

**Financial Statements
of the Financial and Capital Market
Commission for 2009**

Financial and Capital Market Commission

Table of Contents

Management Report	3
Budget Performance	5
Balance Sheet	6
Statement of Income and Expenses	7
Cash Flow Statement	8
Statement of Changes in Equity	9
Notes to the Financial Statements	10
Auditors' Report	19

The Financial and Capital Market Commission (hereinafter referred to also as the Commission) commenced its activities on 1 July 2001 and is operating in accordance with the Law on the Financial and Capital Market Commission.

On 21 November 2008, based on Article 17 (9) of the Law on the Financial and Capital Market Commission, with Decision No 169 the Commission's Board approved the Budget of the Financial and Capital Market Commission for 2009, thereby specifying the financing for activities of the Commission and the use of these funds. In relation to the necessity to comply with provisions of the Law on Remuneration of Officials and Employees of State and Local Government Authorities in 2009 – to reduce the amount of financing for remunerations taking into account a ban on the disbursement of vacation pay and reduction in social security benefits – the Commission made changes to the budget of the Financial and Capital Market Commission for 2009 in accordance with the provisions of the above Law and approved the amendments with Decision No 186 of 23 December 2008 of the Board of the Commission. The financial and capital market participants made payments for financing the activities of the Commission in 2009 in accordance with the Regulations No 165 On the Amount of Payments by Financial and Capital Market Participants for Financing the Financial and Capital Market Commission and on the Procedures for Submission of Reports for the Year 2009 approved by the Commission's Board on 21 November 2008.

The Commission conducted accounting in accordance with the Law on Accounting and, as an independent autonomous public institution possessing state property, prepared financial statements for the year 2009 in accordance with the Financial Accounting Policy of the Financial and Capital Market Commission approved by Decision of the Commission's Board No 43 of 27 March 2009.

Pursuant to Article 6 of the Law on the Financial and Capital Market Commission, in the reporting year the Commission managed the Deposit Guarantee Fund and the Fund for the Protection of the Insured, preparing separate financial statements for each of funds.

As the Commission falls within the definition of a contracting authority provided by the Law on Public Procurement, all procurements for ensuring the Commission's activities were made in compliance with the requirements of the said Law.

On 2 March 2010, the Commission entered into an agreement on the audit of the Commission's financial statements for 2009 with SIA "Ernst & Young Baltic", which was represented by Sworn Auditor of the Republic of Latvia Diāna Krišjāne (Certificate No 124).

The State Audit Office did not perform any audits relating to activities of the Commission in the reporting year.

Funds of the Commission

In 2009, activities of the Commission were financed from payments made by financial and capital markets participants. In 2009, the revenues of the Commission accounted for 5 103.3 thousand lats or by 1.4% more than the planned revenues as laid down in the Commission's budget for year 2009 (5 035.2 thousand lats)¹. The Commission had planned the revenues from payments of financial and capital market participants of 5 005.2 thousand lats, however, revenue result made up 5 088.2 thousand lats. The excess of revenues over the planned revenues in the Commission's budget in 2009 was mainly due to the financial and capital market participants' claims for payments in 2009 and reduction in payments for the activities of the Commission by the amount of payments to foreign supervisory authorities in 2008 and 2009, recognized an aggregate of 21.5 thousand lats in 2009.

Total expenses of the Commission in 2009 were 4 177.6 thousand lats. According to the Commission's budget planning, the Commission's expenses, excluding provisions for vacation, in 2009 made up 4 194.2 thousand lats, which was by 10.6% less than planned (4 691.4 thousand lats)¹. The excess of revenues over expenses in 2009 was 925.6

¹ See Budget Performance (page 5).

Management Report

thousand lats. The Commission's result in the reporting year was positive, indicating that revenues of the Commission in 2009 were by the above amount higher than the expenses.

At end 2009, assets for financing the activities of the Commission amounted to 2 612.9 thousand lats. At the end of 2009, the Commission's equity or net assets accounted for 2 403.9 thousand lats, up by 925.6 thousand lats from the end of 2008. The increase in the net assets in 2009 was due to the budget surplus of 6.8%, resulting from reduction in expenses according to the amendments to the Commission's budget and set financing for 2009 and actual expense savings to planned expenses by 10.6%.

