estimated fair values

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

<i>LVL</i>	31 December 2008		31 December 2007	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial Assets				
Investments at fair value through profit and loss	19 371 474	19 371 474	13 558 450	13 558 450
Deposits with banks	17 634 389	17 598 018	12 709 104	12 682 891
Loans issued	8 322 041	7 912 731	11 278 966	11 237 001
Receivables from direct insurance activities	11 721 772	11 721 772	10 761 863	10 761 863
Receivables form reinsurance operations	510 564	510 564	135 271	135 271
Other receivables	938 719	860 271	968 714	968 714
Cash	1 227 021	1 227 021	1 446 156	1 446 156
Financial liabilities				
Technical reserves	49 659 226	49 659 226	47 746 018	47 746 018
Subordinated liabilities	1 053 152	1 003 233	1 052 153	945 306
Creditors	4 783 309	4 783 309	4 786 262	4 786 262

Reinsurance

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

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

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

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

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

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

Notes to the financial statements

During 2008 and 2007, there have been no cases where a reinsurance company has not met its liabilities to the Company.

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

Rating	2007		
	Reinsurance debtors	Reinsurer's share in written premiums	Reinsurer's share in claims paid
AAA	-	153 294	210 467
AA	52 807	2 062 682	328 010
A	47 694	807 490	102 886
BBB	3 667	4 417 604	3 632 377
No rating	31 103	21 138	981
TOTAL	135 271	7 462 208	4 274 721

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

	Maximum own retention by event
Cargo	300 000 LVL
Property	300 000 LVL
General TPL	100 000 LVL
Compulsory motor TPL	281 120 LVL (400 000 EUR)

4.4 Operating risks and risk management

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

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

Notes to the financial statements

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

4.5 Capital adequacy requirements and Capital management

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

	31.12.2008	31.12.2007
	LVL	LVL
Solvency margin based on premiums written	11 372 455	9 134 796
Solvency margin based on claims	4 664 267	3 241 894
Solvency margin at the end of the previous reporting period	9 134 796	6 342 644
Adjusted solvency margin at the end of the previous reporting period	9 134 796	6 342 644
Minimum guarantee fund (EUR)	3 200 000	3 200 000
EUR exchange rate set by the Bank of Latvia at the end of the reporting period	0.7028	0.7028
Minimum guarantee fund (LVL)	<u>2 248 973</u>	<u>2 248 973</u>
Solvency margin (The largest amount)	<u>11 372 455</u>	<u>9 134 796</u>
Equity and solvency compliance	31.12.2008	31.12.2007
	LVL	LVL
Share capital	6 000 000	6 000 000
Share premium	1 219 103	1 219 103
Reserve capital and other reserves, except revaluation and equalisation reserves	698 895	698 895
Audited retained earnings/accumulated loss (+/-) from prior year	4 182 733	179 454
Intangible assets	(98 046)	(9 800)
Subordinated liabilities	947 837	1 053 152
Total capital for capital adequacy (own funds)	<u>12 950 522</u>	<u>9 140 804</u>
Solvency margin	<u>11 372 455</u>	<u>9 134 796</u>
Capital adequacy surplus	<u>1 578 067</u>	<u>6 008</u>

Own funds for solvency margin purposes are set without reference to audited net profit of the reporting year which amounts to LVL 5 421 193 (2007: LVL 4 003 279). The effect of including net profit:

	<u>31.12.2008</u>	<u>31.12.2007</u>
Total own funds	18 367 509	13 144 083
Solvency margin	11 372 455	9 134 796
Excess of capital adequacy	<u>6 995 054</u>	<u>4 009 287</u>

Notes to the financial statements

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

	2008 LVL	%	2007 LVL	%
Own funds, including current year audited profit	18 367 509	-	13 144 083	-
Incurred claims, net	38 773 352	47%	28 397 332	46%
Earned premiums, net	66 653 104	28%	45 255 970	29%
Technical reserves total, net	44 884 757	41%	40 993 261	32%
Investments	38 267 680	48%	27 531 371	48%

(5) Net written premiums

	2008 LVL			2007 LVL		
	Gross written premiums	Reinsurer's share in premiums	Net written premiums	Gross written premiums	Reinsurer's share in premiums	Net written premiums
CASCO	25 946 886	(109 463)	25 837 423	25 657 123	(4 199 165)	21 457 958
CMTPL *	17 405 053	(408 301)	16 996 752	15 931 296	(585 130)	15 346 166
Health insurance	14 362 016	-	14 362 016	11 329 597	-	11 329 597
Property insurance	7 639 912	(889 780)	6 750 132	5 484 154	(714 830)	4 769 324
General third party liability	1 589 803	(475 115)	1 114 688	1 166 110	(279 005)	887 105
Travel accident insurance	2 168 360	(52 138)	2 116 222	1 928 430	(53 321)	1 875 109
Various financial risks	1 327 333	(828 262)	499 071	981 335	(528 993)	452 342
Cargo insurance	542 849	(50 554)	492 295	545 408	(369 822)	175 586
Personal accident insurance	391 354	(4 596)	386 758	339 317	(4 727)	334 590
Marine insurance	202 127	(181 109)	21 018	187 392	(165 384)	22 008
Marine third party liability insurance	3 307	(2 976)	331	3 061	(2 755)	306
Railway insurance	124 552	(7 704)	116 848	71 202	(49 477)	21 725
Voluntary motor third party liability	(538)	-	(538)	3 013	-	3 013
Aircraft third party liability insurance	109 251	(92 646)	16 605	199 329	(198 729)	600
Aircraft insurance	282 503	(237 273)	45 230	114 897	(117 681)	(2 784)
Credit insurance	95 361	(60 304)	35 057	110 727	(63 677)	47 050
Guarantee insurance	347 176	(161 868)	185 308	286 205	(129 512)	156 693
	<u>72 537 305</u>	<u>(3 562 089)</u>	<u>68 975 216</u>	<u>64 338 596</u>	<u>(7 462 208)</u>	<u>56 876 388</u>

* The Company makes obligatory deductions in accordance with the law "On compulsory motor third party liability" and the related Cabinet of Ministers regulations. Gross written premiums on motor third party liabilities insurance are shown net of the obligatory deductions LVL 552,658 (2007: LVL663,154).

