

INSURANCE MARKET DEVELOPMENT

GENERAL INFORMATION

Market participants

At end 3Q 2009, there were 14 insurance companies operating in Latvia whereof four companies were involved in life insurance and 10 companies - in non-life insurance operations (incl. one mutual non-life insurance cooperative society), as well as 11 branches of foreign insurance companies.

One life assurance company and four non-life insurance companies at the end of 3Q 2009 operated as subsidiaries of EU states' insurers (IJSC *ERGO Latvija dzīvība*, IJASC *Balta*, IJSC *ERGO Latvija*, IJSC *Gjensidige Baltic*, IJSC *Seesam Latvia*), and market share of these insurance companies in total gross premiums written made up 55.3% at end 3Q 2009.

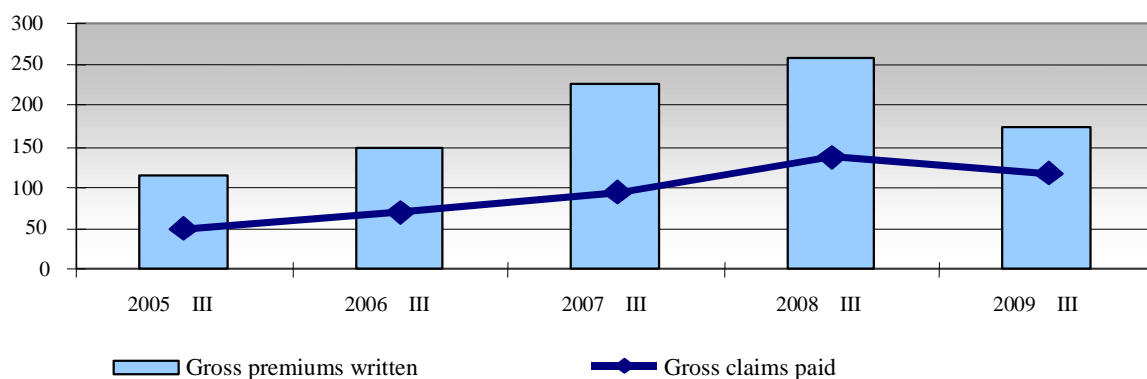
Premiums written and claims paid

In three quarters of 2009, a total of gross insurance premiums written on the insurance market accounted for 174.5 million lats or by 32.8% down from three quarters 2008 and gross claims paid out constituted 117.5 million lats, or 14.8% down from three quarters 2008 (see Figure 1).

Figure 1

GROSS PREMIUMS WRITTEN AND GROSS CLAIMS PAID

(in period; million lats)



Considering that insurance companies transfer their concluded insurance contracts to the insurance companies which provide insurance in the Republic of Latvia through their branches, the amount of gross premiums written by branches of foreign insurance companies in three quarters of 2009 increased more than twice as compared with three quarters in 2008 and gross premiums written by branches totalled 27.7 million lats. Whereas gross claims paid rose more than twice and totalled 15.3 million lats. The share of gross premiums written by branches of foreign insurance companies in the total insurance market constituted 13.7%, but gross claims paid – 11.5%.

In three quarters of 2009, the share of direct life insurance in a total of gross premiums written by insurance companies was 7.5%.

Following a slowdown in economic activities, the volume of gross premiums written per one Latvian resident¹ also decreased. As compared with three quarters of 2008, the amount of gross premiums written contracted by 21.7% and in three quarters 2009 totalled 89.8 lats.

¹ According to information from the Central Statistical Bureau of the Republic of Latvia at www.csb.lv.