**THIS DOCUMENT IS SIGNED ELECTRONICALLY WITH
A SAFE ELECTRONIC SIGNATURE AND CONTAINS A TIME STAMP**

Irēna Krūmane
Chairwoman
Financial and Capital Market Commission

7 May 2010

Financial and Capital Market Commission

Budget Performance

On 21 November 2008 with Decision No 169 of the Board of the Commission, the Budget of the Financial and Capital Market Commission for 2009 was approved as well as with Decision No 186 of 23 December 2008, Amendments to the Budget of the Financial and Capital Market Commission for 2009 expenses in the amount of 286 174 lats were cut down. As a result budget revenues for 2009 in the amount of 5 035 180 lats and expenses in the amount 4 691 376 lats were approved. Pursuant to the Commission's Decision No 04.02.07/109 dated 4 December 2009 financing in the budget expense items was redistributed in the amount 106 140 lats, based on item 2 of the Decision No 169 dated 21 November 2008 On the Approval of the Budget of the Financial and Capital Market Commission for 2009 that specified that in case of outstanding expense items in 2009 part of savings may be used for financing other expense items, not exceeding total amount of budget expenses.

	Actual result (according to accrual principle)	Reporting year budget (according to accrual principle)	Reportin g year budget result, %	(lats) Budget surplus (+) or deficit (-)
REVENUES (+)	5 103 260	5 035 180	101.4	68 080
REVENUES RELATED TO SUPERVISION OF CREDIT INSTITUTIONS AND CREDIT UNIONS	3 795 002	3 463 700	109.6	
Payments by credit institutions	3 782 252	3 453 480	109.5	
Payments by credit unions	12 750	10 220	124.8	
REVENUES RELATED TO INSURANCE SUPERVISION	1 062 822	1 288 670	82.5	
Payments by life assurance companies	120 881	132 740	91.1	
Payments by other insurance companies	941 941	1 155 930	81.5	
REVENUES RELATED TO SUPERVISION OF THE FINANCIAL INSTRUMENTS MARKET AND PENSION FUNDS	251 405	252 810	99.4	
Payments by securities market participants	202 923	195 120	104.0	
Payments by private pension funds	48 482	57 690	84.0	
TIME DEPOSITS INCOME AND OTHER REVENUES	-5 969	30 000	-19.9	
Reduction in market participant financing ² or revenues in the period before reporting period	-20 997	-	-	
Income from interest on the balance of the Commission's current account	15 028	30 000	50.1	
EXPENSES (-)	4 194 238	4 691 376	89.4	497 138
Staff remuneration and other payments, State social insurance compulsory contributions	3 298 296	3 562 356	92.6	
Staff remuneration and other payments	2 657 221	2 855 682	93.1	
State social insurance compulsory contributions	641 075	706 674	90.7	
Staff insurance	65 647	73 495	89.3	
Improvements of professional skills and business trips	146 439	277 320	52.8	
Telecommunication and information	106 738	133 000	80.3	
Public information and internal and external communications	23 382	43 630	53.6	
Maintenance and general service expenses	322 960	340 075	95.0	
Professional services	101 442	118 810	85.4	
Participation in international organisations	75 416	89 140	84.6	
Depreciation/amortisation/write-off of capital investments	53 918	53 550	100.7	
RESULT	909 022	343 804		565 218

² In accordance with the Commission's Regulations No 165 of 21 November 2008 financial and capital market participants who have opened a branch abroad and who make payments to the supervisors of the relevant country for its supervision, are eligible to reduce their payment for financing the activities of the Commission by the amount of the payment to the foreign supervisory authority.

Financial and Capital Market Commission

Balance Sheet

			(lats)	
ASSETS	Note	31.12.2009	31.12.2008	
LONG-TERM INVESTMENTS	2	193 126	183 134	
Intangible investments		65 080	53 442	
Fixed assets		128 046	129 456	
Prepayments for long-term investments		-	236	
CURRENT ASSETS		2 419 754	1 596 942	
Inventories		43	99	
Accounts receivable		1 182 285	575 965	
Due from market participants to the Commission	3	1 175 661	570 985	
Other receivables	9	3 237	1 947	
Staff receivables		3 387	3 033	
Prepaid expenses	6	12 310	16 468	
Cash		1 225 116	1 004 410	
TOTAL ASSETS		2 612 880	1 780 076	

			(lats)	
LIABILITIES	Note	31.12.2009	31.12.2008	
EQUITY	7	2 403 910	1 478 310	
Net assets of the Commission (result)		2 403 910	1 478 310	
PAYABLES		208 970	301 766	
Prepayments to the Commission by market participants	4	-	50 968	
Accounts payable to suppliers	8	66 544	97 602	
Accounts payable to staff		115	-	
Overpaid taxes	5	1 044	1 392	
Provision for vacations		126 087	142 695	
Provision for liabilities		15 180	9 109	
TOTAL LIABILITIES		2 612 880	1 780 076	

The accompanying notes on pages 10 to 18 form an integral part of these financial statements.