Gross written premiums include 301 T LVL (2007: 191 TLVL) assumed reinsurance.

Notes to the financial statements

Gross premiums from direct insurance business and reinsurance assumed are set out below by country:

Country	2008	2007
	LVL	LVL
Latvia	64 637 685	60 418 016
Estonia	7 899 620	3 920 580
Total	72 537 305	64 338 596

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

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

(6) Net earned premiums

	2008			2007		
	Gross earned premiums	Reinsurer's share in premiums	Net earned premiums	Gross earned premiums	Reinsurer's share in premiums	Net earned premiums
CASCO	25 908 169	(109 463)	25 798 706	20 476 231	(4 199 925)	16 276 306
CMTPL	17 521 146	(408 301)	17 112 845	13 250 258	(585 130)	12 665 128
Health insurance	13 465 029	-	13 465 029	8 912 650	-	8 912 650
Property insurance	6 572 167	(847 660)	5 724 507	4 512 013	(775 394)	3 736 619
General third party liability	1 284 019	(320 808)	963 211	1 003 427	(277 530)	725 897
Travel accident insurance	2 082 979	(52 138)	2 030 841	1 919 237	(53 321)	1 865 916
Various financial risks	918 627	(519 399)	399 228	713 729	(384 504)	329 225
Cargo insurance	549 475	(126 039)	423 436	518 121	(347 960)	170 161
Personal accident insurance	368 794	(4 085)	364 709	299 094	(4 867)	294 227
Marine insurance	200 081	(173 340)	26 741	181 070	(160 800)	20 270
Marine third party liability insurance	3 183	(2 809)	374	2 984	(2 686)	298
Railway insurance	79 746	(27 802)	51 944	79 374	(55 571)	23 803
Voluntary motor third party liability	(577)	-	(577)	3 296	-	3 296
Aircraft third party liability insurance	235 268	(171 909)	63 359	278 581	(256 146)	22 435
Aircraft insurance	126 004	(97 914)	28 090	158 583	(138 347)	20 236
Credit insurance	98 380	(59 871)	38 509	122 820	(76 756)	46 064
Guarantee insurance	286 058	(123 906)	162 152	263 709	(120 270)	143 439
	69 698 548	(3 045 444)	66 653 104	52 695 177	(7 439 207)	45 255 970

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

	Gross LVL	Reinsurer share LVL	Net LVL
Balance at 31 December 2006	18 649 381	(1 059 711)	17 589 670
<i>Written premiums</i>	64 338 596	(7 462 208)	56 876 388
<i>Premiums earned</i>	(52 695 177)	7 439 207	(45 255 970)
Changes during year	11 643 419	(23 001)	11 620 418
Balance at 31 December 2007	30 292 800	(1 082 712)	29 210 088
<i>Written premiums</i>	72 537 305	(3 562 089)	68 975 216
<i>Premiums earned</i>	(69 698 548)	3 045 444	(66 653 104)
Changes during year	2 838 757	(516 645)	2 322 112
Balance at 31 December 2008	33 131 557	(1 599 357)	31 532 200

	2008 LVL		2007 LVL	
	Gross	Net	Gross	Net
Unearned premium reserve	33 054 221	31 454 864	30 000 387	28 917 675
Unexpired risk reserve	77 336	77 336	292 413	292 413
	33 131 557	31 532 200	30 292 800	29 210 088

(8) Other technical income

	2008 LVL	2007 LVL
Commission from policy cancellation	50 107	100 685
Profit share on reinsurance agreements	30 596	29 465
Agent fee from other insurance companies	217 347	255 587
Other technical income/ expenses	(52 965)	53 137
	245 085	438 874

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

Notes to the financial statements

(9) Net paid claims

	2008 LVL			2007 LVL		
	Gross claims paid	Reinsurer's share in claim	Net claims paid	Gross claims paid	Reinsurer's share in claim	Net claims paid
CASCO	(14 189 200)	315 028	(13 874 172)	(12 054 840)	3 758 262	(8 296 578)
CMTPL	(10 294 604)	6	(10 294 598)	(8 978 928)	35 624	(8 943 304)
Health insurance	(10 501 186)	-	(10 501 186)	(5 257 971)	-	(5 257 971)
Property insurance	(1 812 949)	189 309	(1 623 640)	(1 109 919)	33 395	(1 076 524)
General third party liability	(151 829)	23 513	(128 316)	(233 427)	161 035	(72 392)
Travel accident insurance	(268 026)	-	(268 026)	(266 656)	26 401	(240 255)
Various financial risks	(59 543)	-	(59 543)	(65 679)	30	(65 649)
Cargo insurance	(293 853)	197 998	(95 855)	(59 167)	49 066	(10 101)
Personal accident insurance	(160 600)	-	(160 600)	(72 505)	18	(72 487)
Marine insurance	(99 038)	39 238	(59 800)	(92 789)	71 593	(21 196)
Railway insurance	1 391	773	2 164	(13 407)	9 385	(4 022)
Voluntary motor third party liability	-	-	-	-	-	-
Aircraft insurance	(238 619)	202 112	(36 507)	(70 431)	40 613	(29 818)
Credit insurance	(7 117)	4 181	(2 936)	(18 527)	13 044	(5 483)
Aircraft third party liability insurance	(43 818)	8 700	(35 118)	(8 141)	-	(8 141)
Guarantee insurance	(86 748)	20 913	(65 835)			
Marine third party liability insurance	-	-	-	(119 146)	76 255	(42 891)
	(38 205 739)	1 001 771	(37 203 968)	(28 421 533)	4 274 721	(24 146 812)