LIFE INSURANCE COMPANIES

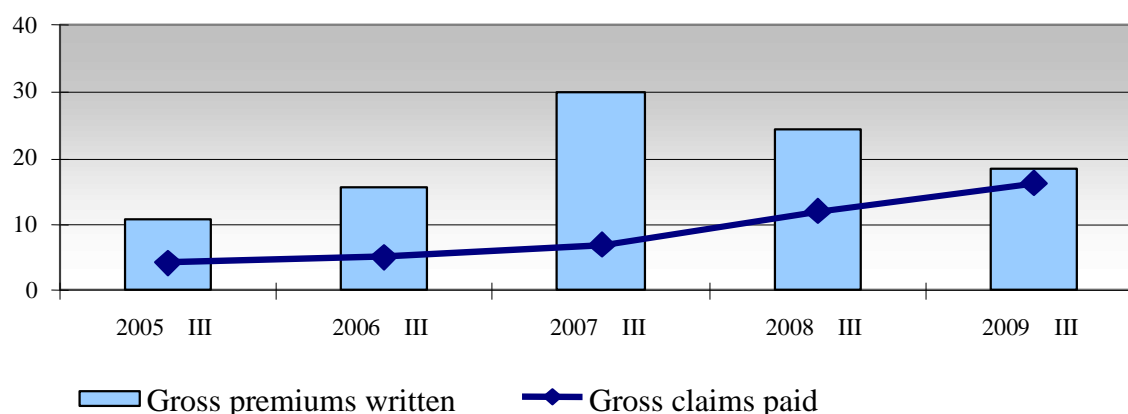
Performance indicators

In three quarters of 2009, gross premiums written by life insurance companies decreased 23.9% compared to three quarters of 2008 and totalled 18.4 million lats (see Figure 2). Whereas the volume of gross claims paid grew by 41.1% compared to three quarters of 2008 and was 16.2 million lats.

Figure 2

GROSS PREMIUMS WRITTEN AND GROSS CLAIMS PAID BY LIFE INSURANCE COMPANIES

(in period; million lats)



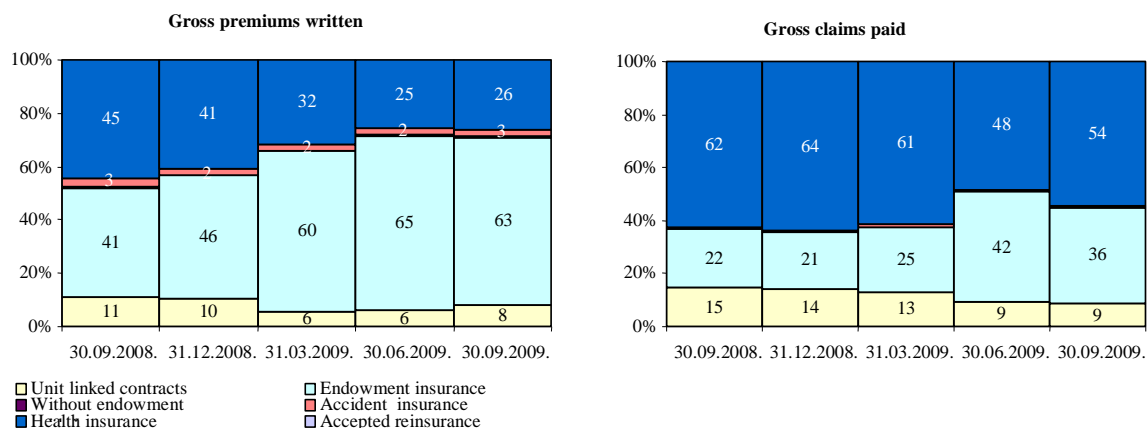
In three quarters of 2009, gross premiums written for life and health insurance constituted the major part of gross premium portfolio of life insurance companies, 71.3% and 26.1%, respectively. A major share of life insurance was constituted by endowment assurance (88.3% of gross premiums written for life insurance) and premiums written for unit-linked life insurance (10.8% of gross premiums written for life insurance).

The amount of gross premiums written for life insurance increased compared to three quarters of 2008 (from 52% in three quarters of 2008 to 71% in three quarters of 2009) and totalled 13.1 million lats (see Figure 3). The share of gross premiums written for health insurance contracted materially and made up 4.8 million lats (from 45% in three quarters of 2008 to 26% in three quarters of 2009).