Financial statements presented on pages 6 to 18 have been approved by Decision No 134 (Min. No 17, item 8) of 7 May 2010 by the Board of the Financial and Capital Market Commission.

Financial and Capital Market Commission

Statement of Income and Expenses

	Note	2009	(lats) 2008
REVENUES			
REVENUES RELATED TO SUPERVISION OF MONETARY FINANCIAL INSTITUTIONS		3 779 598	2 392 261
Payments by credit institutions		3 766 848	2 382 348
Payments by credit unions		12 750	9 913
REVENUES RELATED TO INSURANCE SUPERVISION		1 056 751	871 723
Payments by life assurance companies		120 881	90 597
Payments by other insurance companies		935 870	781 126
REVENUES RELATED TO SUPERVISION OF THE FINANCIAL INSTRUMENTS MARKET AND PENSION FUNDS		251 404	210 037
Payments by securities market participants		202 922	165 279
Payments by private pension funds		48 482	44 758
INCOME FROM INTEREST ON THE BALANCE OF THE CURRENT ACCOUNT		15 028	57 960
OTHER PAYMENTS		479 ³	29 673
		5 103 260	3 561 654
EXPENSES			
Staff remuneration and other payments	10	(3 298 296)	(2 943 390)
Staff remuneration and other payments		(2 657 221)	(2 415 624)
State social insurance compulsory contributions		(641 075)	(527 766)
Provision for vacation		16 608	(40 599)
Staff insurance		(65 647) ⁴	(291 265)
Improvements of professional skills and business trips	11	(146 439)	(196 384)
Telecommunication and information	12	(106 738)	(115 730) ⁵
Public information and external and internal communications		(23 382)	(17 272)
Maintenance and general service expenses	13	(322 960)	(375 974) ⁵
Professional services	14	(101 442)	(131 167)
Participation in international organisations		(75 416)	(63 656)
Depreciation/amortisation/write-off of capital investments	2	(53 918)	(44 310)
		(4 177 630)	(4 219 747)
EXCESS OF REVENUES OVER EXPENSES (RESULT)		925 630	(658 093)

The accompanying notes on pages 10 to 18 form an integral part of these financial statements.

³ Payments of financial and capital market participants for 2008.

⁴ Item expenses are reduced due to revoking endowment life insurance for the employees under the provisions of the law on the state and local authorities' officials and employees in 2009 regarding cutting expenses for remuneration of officials and staff. In 2008, expenses on endowment life insurance for employees amounted to 247 157 lats.

⁵ Item Telecommunications and Information expenses reduced (by 3 266 lats), excluding maintenance of internet source set up by the Commission, while item Maintenance and General Service Expenses increased by above amount. Expenses on the maintenance of Internet sources were presented in item Telecommunications and Information in the financial statements for 2008.

Financial and Capital Market Commission

Cash Flow Statement

	Note	2009	(lats) 2008
RECEIPTS			
RECEIPTS RELATED TO SUPERVISION OF MONETARY FINANCIAL INSTITUTIONS		3 375 963	2 142 675
Payments by credit institutions		3 363 851	2 133 070
Payments by credit unions		12 112	9 605
RECEIPTS RELATED TO SUPERVISION OF INSURANCE		834 090	798 312
Payments by life assurance companies		35 578	108 696
Payments by other insurance companies		798 512	689 616
RECEIPTS RELATED TO SUPERVISION OF THE FINANCIAL INSTRUMENTS MARKET AND PENSION FUNDS		222 535	179 487
Payments by securities market participants		177 524	144 222
Payments by private pension funds		45 011	35 265
INCOME FROM INTEREST ON THE BALANCE OF THE CURRENT ACCOUNT		13 756	57 960
		<u>4 446 344</u>	<u>3 178 434</u>
EXPENSES			
Staff remuneration and other payments		(3 297 681)	(2 946 609)
Staff remuneration and other payments		(2 656 306)	(2 419 576)
State social insurance compulsory contributions		(641 375)	(527 033)
Staff insurance		(65 552)	(291 323)
Improvements of professional skills and business trips		(147 291)	(197 626)
Telecommunication and information		(109 922)	(48 338) ⁶
Public awareness campaigns and external and internal communications expenses		(23 254)	(18 644)
Maintenance expenses		(330 637)	(372 381) ⁶
Professional services		(111 945)	(118 010)
Participation in international organisations		(75 416)	(69 761)
		<u>(4 161 698)</u>	<u>(4 062 692)</u>
INVESTMENT ACTIVITIES			
Capital expenditure		(63 940)	(130 368)
		<u>(63 940)</u>	<u>(130 368)</u>
Net change in cash during the reporting period		220 706	(1 014 626)
Cash balance at the beginning of the reporting period		1 004 410	2 019 036
Cash balance at the end of the reporting period		1 225 116	1 004 410

