

**Financial Statements of Deposit
Guarantee Fund for 2010**

Deposit Guarantee Fund

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Deposit Guarantee Fund

Management Report

The Financial and Capital Market Commission (hereinafter referred to also as the Commission) commenced its activities on 1 July 2001 and has been operating under the Law on the Financial and Capital Market Commission, and in accordance with Article 6 of the Law hereof its task is to manage the Deposit Guarantee Fund (hereinafter also – the DGF).

In the reporting period, the Commission managed also the DGF within the framework of the budget for financing its activities. On 4 December 2009, based on Article 17 (9) of the Law on the Financial and Capital Market Commission, with Decision No 156 Commission's Board approved the Budget of the Financial and Capital Market Commission for 2009 thereby specifying the financing for the activities of the Commission and the use of these funds.

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

Deposit Guarantee Fund Assets

In 2010, deposit takers made their payments into the DGF in accordance with the Commission's Regulations No 135 on the Preparation of the Report of Guaranteed Deposits and Determining of Adjusted Rate Applicable to Payments to the Deposit Guarantee Fund approved on 22 October 2009. The Commission conducted accounting in accordance with the Law on Accounting and, as an independent autonomous public institution possessing state property, prepared DGF financial statements for the year 2010 in accordance with the Financial Accounting Policy of the Financial and Capital Market Commission approved by Decision No 43 of the Commission's Board of 27 March 2009.

In the reporting period, payments of deposit takers into the DGF amounted to 16 798.5 thousand lats. DGF revenues from investments were 7 983.9 thousand lats. Total net financial assets of DGF increased by 24 772.6 thousand lats or by 22.9%. At end-2010, net financial assets of DGF made up 133 115 thousand lats.

The Commission ensures accumulation of funds with the Deposit Guarantee Fund, the management of the DGF in accordance with the purposes of the Deposit Guarantee Law, i.e. the Commission ensures entering of the deposit takers' payments into an account with the Bank of Latvia, places free assets of DGF in the Latvian government securities in accordance with the Investment Policy and Investment Procedures for the Deposit Guarantee Fund and the Fund for the Protection of the Insured and monitors fluctuations of guaranteed deposits with deposit takers and the DGF ability to cover deposits guaranteed by deposit takers in the amount as provided for by the Deposit Guarantee Law in case of the unavailability of deposits.

Until 1 June 2010, the DGF assets were invested in the primary market of securities in lats pursuant to the Investment Policy and Investment Procedures for the Deposit Guarantee Fund and the Fund for the Protection of the Insured of 15 September 2006 approved by the Commission's Board. Above investment policy prescribed that the DGF assets in the amount of at least 10% be held with the Bank of Latvia or invested in debt securities with maturity equal or less than one year. In 2010, the DGF assets managed by the Commission were invested in compliance with the agreement entered into with the State Treasury on the primary placement of the Deposit Guarantee Fund assets into the Latvian treasury securities. As from 1 June 2010, the DGF assets had been invested in short-term time deposits with the Bank of Latvia in accordance with the Investment Policy and Investment Procedures for the Deposit Guarantee Fund and the Fund for the Protection of the Insured of 21 May 2010 and under conditions of the Agreement on Opening and Servicing Accounts entered into between the Commission and the Bank of Latvia.

In the reporting period until 1 June 2010, the Commission placed the DGF assets into the Latvian treasury securities, the value of which at end-2010 amounted to 30 023 thousand lats. At end-2010, of total DGF securities portfolio, 83.4% were placed into the long-term securities and the rest 16.6% – in short-term securities. DGF investment term structure by end-2010 broken by maturity of debt securities was as follow: up to one year - 26.1%, from one year to five years - 53.6%, from five years to ten years - 20.3%. Whereas from 1 June 2010, the DGF assets had been invested in 7-day time deposits every seven days, and at end-2010 they made up 41.6% of total investments. In 2010, return on the DGF assets was 6.61%, which was calculated by dividing the sum of investment revenues of the DGF during 2010 by the average DGF asset value during 2010.

Management of the Deposit Guarantee Fund

In 2010, the Commission established the Fund Management Committee (Deposit Guarantee Fund, Fund for the Protection of the Insured and investor protection scheme), comprised of eight Commission specialists in relevant fund management areas and responsible for improvement, advancement and planning of the funds activities, as well as coordination of activities in case of unavailability of deposits, insolvency of the insurer or payment of compensation to investors. The make-up of the Fund Management Committee (hereinafter – the Committee) is comprised of the Chairperson of the Committee simultaneously being also a Board member of the Commission, Deputy Chairman of the Committee and members of the Committee. The make-up of the Committee consists of the following structural units of the Commission:

- Commission's Office;
- Supervision Department;
- Legal and Licensing Department;
- Financial Division;
- Information Technology Division.

The Committee is a collegial body and is subordinated directly to the Board of the Commission.