Gross claims paid include:

	2008 LVL	2007 LVL
Paid claims	(39 321 286)	(28 786 817)
Loss adjustment expenses	(2 056 244)	(1 268 442)
<i>Allocated from Administrative expenses*</i>	(1 295 693)	-
Recovered losses	3 171 791	1 633 726
	(38 205 739)	(28 421 533)

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

Notes to the financial statements

(10) Outstanding claim technical reserve

	Gross LVL	Reinsurer share LVL	Net LVL
Balance at 31 December 2006	8 356 831	(824 178)	7 532 653
*Claims incurred during the period	37 517 920	(9 120 588)	28 397 332
*Claims paid	(28 421 533)	4 274 721	(24 146 812)
Changes during year	9 096 387	(4 845 867)	4 250 520
Balance at 31 December 2007	17 453 218	(5 670 045)	11 783 173
*Claims incurred during the period	37 280 190	1 493 162	38 773 352
*Claims paid	(38 205 739)	1 001 771	(37 203 968)
Changes during year	(925 549)	2 494 933	1 569 384
Balance at 31 December 2008	16 527 669	(3 175 112)	13 352 557
	2008		2007
	LVL		LVL
	Gross	Net	Gross
	Net		Net
RBNS	10 040 632	6 865 520	13 667 595
IBNR	6 487 037	6 487 037	3 785 623
	16 527 669	13 352 557	17 453 218
			11 783 173

(11) Claims incurred

	2008 LVL			2007 LVL		
	Gross claims incurred	Reinsurer's share in claim	Net claims incurred	Gross claims incurred	Reinsurer's share in claim	Net claims incurred
CASCO	(14 108 025)	668 321	(13 439 704)	(13 497 175)	3 758 259	(9 738 916)
CMTPL	(11 543 159)	(351)	(11 543 510)	(10 931 206)	35 146	(10 896 060)
Health insurance	(11 605 147)	0	(11 605 147)	(5 488 219)	-	(5 488 219)
Property insurance	(1 437 450)	289 631	(1 147 819)	(1 626 982)	147 852	(1 479 130)
General third party liability	(397 006)	68 715	(328 291)	(418 742)	199 664	(219 078)
Travel insurance	(411 198)	23 562	(387 636)	(267 572)	23 199	(244 373)
Financial risks	(50 942)	9 873	(41 069)	(2 063 384)	1 981 305	(82 079)
Cargo insurance	440 313	(524 610)	(84 297)	(856 144)	830 643	(25 501)
Personal accident	(226 411)	11 757	(214 654)	(65 920)	18	(65 902)
Marine insurance	2 078 797	(2 007 432)	71 365	(2 243 560)	2 115 095	(128 465)
Railway insurance	53 358	(38 334)	15 024	(69 368)	50 404	(18 964)
Voluntary motor third party liability	(779)	-	(779)	(3)	-	(3)
Aircraft insurance	(60 841)	35 610	(25 231)	51 477	(21 883)	29 594
Credit insurance	40 003	(30 466)	9 537	(69 378)	47 690	(21 688)
Aircraft third party liability insurance	44 213	(20 351)	23 862	150 179	(114 308)	35 871
Guarantee insurance	(95 070)	20 913	(74 157)	(121 936)	67 504	(54 432)
Marine third party liability insurance	(846)	-	(846)	13	-	13
	(37 280 190)	(1 493 162)	(38 773 352)	(37 517 920)	9 120 588	(28 397 332)

Notes to the financial statements

(12) Client acquisition costs

	2008	2007
	LVL	LVL
Commission paid to intermediaries	7 299 131	6 132 934
Commission paid for reinsurance	276	4 852
Salaries to agents	165 502	122 676
	7 464 909	6 260 462

(13) Change in deferred client acquisition costs

	<u><u>LVL</u></u>
Balance at 31 December 2006	1 494 979
<i>Written commissions</i>	6 260 462
<i>Deferred commissions allocated to income statement</i>	(5 203 259)
Changes during year	<u>1 057 203</u>
Balance at 31 December 2007	2 552 182
<i>Written commissions</i>	7 464 909
<i>Deferred commissions allocated to income statement</i>	(6 911 900)
Changes during year	<u>553 009</u>
Balance at 31 December 2008	3 105 191

(14) Administrative expenses

	2008	2007
	LVL	LVL
Salaries and social contribution expenses	8 263 517	6 388 667
Allocated to loss adjustment expenses	(1 295 693)	-
Changes in provisions for unused vacations	126 231	163 051
Office expenses and rent	869 310	858 617
Post and communication expenses	414 960	351 523
Transportation	627 607	533 520
Advertisement and public relations	549 901	244 666
FCCM/Interests Protection Fund	319 450	348 250
Representation	195 944	148 774
Business trips	128 214	85 656
Staff training	24 414	23 542
Other expenses	1 407 697	1 002 164
	11 631 552	10 148 430

According to the Latvian legislation 0.118% (2007: 0.140%) of gross premiums in the MTLTP line and 0.306% (2007: 0.486%) of gross premiums in other lines of insurance should be transferred to the FCCM. Payments to the Interests Protection Fund should be made amounting to 1% of premiums paid by private person policyholders for certain lines of insurance.