The accompanying notes on pages 10 to 18 form an integral part of these financial statements.

⁶ Item Telecommunications and Information expenses reduced (by 3 243 lats), excluding maintenance of internet source set up by the Commission, while item Maintenance and General Service Expenses increased by above amount. Expenses on the maintenance of Internet sources were presented in item Telecommunications and Information in the financial statements for 2008.

Financial and Capital Market Commission

Statement of Changes in Equity

		(lats)
		Equity (net assets) of the Commission
	Note	
Result 31.12.2007		2 136 448
Result of the reporting period		(658 138)
Result 31.12.2008		1 478 310
Fixed assets write-off in 2009 charged to the result	1	(30)
Result of the reporting period		925 630
Result 31.12.2009		2 403 910

The accompanying notes on pages 10 to 18 form an integral part of these financial statements.

Notes to the Financial Statements

The Financial and Capital Market Commission was established and has been operating under the Law on the Financial and Capital Market Commission.

The objective of the Commission is to promote the protection of interests of investors, depositors and the insured as well as the development and stability of the financial and capital market.

In accordance with the Law on the Financial and Capital Market Commission, its key functions are as follow:

- to issue binding rules and regulations and directives setting out requirements for the functioning of financial and capital market participants and calculation and reporting of their performance indicators;
- by controlling compliance with regulatory requirements and directives issued by the Commission, to regulate activities of financial and capital market participants;
- to specify the qualification and conformity requirement for financial and capital market participants and their officials;
- to establish the procedure for licensing and registration of financial and capital market participants;
- to collect and analyse information (data) relating to the financial and capital market and to publish it;
- to ensure accumulation of funds with the Deposit Guarantee Fund, and Fund for the Protection of the Insured, their management and payment of compensation from these funds in accordance with the Deposit Guarantee Law and Law on Insurance Companies and Supervision Thereof;
- to ensure payment of compensations to investors in accordance with the Investor Protection Law;
- to analyse regulatory requirements pertaining to financial and capital market and draft proposals for their improvement and harmonisation with the regulatory requirements of Community;
- to engage in systemic studies, analysis and forecasting of the financial and capital market development;
- to cooperate with foreign financial and capital market supervision authorities and participate in activities of international financial and capital market supervision institutions.

The Commission makes independent decisions within the limits of its authority, executes functions assigned to it by law, and is responsible for their execution. No one is entitled to interfere with the activities of the Commission, except the institutions and officials authorised by law. The Commission's legal ability and capacity complies with the objectives set forth in the Law on the Financial and Capital Market Commission and other laws. The Commission is assigned property owned by the state and has an independent balance sheet. The Parliament of the Republic of Latvia (*Saeima*) executes supervision of the Commission.

The Commission's offices are located at Kungu iela 1 in Riga.

1. Accounting Policies of the Commission

Basis for Preparation of the Financial Statements

The financial statements were prepared by using as guidelines the Financial Accounting Policies of the Financial and Capital Market Commission approved by the Commission's Board, which are in compliance with the International Public Sector Accounting Standards (IPSAS) used by public sector entities in the preparation of accounting and financial statements.

The accounting principles applied for the reporting period and previous years were used consistently.

The assets and liabilities presented in the financial statements are the assets and liabilities related to ensuring the activities of the Commission. The Commission reflected revenues and expenses related to its financing in the statements of income and expenses.