Figure 3

GROSS PREMIUMS WRITTEN AND GROSS CLAIMS PAID BY LIFE INSURANCE COMPANIES BROKEN DOWN BY CLASS OF INSURANCE

(as a percentage)



In three quarters of 2009, the greater part of gross claim portfolio written by life insurance companies was constituted by claims paid on health insurance, 54.3%. Compared to three quarters of 2008, the volume of gross claims paid on health insurance grew by 20.4% and totalled 8.8 million lats. The amount of gross claims paid on life insurance rose by 78.4% and was 7.3 million lats.

The largest amount of gross claims incurred for life insurance in three quarters of 2009 was 183 thousand lats (endowment insurance).

In the reporting period, two life insurance companies operated with losses totalling 730 thousand lats.

The leverage ratio (solvency ratio) for insurance companies², which characterises the sufficiency of own funds at the disposal of an insurance company to ensure its minimum solvency³ in three quarters of 2009, was 154.5%. The lowest permissible margin for this ratio is 100%. A high solvency ratio shows that insurance companies are able to operate more efficiently without jeopardizing their solvency.

In 3Q 2009, technical provisions of life insurance companies were 100% covered by investments.

Investments

In three quarters of 2009, total investments by life insurance companies amounted to 67.6 million lats. For the most part, investments were made in time deposits with credit institutions, 31.4 million lats, or 46.5% of total investments made by life insurance companies (see Figure 4). Whereas the amount of investments made in debt securities and other fixed-income securities accounted for 21.9 million lats, or 32.4% of total investments made by life insurance companies. Investments in favour of life insurance policyholders that cover investment risk totalled 10.9 million lats, or 16.1% of total investments made by life insurance companies (compared to 18.8% in three quarters of 2008).

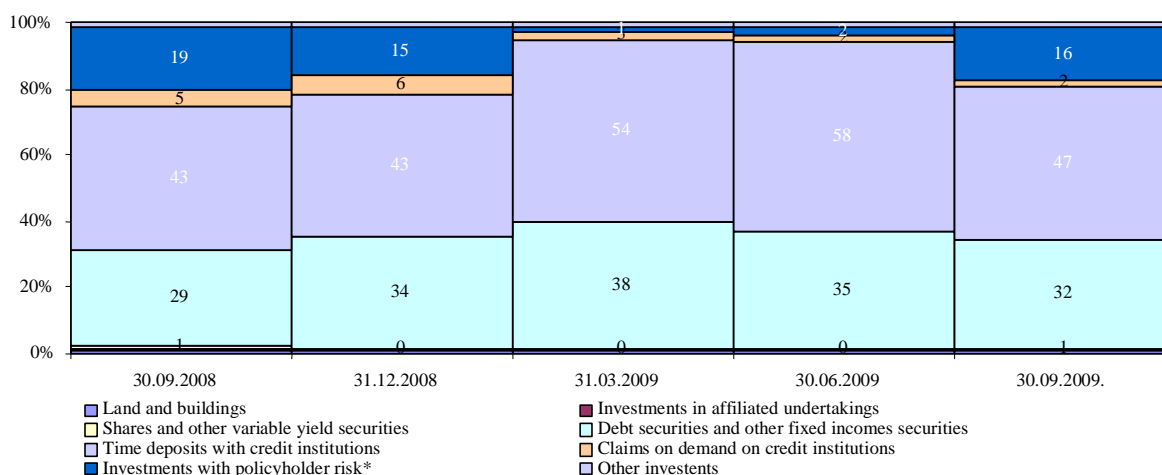
² Own equity/solvency margin.

³ The minimum solvency or solvency margin is a calculable figure expressing the quantitative amount of risks related to concluded insurance contracts.

Figure 4

STRUCTURE OF INVESTMENTS BY LIFE INSURANCE COMPANIES

(as a percentage)



* Investments in favour of life insurance policyholders that cover investment risk.