According to the Latvian legislation, the Company should transfer to the Financial and Capital Market Commission 0.14% of gross premium income from the obligatory motor TPL and 0.486% of other gross premium income. Transfers to the Interests Protection Fund should amount to 1% of insurance premiums paid by individuals on the voluntary lines of insurance.

The allocation of administrative expenses to claims handling costs is based on personell expenses incurred in claims handling department. In 2007 loss adjuster's services were outsourced.

Notes to the financial statements

Administrative expenses allocated by insurance types:

	2008	2007
	LVL	LVL
CASCO	4 715 722	4 145 048
CMTPL	3 208 311	2 472 550
Health insurance	1 732 496	1 758 358
Property insurance	1 078 244	851 143
General third party liability	202 840	180 981
Travel accident insurance	375 510	299 293
Various financial risks	64 451	152 304
Cargo insurance	59 097	84 648
Personal accident insurance	92 874	52 656
Marine insurance	5 123	29 083
Marine third party liability insurance	69	475
Railway insurance	8 608	11 051
Voluntary motor third party liability	82	468
Aircraft insurance	11 029	17 832
Credit insurance	5 987	17 185
Aircraft third party liability insurance	9 436	30 936
Guarantee insurance	61 673	44 419
	<u>11 631 552</u>	<u>10 148 430</u>

(15) Reinsurers' commission income

	2008	2007
	LVL	LVL
Reinsurers' commission	432 239	1 027 024
Retrocession commission	11 983	8 890
	<u>444 222</u>	<u>1 035 914</u>

(16) Change in unearned reinsurance commission

Balance at 31 December 2006	<u>LVL</u>	<u>198 533</u>
<i>Written commissions</i>		(1 035 914)
<i>Deferred commissions allocated to profit or loss</i>		1 100 985
Changes during year	<u>65 071</u>	
Balance at 31 December 2007		<u>263 604</u>
<i>Written commissions</i>		(444 222)
<i>Deferred commissions allocated to profit or loss</i>		499 532
Changes during year	<u>55 310</u>	
Balance at 31 December 2008		<u>318 914</u>

(17) Other technical expenses

	2008	2007
	LVL	LVL
Impairment allowance for receivables from direct insurance and reinsurance operations	387 899	69 769
Expenses related to distribution of policies of other insurers	4 530	5 656
Other	105 579	327 588
	<u>498 008</u>	<u>403 013</u>

Notes to the financial statements

(18) Investment management charges

	2008	2007
	LVL	LVL
Transaction commissions	(60 810)	(21 212)
Management charges	(128 928)	(4 274)
	<u>(189 738)</u>	<u>(25 486)</u>

(19) Interest income and dividend income, net

	2008	2007
	LVL	LVL
Interest income from financial assets at fair value through profit or loss	606 530	650 218
Rental income from investment property	70 380	70 380
Interest income from deposits with credit institutions	1 047 746	496 232
Dividends from investments held as available for sale	18 974	270
Interest on loans	321 173	402 977
	<u>2 064 803</u>	<u>1 620 077</u>

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

	2008	2007
	LVL	LVL
Change in the value securities other than derivatives	(1 605 071)	(53 670)
Net realised and unrealised profit/(loss) on derivatives	55 663	(39 424)
Impact of exchange rate fluctuations on the value of stocks and other securities	(26 231)	(135 282)
	<u>(1 575 639)</u>	<u>(228 376)</u>

(21) Impairment loss

	2008	2007
	LVL	LVL
(Increase)/decrease in allowances for bad debts, other than insurance debts	6 421	(48 663)
Increase in allowances for loans	(2 185 100)	(253 488)
Adjustment in amortised cost of the loans using effective interest rate method	-	(293 957)
	<u>(2 178 679)</u>	<u>(596 108)</u>

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

(22) Other income/ expenses, net

	2008	2007
	LVL	LVL
Gifts to staff	(14 160)	(12 714)
Donations	(176 838)	(41 013)
Membership fees	(3 902)	(3 150)
Real estate tax	(34 662)	(32 144)
Other expenses	(31 954)	(18 713)
Income from fines	5 736	60
Other income	87 380	7 761
	<u>(168 400)</u>	<u>(99 913)</u>

Notes to the financial statements**(23) Income tax expense**

	2008	2007
	LVL	LVL
Current tax	1 588 300	507 094
Deferred tax	(248 302)	216 894
	1 339 998	723 988
	2008	2007
	LVL	LVL
Profit before tax	6 761 191	4 727 267
Theoretical tax using the 15% rate	1 014 179	709 090
Expenses not deductible for tax purposes	472 395	48 170
Donations	(146 576)	(33 272)
Tax expenses	1 339 998	723 988

A deferred tax expense of LVL3,834 has been included directly in equity in respect of the revaluation of land and buildings for own use (2007: LVL308,395).

Income declared in Estonian branch is taxable in Latvia.