The long-term assets acquired from the budget for the Commission's establishment and commencement of activities at the launch of the Commission's activities were used to ensure activities of the Commission; consequently, these assets were included in the general balance sheet of the Commission, as well as asset depreciation/amortisation or write-off was included in the Commission's statement of income and expenses.

Notes to the Financial Statements

1. Accounting Policies of the Commission (continued)

Principles Applied in Preparing the Financial Statements

- The financial statements, except for the cash flow statement, are prepared in compliance with the principle of accrual-based accounting. It provides for recognition of transactions and events in the financial statements at the date of their occurrence, irrespective of the related cash flows. Revenues are derived on the basis of business operations performed by financial and capital market participants, which are reported and from which payments are to be calculated. Expenses are recognised at the date of their occurrence, including accrued vacation expenses proportionate to the time actually worked. Accrued vacation expenses shall be specified for each staff member for his or her paid vacation days accrued up to 31 December of the respective calendar year.
- Assets are recognised at historic cost. Assets are booked on the date of their acquisition either in the amount of paid cash or cash equivalents or at the fair value of other consideration provided plus any other costs related directly to acquisition of assets.
- Transactions and other events are reflected by taking into account the principle of substance over form, stating that transactions and events shall be recognised and disclosed according to their contents and economic substance and not only according to their legal form.
- The financial statements have been prepared on an on-going concern basis.

Long-term Investments

Long-term investments were recognised by taking as guidelines the Commission's Financial Accounting Policies, which prescribed that they were intangible and fixed-type investments with the period of practical use over one year and they would be used for provision of services, maintenance of other fixed assets and the needs of the Commission's administration. In accordance with the Commission's Financial Accounting Policies, depreciation and amortisation rates for the Commission's long-term investments (annual interest) are as follow:

- software, licences and information systems, if their right of use is unlimited (if the right of use is limited, then in accordance with effectiveness of the right of use intangible assets) 20%
- other intangible assets licences 10%
- computers, data storage devices, communications and office equipment 20%
- other fixed assets 10%

Depreciation and amortisation rates for the Commission's fixed assets were harmonized with depreciation rates for fixed assets set for budgetary institutions in the Republic of Latvia. Depreciation rates for long-term investments, acquired as from 2006, were applied in compliance with the Regulation No 440, On Fixed Asset Depreciation Rates for Budgetary Institutions and Application Conditions, issued by the Cabinet of Ministers of the Republic of Latvia on 21 June 2005 complying with above rates. Whereas depreciation rates for long-term investments, acquired before 2006, were applied in compliance with Regulation No 96, On Fixed Asset Depreciation Rates for Budgetary Institutions, issued by the Cabinet of the Republic of Latvia on 6 March 2001, stipulating the following annual depreciation rates:

- computers, data storage devices, communications and office equipment 35%
- other fixed assets 20%

The depreciation for the Commission's fixed assets is calculated until their residual value reaches 5 lats as provided for by the Regulations No 96 of the Cabinet of Ministers of 6 March 2001 On Fixed Asset Depreciation Rates for Budgetary Institutions. For reconstructing long-term investments acquired before 2006, their depreciation rates have been changed in compliance with provisions on fixed asset depreciation rates of the Regulation No 440, On Fixed Asset

Notes to the Financial Statements

Depreciation Rates for Budgetary Institutions and Application Conditions, issued by the Cabinet of Ministers of the Republic of Latvia on 21 June 2005.

1. Accounting Policies of the Commission (continued)

Long-term Investments (continued)

The amount of depreciation calculated for fixed assets and value of excluded fixed assets were included into the Commission's statement of income and expenses, except for the fixed assets taken over from budgetary institutions (the Insurance Supervision Inspectorate, the Securities Market Commission and the Deposit Guarantee Fund Administration) on 1 July 2001, the depreciation of which was directly charged against the book value of fixed assets in the Commission's balance sheet still in 2006 and the Commission's equity (net assets). Such a method is provided by the Regulations No 96 of the Cabinet of Ministers of 6 March 2001 On Fixed Asset Depreciation Rates for Budgetary Institutions, for in the respective budgetary institutions fixed assets were expensed in their full value at the date of acquisition and a corresponding fixed asset fund for this amount was credited to equity. In 2008, no depreciation for these fixed assets was developed. Six items were excluded from above fixed assets in 2009.

Accounts Receivable

The Commission steadily follows that participants of the financial and market participants make settlements in due time. In case of a doubtful debtor, in case the debtor is no longer a participant of the financial and capital markets it will be excluded from the balance sheet item *Accounts receivable* by decreasing revenues of the Commission in that reporting period in which the debtor has been excluded.