On 30 September 2009, investments by life insurance companies in Latvia constituted 81.9%, while 3.7% were placed in Germany, 2.1% – in France, but the rest 12.3% – in 16 more countries. 98.8% of total investments made in foreign countries were placed in the European Union states.

Return on investments⁴ of the average value of the investments by life insurance companies was 7.6%.

NON-LIFE INSURANCE COMPANIES

Performance indicators

In three quarters of 2009, gross premiums written by non-life insurance companies accounted for 156.1 million lats, or by 33.7% down from three quarters of 2008 (see Figure 5).

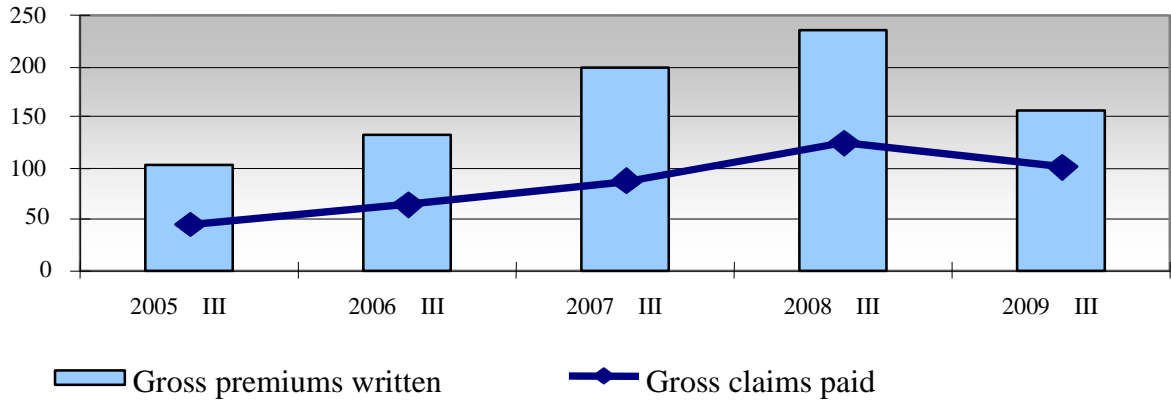
The amount of gross claims paid fell by 19.5% as compared with three quarters of 2008 and was 101.3 million lats.

Figure 5

GROSS PREMIUMS WRITTEN AND GROSS CLAIMS PAID BY NON-LIFE INSURANCE COMPANIES

(in period; million lats)

⁴ Return on investments = net income from investments/average amount of investments in the reporting period, expressed as an annual percentage.