(24) Reinsurance cession result

	2008	2007
	LVL	LVL
Reinsurance premiums	(3 562 089)	(7 462 208)
Changes in reinsurers' share in unearned premiums reserve	516 645	23 001
Reinsurers' share in claims paid	1 001 771	4 274 721
Changes in reinsurers' share in reserve for outstanding claims	(2 494 933)	4 845 867
Reinsurance commissions and profit participation	444 222	1 035 914
Change in unearned reinsurance commissions	(55 310)	(65 071)
Total reinsurance cession result	(4 149 694)	2 652 224

(25) Property and equipment

	Vehicles	Other fixed assets	Total
	LVL	LVL	LVL
Cost			
31.12.2006	135 725	1 560 483	1 696 208
Purchased	-	209 487	209 487
Disposed	(123 221)	(527 346)	(650 567)
31.12.2007	12 504	1 242 624	1 255 128
Purchased	-	293 039	293 039
Disposed	(12 504)	(267 878)	(280 382)
31.12.2008	-	1 267 785	1 267 785
Accumulated depreciation			
31.12.2006	(135 145)	(1 083 690)	(1 218 835)
Depreciation for the year	(580)	(216 017)	(216 597)
Depreciation on disposed assets	123 221	527 349	650 570
31.12.2007	(12 504)	(772 358)	(784 862)
Depreciation for the year	-	(232 186)	(232 186)
Depreciation on disposed assets	12 504	267 724	280 228
31.12.2008	-	(736 820)	(736 820)
Balance at 31.12.2007	-	470 266	470 266
Balance at 31.12.2008	-	530 965	530 965

Notes to the financial statements

(26) Land and buildings and Investment property

	Land and Building LVL	Investments Property LVL
Cost 31.12.2006	1 625 918	1 688 015
<i>of which revaluation prior to 01.01.2007</i>	<i>724 464</i>	<i>949 750</i>
Revaluation	2 059 767	2 133 822
Adjustment for depreciation on revalued buildings	(81 521)	-
Cost 31.12.2007	3 604 164	3 821 837
<i>of which revaluation prior to 01.01.2008</i>	<i>2 784 231</i>	<i>3 083 571</i>
Revaluation	25 559	(154 359)
Adjustment for depreciation on revalued buildings	(219 800)	-
Transfer from investment property	595 200	(595 200)
31.12.2008	4 005 123	3 072 278
<i>of which revaluation prior to 01.01.2009</i>	<i>3 383 090</i>	<i>2 355 912</i>
Accumulated amortisation		
31.12.2006	(43 056)	-
Depreciation	(126 385)	-
Adjustment for depreciation on revalued buildings	81 521	-
31.12.2007	(87 920)	-
Depreciation	(180 579)	-
Adjustment for depreciation on revalued buildings	219 800	-
31.12.2008	(48 699)	-
Balance 31.12.2007	3 516 244	3 821 837
Balance 31.12.2008	3 956 424	3 072 278

The last revaluation was performed by independent certified valuer in July 2008 and was based on comparative market prices. Management have assessed updated information about changes in market prices and concluded that the fair value of property as at balance sheet date is not materially different from the value as at date of valuations which agrees to its carrying amount as at balance sheet date.

(27) Intangible assets

	Computer programs and licences LVL	Total
Cost		
31.12.2007	56 903	56 903
Purchased	98 269	98 269
31.12.2008	155 172	155 172
Accumulated amortisation		
31.12.2007	(47 103)	(47 103)
Amortisation for the year	(10 023)	(10 023)
31.12.2008	(57 126)	(57 126)
Balance at 31.12.2007	9 800	9 800
Balance at 31.12.2008	98 046	98 046

Notes to the financial statements

(28) Investments in associates

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

The carrying amount of an investment includes goodwill arising from intangible assets of associated company not recognised in associates individual financial statements. The entire carrying amount of the investment has been tested for impairment estimating current value of future cashflows resulting into no impairment as at 31 December 2008.

The Company's share of the total recognised gains of the associated company in the financial year on an equity accounted basis, is considered to be close to nil and the value of investment therefore has not been adjusted.

Summary financial information for associated company from individual unaudited financial statements of the associated company (carrying amounts do not represent fair value):

	2008 LVL	2007 LVL
Ownership	49%	49%
Current assets	367 067	221 914
Non-current assets	308 860	288 087
Total assets	675 927	508 201
Liabilities	420 812	534 520
Net assets	255 115	(26 319)
Revenues	84 696	24 861
Expenses	(83 807)	(27 186)
Profit/ (loss)	889	(2 325)
The Company's share	436	-

(29) Investments at fair value through profit or loss

Non-fixed income securities	2008 LVL		2007 LVL	
	Purchase value	Fair value	Purchase value	Fair value
Shares and other equity securities	1 057 380	936 529	1 478 197	1 522 179
Investments in investment funds	2 381 788	1 988 093	2 390 744	2 547 563
Other non-fixed income securities	63 112	68 783	63 451	68 468
	<u>3 502 280</u>	<u>2 993 405</u>	<u>3 932 392</u>	<u>4 138 210</u>
Fixed income securities	2008 LVL		2007 LVL	
	Purchase value	Fair value	Purchase value	Fair value
Debt securities issued or guaranteed by central governments or municipalities	12 064 617	11 564 080	6 015 470	5 820 533
Mortgage bonds	1 821 084	1 630 465	2 357 597	2 312 974
Debt securities and other securities with fixed income, which are included in a regulated market	3 506 708	3 183 524	1 176 629	1 144 941
Other fixed income securities	-	-	130 095	141 792
	<u>17 392 409</u>	<u>16 378 069</u>	<u>9 679 791</u>	<u>9 420 240</u>

Notes to the financial statements

Investment portfolio of fixed income securities by geography:	2008 LVL	2007 LVL
Latvia	7 444 276	5 823 008
Other European Union countries	8 243 438	2 988 033
USA	591 300	609 199
CIS	99 055	-
	16 378 069	9 420 240

(30) Available-for-sale financial assets

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

- (a) As at 31 December 2008 the Company owns 19.99% interest in Lithuanian insurance company BTA Draudimas UAB (31 December 2007 is 19.99%), which is presented at cost of LVL 744,114 (in 2007: LVL 744,114).
- (b) As at December 31, 2008 the Company owns 19.50% interest in BTA Īpašumi SIA (2007: 19.50%), which is presented at cost of LVL19,490 (2007: LVL19,490).