Notes to the Financial Statements

2. Long-term Investments

	Balance value 31.12.2007	Additions in the reporting period	Re-valuated	Write-offs or disposals	Depreciation			Balance value 31.12.2008
					Charge in the reporting period	Corrections, transfer	Reversal due to disposals	
Intangible assets ⁷	47 853	32 393	-	-	(26 804)	-	-	53 442
Fixed assets								
Computers and office equipment	28 979	65 985	-	(28 907)	(14 424)	139	27 986	79 758
Other fixed assets	12 116	39 927	2 995	(10 177)	(2 782)	(139)	7 758	49 698
Prepayments for long-term investments	8 221	-	-	(7 985)	-	-	-	236
	97 169	138 305	2 995	(47 069)	(44 010)	-	35 744	183 134

	Balance value 31.12.2008	Additions in the reporting period	Re-valuated	Disposals	Depreciation			Balance value 31.12.2009
					Charge in the reporting period	Corrections, transfer	Reversal due to disposals	
Intangible assets ⁷	53 442	35 074	-	-	(23 436)	-	-	65 080
Fixed assets								
Computers and office equipment	79 758	27 855	-	(16 413)	(25 876)	-	16 018	81 342
Other fixed assets	49 698	1 247	1 260	(9 527)	(4 201)	-	8 227	46 704
Prepayments for long-term investments	236	-	-	(236)	-	-	-	-
	183 134	64 176	1 260	(26 176)	(53 513)	-	24 245	193 126

Changes in long-term investments in 2009 showing the amount of expenses disclosed in the statement of income and expenses:

	Disposals, excluding the accrued depreciation		
	Charge		Total
Depreciation/amortisation/write-off of capital investments charged to the statement of income and expenses	53 513	405	53 918
Fixed asset depreciation/write-off directly charged to the result, not included in the statement of income and expenses	-	30	30
	53 513	435	53 948

⁷ Licences, software and other intangible assets.

Notes to the Financial Statements

3. Due from Market Participants to the Commission

This item contains amounts due from financial and capital market participants to the Commission on the date set out in the statement.

Due from different segments of financial and capital market participants to the Commission:

	<u>31.12.2009</u>	<u>31.12.2008</u>
Due from credit institutions	865 437	461 962
Due from other insurance companies	203 266	65 907
Due from investment management companies	42 752	23 214
Due from life assurance companies	34 335	-
Due from private pension funds	13 031	9 560
Due from investment firms	7 573	3 173
Due from the Latvian Central Depository and JSC "NASDAQ OMX Riga"	6 115	4 655
Due from credit unions	3 152	2 514
	<u>1 175 661</u>	<u>570 985</u>

4. Prepayments of Market Participants to the Commission

This item contains amounts of prepayments made by the financial and capital market participants for financing the Commission on the date set out in the statement.

Prepayments by different segments of financial and capital market participants to the Commission:

	<u>31.12.2009</u>	<u>31.12.2008</u>
Due from life assurance companies	-	50 968
	-	<u>50 968</u>

5. Taxes

Type of tax	<u>Balance on 31.12.2008</u>	<u>Calculated for the reporting period</u>	<u>Decreased compulsory contribution result</u>	<u>Paid in the reporting period</u>	<u>Balance on 31.12.2009</u>
Contributions to compulsory state social insurance (overcharge)	1 456	888 482	(5 752)	(883 142)	1 044
Personal income tax (overcharge)	(64)	529 442	-	(529 378)	-
	<u>1 392</u>	<u>1 417 924</u>	<u>(5 752)</u>	<u>(1 412 520)</u>	<u>1 044</u>

According to the data received from the State Revenue Service, compulsory contributions to State social insurance were decreased in 2008 by the amount that exceeded the maximum limit specified for year 2008 by the Cabinet, i.e. 29 600 lats per tax-payer. From 01.01.2009 to 31.12.2013 maximum limit of compulsory contributions to State social insurance set by the Cabinet has been revoked, therefore recalculation of compulsory contributions for 2009 will not be included in the financial statements of 2010.