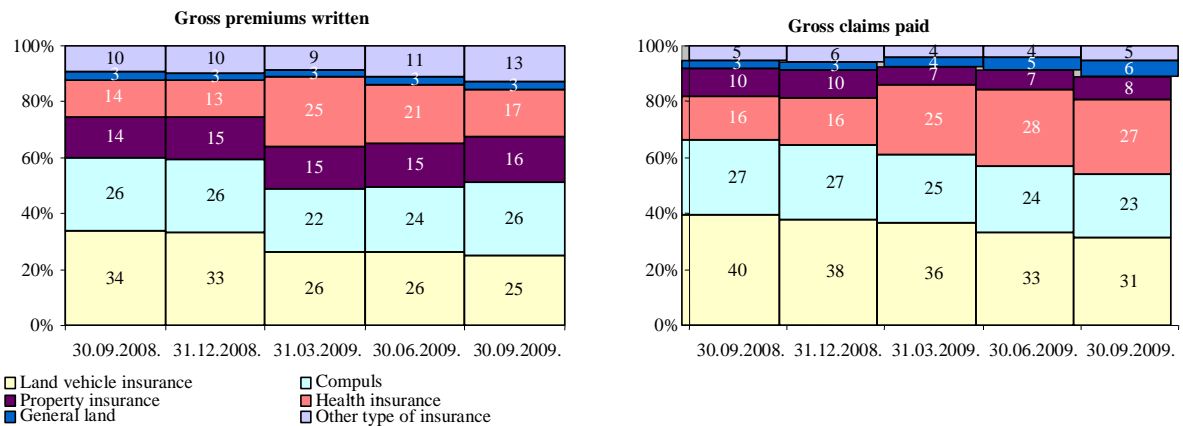


In the reporting period, the greater part of the portfolio of gross premiums written by non-life insurance companies comprised premiums written for compulsory third party liability insurance for inland motor vehicle owners, 26.4%, while 25.1% – premiums written for land vehicle insurance, 17.3% – for health insurance, but 15.8% – for property insurance (see Figure 6).

In three quarters of 2009, a major share of claims paid was on land vehicle insurance - 31.1% of total gross claims paid out, as well as claims paid out by non-life insurance companies on compulsory third party liability insurance for inland motor vehicle owners - 23.0%, health insurance - 26.7%, and property insurance - 8.1%.

Figure 6

GROSS PREMIUMS WRITTEN AND GROSS CLAIMS PAID BY NON-LIFE INSURANCE COMPANIES, BROKEN DOWN BY CLASS OF INSURANCE
(as a percentage)



In three quarters of 2009, a major share of claims paid was on land vehicle insurance – 31.1% of total gross claims paid out, as well as claims paid out by non-life insurance companies on compulsory third party liability insurance for inland motor vehicle owners – 23.0%, health insurance – 26.7% and property insurance – 8.1%.

In terms of volume, the largest insurance claim in three quarters of 2009, namely, 1.0 million lats, had incurred by general third party liability insurance.

In the reporting period, the non-life insurance companies operated with profit totalling 16.0 million lats (seven out of 10 non-life insurance companies reported profit in the reporting

period). The combined ratio⁵, which characterises performance results for non-life insurance companies, was 92.4% in three quarters of 2009.

Operating ratio⁶, characterising the overall operations of insurance companies taking into account the efficiency of the investment policy implemented by insurance companies, in the reporting period was 82.7%.

The leverage ratio (solvency ratio) for non-life insurance companies, which characterises the sufficiency of own funds at the disposal of an insurance company to ensure its minimum solvency⁷ was 157.7% in three quarters 2009. The lowest permissible margin for this ratio is 100%.

⁵ Combined ratio = loss ratio (incurred net claims/net earned premiums) + expense ratio ((net operating expenses + other net technical expenses)/net earned premiums).

⁶ Operating ratio = combined ratio – return on investments.

⁷ The minimum solvency or solvency margin is a calculable figure expressing the quantitative amount of risks related to concluded insurance contracts.

Investments

On 30 September 2009, total investments of non-life insurance companies accounted for 219.6 million lats. Investments in debt securities and other fixed-income securities constituted the greater part totalling 100.4 million lats, or 45.7% of total investments of non-life insurance companies, and investments in time deposits with credit institutions were 66.3 million lats, or 30.2% of total investments, but claims on demand on credit institutions 5.6%, or 12.2 million lats (see Figure 7).

Figure 7

INVESTMENT STRUCTURE OF NON-LIFE INSURANCE COMPANIES

(as a percentage)



On 30 September 2009, of total investments made by the non-life insurance companies, 55.7% were placed in Latvia, 7.8% of total investments were made in Lithuania, 7.3% – in Finland, 4.4% – in France, 8.6% – in Germany, 4.9% – in the Netherlands and 2.0% – in Estonia, but remaining 9.3% in 24 more countries.

Of total investments made in foreign countries, 98.8% were placed in the European Union states.

In three quarters of 2009, the return on investments⁸ for non-life insurance companies was 9.8%.

Technical provisions of non-life insurance companies in 3Q 2009 were 100% covered by investments.

⁸ Return on investments = net income from investments/average amount of investments in the reporting period, expressed as an annual percentage.