	2008 LVL		2007 LVL	
	Gross	Net	Gross	Net
BTA Draudimas UAB	744 114	744 114	744 114	744 114
BTA Īpašumi	19 490	19 490	19 490	19 490
Other	13 000	6 250	18 000	6 250
	776 604	769 854	781 604	769 854

	Gross LVL
Allowance as at 31 December 2007	(11 750)
Charge for the year	-
Written off	5 000
Allowance as at 31 December 2008	(6 750)

(31) Deposits with credit institutions

Investment maturity structure:	2008 LVL	2007 LVL
With maturity not longer than 3 months	7 186 033	6 930 765
With maturity from 3 to 6 months	5 066 125	3 155 988
With maturity from 6 to 12 months	4 948 022	2 091 421
With maturity from 1 to 5 years	434 209	530 930
	17 634 389	12 709 104

Notes to the financial statements

(32) Loans

Structure of loan portfolio	2008	2007
	LVL	LVL
Amount of loan, gross	11 143 210	11 916 413
Adjustment in amortised cost of the loans using effective interest rate method	(293 957)	(293 957)
Impairment allowance	(2 527 212)	(343 490)
	8 322 041	11 278 966

	Gross
	LVL
Allowance as at 31 December 2006	(136 513)
Charge for the year	(253 488)
Written off	46 511
Allowance as at 31 December 2007	(343 490)
Charge for the year	(2 199 667)
Recoveries	14 567
Written off	1 378
Allowance as at 31 December 2008	(2 527 212)

The following table provides the analysis of the loan portfolio, net of impairment, by types of collateral as at 31 December 2008:

	2008		2007	
	Amortised cost	Fair Value	Amortised cost	Fair Value
Mortgage loans	5 763 452	5 533 048	8 016 918	8 067 578
Other loans	2 558 589	2 379 683	3 262 048	3 169 423
Total loans	8 322 041	7 912 731	11 278 966	11 237 001

During the year ended 31 December 2008 the Company did not obtain any assets by assuming of collateral accepted as security for loans (31 December 2007: nil).

Fair value of the collateral for mortgage loans exceeds the book value of the loan as at 31 December 2008, LVL 5 763 452 (31 December 2007: LVL 8 016 918).

No collateral is provided for other loans which at 31 December 2008 amount to LVL 2 558 589 (31 December 2007: LVL 3 262 048).

Notes to the financial statements

Mortgage loans

	2008	2007
	LVL	LVL
Mortgage loans:		
Loans to individuals	542 393	961 582
Loans to non-financial institutions	7 192 566	7 349 232
Adjustment in amortised cost of the loans using effective interest rate method	(208 266)	(215 372)
Impairment allowance	(1 989 635)	(249 560)
Accrued interest	226 394	171 036
	5 763 452	8 016 918

	2008	2007
	LVL	LVL
Mortgage loans currency structure:		
EUR	2 317 960	2 341 649
LVL	3 313 329	5 526 287
USD	132 163	148 982
	5 763 452	8 016 918

Other loans

	2008	2007
	LVL	LVL
Other loans:		
Loans to individuals	524 072	95 653
Loans to non-financial institutions	2 629 761	3 294 635
Adjustment in amortised cost of the loans using effective interest rate method	(85 691)	(78 585)
Impairment allowance	(537 577)	(93 930)
Accrued interest	28 024	44 275
	2 558 589	3 262 048

	2008	2007
	LVL	LVL
Other loans currency structure:		
EUR	1 499 797	1 985 854
LVL	1 024 735	1 251 089
USD	34 057	25 105
	2 558 589	3 262 048

Loans with maturity more than 5 years as at 31 December 2007 were in amount of LVL1,012,309 (2006: LVL2,006,073).

(33) Receivables from direct insurance activities

	2008	2007
	LVL	LVL
Due from policy holders	10 529 528	9 053 804
Due from intermediaries	1 732 463	1 860 379
Impairment allowance for bad debtors	(540 219)	(152 320)
	11 721 772	10 761 863

Notes to the financial statements

	Allowance for policy holders, Gross LVL	Allowance for intermediaries, Gross LVL	Total allowance for insurance debtors, Gross LVL
Allowance as at 31 December 2006	(82 551)	-	(82 551)
Impairment loss charge	(52 000)	(17 769)	(69 769)
Allowance as at 31 December 2007	(134 551)	(17 769)	(152 320)
Impairment loss charge	(380 540)	(7 359)	(387 899)
Allowance as at 31 December 2008	(515 091)	(25 128)	(540 219)

(34) Receivables from reinsurance activities

	2008 LVL	2007 LVL
Reinsurer's	501 293	113 543
Assumed reinsurance	9 271	21 728
	510 564	135 271

(35) Other receivables

	2008 LVL	2007 LVL
Employees	20 385	10 531
Advanced payments	19 370	146 941
Other debtors	972 198	903 428
Impairment allowance	(73 234)	(92 186)
	938 719	968 714

Other debtors include an amount due from the sale of shares in BTA Draudimas of LVL386 639 (2007: LVL 474,165).