Notes to the Financial Statements

6. Prepaid Expenses

	31.12.2009	31.12.2008.
Software subscription fees	2 654	1 681
Data base subscription fees	2 064	3 146
Professional literature	1 845	2 072
Insurance services	560	1 160
Informative services	-	3 540
Other prepaid expenses	5 187	4 869
	12 310	16 468

7. Equity

This item represents net assets of the Commission (total result). Changes thereof are disclosed in the Statement of Changes in Equity and notes thereto.

8. Accounts Payable to Suppliers and Contractors

This item contains payables for the materials and services supplied to the Commission in the reporting year on the date set out in the statement.

9. Accounts Payable on Other Claims

	31.12.2009	31.12.2008
Due to the Commission for business travel expense reimbursement	1 850	1 182
Other accounts payable to the Commission	1 387	765
	3 237	1 947

10. Staff Remuneration and Other Payments

This item contains remuneration to the staff of the Commission and members of the Consultative Council of the Financial and Capital Market, including remuneration paid for specific work done for the Commission. Expenses related to remuneration to the Board members comprised 10.9% of the total remuneration expenses (in 2008 – 13.6%). At the end of 2009, the Commission had 110 staff members (in 2008 – 103), and there were 112 positions at the Commission by the end of 2009 (in 2008 – 110).

	2009	2008
Staff remuneration and other payments	2 657 221	2 415 624
State social insurance compulsory contributions	641 075	527 766
including remuneration to members of the Commission's Board	324 623	329 174
including State social insurance compulsory contributions for the benefit of the Commission's Board	78 126	43 255
including remuneration to members of the Consultative Council of the Financial and Capital Market	3 360	4 285
including State social insurance compulsory contributions for the benefit of the Consultative Council of the Financial and Capital Market	809	1 032
Average number of employees per year including persons temporary hired	111	102
including the number of members of the Commission's Board	5	5
The number of members of the Consultative Council of the Financial and Capital Market	6	6

Notes to the Financial Statements

11. Improvements of professional skills and business trips

	2009	2008
Training and business trips abroad*	130 379	168 876
Professional training in Latvia	16 060	27 508
	<u>146 439</u>	<u>196 384</u>

* Includes business travel expense reimbursement related to participation in the institutions of the European Union and other international organizations, reducing above expenses by 13 053 lats in 2009, by 16 509 lats in 2008.

Business trips included regular participation of 35 employees of the Commission in 123 meetings of 37 working groups of EU institutions, one employee (as a representative of the Republic of Latvia) participated in 13 meetings of the Board of Directors of the European Investment Bank, as well as in the Annual Meetings of the Boards of Governors of the World Bank and the International Monetary Fund. Three employees met with representatives from Belgium, UK, Lithuanian and Estonian financial institutions pertaining to banking stabilization issues, five employees had held regular meetings with representatives from Italian, Swedish, Estonian and Danish central banks and financial supervisory authorities in order to carry out inspections in the subsidiaries of the Latvia's financial and capital market participants, one employee as an expert in the visit to Slovenia planned as part of the 4th stage inspection within the Council of Europe MONEYVAL expert group. Business trip share in total number of trips abroad comprised 90% in 2009, while in 2008 – 80%.

Of total professional training assignments and business trips, business trips abroad comprised 74% in 2009, while in 2008 – 60%, respectively.

12. Telecommunication and information

	2009	2008
Data base information	75 882	81 384
Telecommunication and correspondence	17 383	24 595
Information inquiry services	13 473	9 751
	<u>106 738</u>	<u>115 730</u>

Data base information comprises rent of legislative base, data base of public registers, information reference data base and international regulatory requirement data base and maintenance of the Commission's Internet resources.

13. Maintenance and General Service Expenses

	2009	2008
Rent of premises	170 934	229 474
Maintenance and public utility fees	44 153	35 827
Expenses on the maintenance of the Commission's Internet resources, information system and security solutions	21 214	28 756
Other maintenance and general service expenses	86 659	81 917
	<u>322 960</u>	<u>375 974</u>

A contract between the Commission and *SIA Drave* has been concluded for the rent of premises (1 433.2 m²) in the real estate at 1 Kungu Street, Riga, for 15 years, until 31 August 2016. Pursuant to the terms of the agreement, until 19 October 2008 the rent of the Commission's premises would be EUR 18.76 per square metre per month, but after the above date – EUR 20.39 per square metre per month. On 28 May 2009 an agreement was entered into that as from 1 June 2009 the rent would be EUR 9.68 per square metre per month (EUR 166 481 annually). Upon dramatic changes in the real estate rent market, on 23 December 2009 an additional agreement was entered into for the period 1 January – 30 April 2010 prescribing EUR 4.84 per square metre per month (EUR 27 747 over the period). The contract prescribes that the rent is set upon an agreement between the lessor and tenant corresponding to equivalent premises in Old Town of Riga and is revised no sooner than once in 24 months. Upon agreement in writing between the Commission and the lessor, the contract may be terminated before its expiry date. The Commission has not intended to terminate the contract.

Notes to the Financial Statements

14. Professional Services

	<u>2009</u>	<u>2008</u>
Lawyers services	85 995	23 482
The Commission's financial statements and quality management system audit	7 629	7 180
Compensation payments to administrators for financial and capital market participants in liquidation	3 872	3 304
Other professional services	3 946	97 201
	<u>101 442</u>	<u>131 167</u>

Other professional services covered expenses for archiving, consultations regarding personnel management issues and provision of other specific professional services.

15. Court Proceedings and Claims

When performing supervisory functions specified by the Law on the Financial and Capital Market Commission, the Commission may become involved in court proceedings.

On 29 December 2006, an application was submitted to the District Administrative Court calling for revoking the 21 December 2006 Decision No 215 of the Board of the Financial and Capital Market Commission on Withdrawal of the Credit Institution Licence Granted to the JSC OGRES KOMERCBANKA regarding the paragraphs on the withdrawal of the credit institution operating licence No 06.01.02.01/104 granted to the JSC OGRES KOMERCBANKA and the Commission's application to the Riga Regional Court asking to put the JSC OGRES KOMERCBANKA into liquidation. In the said application to the court, the JSC OGRES KOMERCBANKA had neither claimed any damages from the Commission nor indicated the due amount of damages. The ruling of the District Administrative Court of 27 March 2009 rejected the claim from the JSC OGRES KOMERCBANKA against the Commission's decision on the withdrawal of the licence, and proceedings regarding liquidation application were concluded. On 15 February 2010 the case went to court of appeal in the District Administrative Court. With decision of 25 March 2010 the court rejected the appeal of the JSC OGRES KOMERCBANKA (in liquidation) against withdrawal of the licence. JSC "Ogres komercbanka" has appealed the ruling of the District Administrative Court. The Senate of the Supreme Court has decided neither on prosecution nor on rejection of the appeal yet.

Theoretically, in case of any administrative action there is an option to claim damages from an institution both by appealing the institution's administrative act to the court and by initiating separate proceedings. Up to now, the JSC OGRES KOMERCBANKA (in liquidation) has not made a claim for recovery of damages. The Board of the Commission holds the view that the JSC OGRES KOMERCBANKA cannot provide any material and legal basis to justify claiming recovery of any damages from the Commission.

16. Events after the Balance Sheet Date

No events have occurred in the period between the end of the reporting year and the date when the financial statements are signed that would need to provide for adjustments or be clarified in the financial statement.

INDEPENDENT AUDITORS' REPORT

To the Parliament of the Republic of Latvia

Report on the Financial Statements

We have audited the accompanying financial statements of Financial and Capital Market Commission (hereinafter – the Commission) for the year ended 31 December 2009, set out on pages 6 through 18 which comprise the balance sheet as at 31 December 2009, the statements of income and expense, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

The Commission's management is responsible for the preparation and fair presentation of these financial statements according to the Financial Accounting Policies of the Financial and Capital Market Commission approved by the Commission's Board, which are in compliance with International Public Sector Accounting Standards (IPSAS) used by public sector entities in the preparation of accounting and financial statements. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's 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 ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from 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 the auditor's 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, the auditor considers 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 policies 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 audit opinion.

Opinion

In our opinion, the financial statements referred to above give a true and fair view of the financial position of the Commission as at 31 December 2009, and of the results of their operations and their cash flows for the year then ended in accordance with the Financial Accounting Policies of the Financial and Capital Market Commission approved by the Commission's Board, which are in compliance with International Public Sector Accounting Standards (IPSAS) used by public sector entities in the preparation of accounting and financial statements.

Report on Compliance of the Management Report

Furthermore, we have read the Management Report for the year ended 31 December 2009 (included on pages 3 through 5 of the accompanying 2009 annual report) and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2009.

SIA Ernst & Young Baltic
Licence No. 17

Diana Krisjane
Chairman of the board
Certified Auditor
Certificate No. 124

Riga, 7 May 2010