	Gross LVL
Allowance as at 31 December 2006	(43 523)
Decrease of allowance	(48 663)
Written off	-
Allowance as at 31 December 2007	(92 186)
Decrease of allowance	6 421
Written off	12 531
Allowance as at 31 December 2008	(73 234)

(36) Cash and cash equivalents

	2008 LVL	2007 LVL
Cash on hand	9 877	31 898
Current accounts with credit institutions	1 217 144	1 414 258
Cash on hand	1 227 021	1 446 156
Deposits with original maturity less than 3 months	6 105 828	6 930 765
Cash and cash equivalents	7 332 849	8 376 921

Notes to the financial statements

(37) Obligatory payments disclosed in cash flow statement

	2008	2007
	LVL	LVL
Transport Insurance Bureau	(505 968)	(594 188)
FCCM (Financial and Capital Market Commission)	(148 167)	(202 002)
Protection Fund	(182 610)	(151 206)
	(836 745)	(947 396)

(38) Capital and reserves

Share capital

The share capital of the Company at 31 December 2008 was LVL6,000,000 and comprised of 60,000 shares and it is fully paid (2007: LVL6,000,000). Nominal value of one share was LVL100.

	2008		2007	
	Number of shares	LVL	Number of shares	LVL
Ordinary shares with voting rights	56 000	5 600 000	56 000	5 600 000
Preference shares without voting rights	4 000	400 000	4 000	400 000
	60 000	6 000 000	60 000	6 000 000

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

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

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

	2008		2007	
Company's shareholders:	Number of shares	Shareholding	Number of shares	Shareholding
Transport Information Agency AS	5 599	9.33%	5 599	9.33%
Individuals, directly each owning less than 20%	54 401	90.67%	54 401	90.67%
	60 000	100%	60 000	100%

New share issues and related share premiums in 2007 and 2008 were as follows:

	2008	2007
	LVL	LVL
Share capital	6 000 000	4 300 000
Share premium	-	942 003
	6 000 000	5 242 003
Issued shares, paid in cash	-	1 324 634
Issued shares, paid by dividends not distributed	-	99 868
Discount on preference shares	-	25 000
Issued shares converted from subordinated liabilities	-	527 598
	6 000 000	7 219 103
Including:		
Share capital	6 000 000	6 000 000
Share premium	1 219 103	1 219 103

Notes to the financial statements

Revaluation reserve

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

	2008	2007
	LVL	LVL
Land and buildings revaluation reserves	2 919 512	2 893 952
Deferred tax liabilities at 15%	(437 927)	(434 093)
	<u>2 481 585</u>	<u>2 459 859</u>
Balance at 31 December 2006	709 057	
Revaluation reserve increase	2 059 767	
Deferred tax from changes in revaluation reserve	(308 965)	
Balance at 31 December 2007	2 459 859	
Revaluation reserve increase	25 559	
Deferred tax from changes in revaluation reserve	(3 833)	
Balance at 31 December 2008	<u>2 481 585</u>	

Equalisation reserve

The Company has established an equalisation reserve to cover unanticipated future random fluctuations of claim expenses around the expected value of claims for credit insurance contracts based on experience over a number of years. The changes in equalisation technical reserves are reflected directly in equity decreasing the current year profit. This reserve is not distributable.

Reserve capital and other reserves

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

Dividends

After the balance sheet date no dividends were proposed by the Board for 2007. For the year 2008 the Board proposed not to distribute at least 25% from the profit for 2008.

(39) Subordinated liabilities

	2008	2007
	LVL	LVL
Balance at 31 December 2007	1 053 152	527 598
Increase in the year	-	1 053 152
Converted to issued shares	-	(527 598)
	<u>1 053 152</u>	<u>1 053 152</u>
Subordinated liabilities are loans with a term longer than 5 years from two private persons and from two legal entities. The annual interest rate of subordinated liabilities is between 4.8% -5.2%.. Loans are subordinated to all other creditors.		
The term structure of subordinated liabilities	LVL	
Maturity after 4 years	<u>1 053 152</u>	
	<u><u>1 053 152</u></u>	

Notes to the financial statements**(40) Deferred tax liabilities**

	2008	2007
	LVL	LVL
Deferred tax liability at the beginning of the year	703 773	177 914
Deferred tax during the reporting period attributable to profit or loss	(248 302)	216 894
Deferred tax recognised in equity	3 833	308 965
Deferred tax liability at the end of the year	459 304	703 773

Deferred tax assets and liabilities include the following items:

	2008		2007	
	LVL	LVL	LVL	LVL
	Assets	Liabilities	Assets	Liabilities
Property and equipment	-	(882 400)	-	(903 190)
Provisions	189 712	-	191 367	-
Loss from revaluation of securities	233 384	-	8 050	-
Net result	-	(459 304)	-	(703 773)

(41) Taxes and social contributions

Tax type	Balance at 31.12.2007	Calculated in 2008	(Paid) in 2008	Balance at 31.12.2008
	LVL	LVL	LVL	LVL
Income tax	434 256	1 588 300	(1 050 812)	971 744
Risk duty	296	2 430	(2 434)	292
Social contributions	155 178	2 111 814	(2 106 029)	160 963
Personal income tax	103 498	1 301 554	(1 300 943)	104 109
Property tax *)	(546)	34 662	(34 116)	0
VAT	7 013	117 769	(109 226)	15 556
Estonian branch tax	32 977	187 746	(206 377)	14 346
	732 672	5 344 275	(4 809 937)	1 267 010

*) Overpaid taxes are disclosed under other receivables: 31.12.2008: Nil (2007: LVL 546).

(42) Reinsurance creditors

	2008	2007
	LVL	LVL
Reinsurance companies	991 917	973 302
Reinsurance intermediaries	134 848	252 484
	1 126 765	1 225 786
Reinsurance creditors distributed by countries are as follows:	2008	2007
	LVL	LVL
European member countries	1 126 765	1 027 575
CIS, Central Asia	-	64
USA	-	198 147
	1 126 765	1 225 786

Notes to the financial statements

(43) Other creditors

	2008	2007
	LVL	LVL
Due to the Transport Insurance Bureau	82 981	102 849
Due to employees (remuneration)	181 169	192 015
Due to the Financial Capital and Market Commission	92 665	107 029
Due to other insurance companies	-	89 910
Prior year unpaid dividends	5	35
Other creditors	476 451	298 450
	833 271	790 288

(44) Related parties

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

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

The company has the following significant transactions with related parties:

During the course of operations the Company assumes and reinsures certain risks with its related party BTA Draudimas UAB.

	2008	2007
	LVL	LVL
Received insurance premium for assumed reinsurance	275 938	147 773
Paid for commission	(14 077)	-
Paid claims	(108 738)	(33 117)
Paid insurance premium for ceded reinsurance	(195 268)	(7 760)
Received commission	206 096	1 725
Paid commission	(5 684)	-
Received interest	54 589	6 179

Loan balances issued to related parties:

	2008	2007
	LVL	LVL
Mortgage loans issued to Council and Board members		15 063
Mortgage loans issued to the companies controlled by board and council members*)	3 389 530	2 687 179
Impairment allowance	(1 035 286)	(260 090)
Mortgage loans issued to the companies controlled by board and council members*), net of bad debt allowances	2 354 244	2 427 089
Other loans issued to the related companies	2 228 698	2 743 204
Impairment allowance	(563 587)	(151 333)
Other loans issued to other related companies, net	1 665 111	2 591 871
Loan balances issued to related parties, net	4 019 355	5 018 960

Notes to the financial statements**(45) Provisions**

	2008	2007
	LVL	LVL
Provisions for unused employee vacations	491 643	365 412
	491 643	365 412

	Gross
	LVL
Provisions as at 31 December 2006	202 361
Increase of provisions	163 051
Provisions as at 31 December 2007	365 412
Increase of provisions	126 231
Provisions as at 31 December 2008	491 643

(46) Number of employees and information on branches

	2008	2007
Employees	805	829
Agents	168	205
	973	1 034

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

	2008	2007
Foreign country branches	1	1
Customer service centres abroad	6	5
Regional centres	6	6
Branches in Latvia	21	20
Customer service centres	22	25
Insurance policy selling points	58	78
	114	135

	2008	2007
Average number of employees	822	792
	822	792

	2008	2007
Head office	409	394
Branches:		
RC "Rīga"	138	142
RC "Latgale"	41	49
RC "Kurzeme"	37	47
RC "Vidzeme"	53	64
RC "Zemgale"	59	63
RC "Daugava"	30	37
Estonian branch	38	33
	805	829

Notes to the financial statements

(47) Personnel expenses

	2008	2007
	LVL	LVL
Remuneration	6 798 220	4 567 200
Social contribution expenses	1 630 799	1 078 344
	8 429 019	5 645 544
Employees (included in administrative expenses)	8 263 517	
Agents (included in client acquisition costs)	165 502	
	8 429 019	

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

	2008	2007
Supervisory Council	83 678	57 394
Board of Directors	163 176	186 642
Social contribution expenses	48 469	58 788
	295 323	302 824

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

(49) Remaining maturities of insurance liabilities

	2008			2007		
	LVL			LVL		
	Gross liabilities	Reinsu- rance	Net liabilities	Gross liabilities	Reinsu- rance	Net liabilities
Unearned premium and unexpired risk technical reserves	33 131 557	(1 599 357)	31 532 200	30 292 800	(1 082 712)	29 210 088
Outstanding claim technical reserves	16 527 669	(3 175 112)	13 352 557	17 453 218	(5 670 045)	11 783 173
Total	49 659 226	(4 774 469)	44 884 757	47 746 018	(6 752 757)	40 993 261
Short term liabilities	44 246 100	(4 774 469)	39 471 631	47 441 245	(6 752 757)	40 688 488
Long term liabilities	5 413 126	-	5 413 126	304 773	-	304 773

Notes to the financial statements

(50) Operating leases

Non-cancellable operating lease rentals are payable as follows:

	31 December 2008	31 December 2007
	LVL	LVL
Within one year	163 857	71 985
From 1 to 2	143 079	69 523
From 2 to 3	58 963	51 180
From 3 to 4	32 361	12 537
From 4 to 5	4 448	10 390
Total	402 708	215 615

(51) Off balance sheet items and contingent liabilities

General claims

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

Litigations

As at 31 December 2008 there were other no open legal claims against the Company.

Credit related commitments

As at 31 December 2008 the Company did not have off balance sheet credit related commitments.

Capital commitments

As at 31 December 2008 the Company did not have any capital commitments.



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Independent Auditors' Report

To the shareholders of AAS BTA

Report on the Financial Statements

We have audited the accompanying financial statements of AAS BTA ("the Company"), which comprise the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 7 to 68.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

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

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



Opinion

In our opinion, the financial statements give a true and fair view of the financial position of AAS BTA as at 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

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

KPMG Baltics SIA
License No 55

Ondrej Fikrle
Partner pp KPMG Baltics SIA
Riga, Latvia
20 April 2009

Inga Lipšāne
Sworn Auditor
Certificate No 112