In 2009, prior to establishing the Committee, the specialists included in the Committee in 2009 dealt with a range of measures related to the improvement of deposit guarantee scheme in Latvia, for instance:

- for the purpose to enhance the DGF payment system, developed regulations aiming at setting the amount of payments into the Deposit Guarantee Fund based on the relevant risks inherent in the activities of relevant deposit taker. The regulations specified the procedure according to which the Commission may determine the adjusted rate for the payment into the DGF made by a deposit taker;
- for the purpose to improve the procedure for making payments of guaranteed compensation, developed regulations specifying the amount and the procedure for preparing and submitting to the Commission information on the guaranteed compensation; which as from 1 January 2011 is guaranteed for a deposit made with a deposit taker in the amount of the guaranteed deposit but not exceeding EUR 100 thousand per depositor (70.28 thousand lats);
- held meetings with the International Monetary Fund mission in Latvia in 2009 and discussed potential measures to improve the financial crisis management.

Main tasks of the Committee in relation to the DGF management are as follow:

- to ensure prompt action and coordinate necessary measures to be taken in case of the occurrence of unavailability of deposits;
- to develop the Committee action plan;
- to develop binding internal rules of the Commission concerning the DGF management process and ensure their ongoing revision and updating;
- to draw up proposals to the Board of the Commission regarding the DGF management, including DGF financing mechanisms;
- to review draft DGF financial reports;
- to cooperate within its authority with international institutions (International Monetary Fund, European Forum of Deposit Insurers, European Commission etc.), other public authorities and participants of the financial and capital markets in the area of DGF management.

The Committee performance in 2010:

- inspections carried out in deposit takers aimed at assessing technical abilities to provide information about the guaranteed deposits in accordance with the provisions of the Regulation on the Preparation of the Report of Guaranteed Deposits and Determining of Adjusted Rate Applicable to Payments to the Deposit Guarantee Fund;
- relevant documentation/draft agreements and cooperation schemes with the responsible authorities of the Republic of Latvia developed regarding the guaranteed compensation payment process in case of the unavailability of deposits.

Deposit Guarantee Fund

Management Report

The measures to be taken by the Committee in 2011 concerning the ability of DGF to ensure compliance with obligations under the Deposit Guarantee Law in a controlled and coordinated manner are as follow:

- to perform activities under Regulation on the Preparation of the Report of Guaranteed Deposits and Determining of Adjusted Rate Applicable to Payments to the Deposit Guarantee Fund;
- to ensure compliance with provisions set out in the Regulations on Collecting and Submission the Information on Guaranteed Compensation;
- to carry out public awareness campaigns on DGF;
- to perform assessment of the fund investment policy;
- to make assessment of potential amendments to the Deposit Guarantee Law;
- to set criteria for a credit institution which potentially could make guaranteed compensation payments to the depositors, and prepare contracts for signing with the credit institutions that would be committed to carry out guaranteed compensation payments;
- to boost cooperation as regards payments of guaranteed compensations with the states where branches of the Latvian banks are located and prepare cooperation agreements for signing hereof.

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

I. Krumane
Chairwoman
Financial and Capital Market Commission

8 April 2011

Deposit Guarantee Fund

Balance Sheet

			(Lats)		
ASSETS	Note	31.12.2010	31.12.2009		
LONG-TERM INVESTMENTS		55 636 892	44 957 514		
Investments in securities	2	55 636 892	44 957 514		
CURRENT ASSETS		77 478 789	63 385 879		
Receivables		4 345 649	3 515 336		
Due from deposit takers	3	4 342 838	3 515 296		
Other receivables		2 811	40		
Investments in securities	2	19 534 546	59 869 861		
Cash	4	53 598 594	682		
TOTAL ASSETS		133 115 681	108 343 393		
<hr/>					
LIABILITIES	Note	31.12.2010	31.12.2009		
EQUITY	5	133 115 080	108 342 516		
Net financial assets (result)		133 115 080	108 342 516		
PAYABLES		601	877		
Liabilities related to securities settlement services		601	877		
TOTAL LIABILITIES		133 115 681	108 343 393		

The accompanying notes on pages 10 to 13 form an integral part of these financial statements.

Financial statements presented on pages 6 to 13 have been approved by the Decision No 62 (Min. No 14, item 7) of 8 April 2011 of the Board of the Financial and Capital Market Commission.

Deposit Guarantee Fund

Statement of Income and Expenses

	Note	2010	(Lats) 2009
REVENUES			
PAYMENTS BY DEPOSIT TAKERS		16 798 536	14 205 502
Payments by credit institutions		16 783 360	14 192 832
Payments by credit unions		15 164	12 670
Overdue payments		12	-
INCOME FROM INVESTMENTS		7 983 908	6 538 038
TOTAL REVENUES		24 782 444	20 743 540
EXPENSES			
INVESTMENT MANAGEMENT EXPENSES		(9 880)	(9 382)
TOTAL EXPENSES		(9 880)	(9 382)
EXCESS OF REVENUES OVER EXPENSES (RESULT)		24 772 564	20 734 158

The accompanying notes on pages 10 to 13 form an integral part of these financial statements.

Deposit Guarantee Fund

Cash Flow Statement

			(Lats)
	Note	2010	2009
FINANCING			
DEPOSIT TAKERS' PAYMENTS		15 970 994	14 673 856
Payments by credit institutions		15 956 567	14 661 447
Payments by credit unions		14 415	12 409
Overdue payment		12	-
CASH FLOW FROM FINANCING ACTIVITIES		15 970 994	14 673 856
INVESTMENT ACTIVITIES			
(INCREASE)/DECREASE IN DEBT SECURITIES		29 425 643	(20 270 425)
INCOME FROM INVESTMENTS		8 211 431	5 604 307
CASH FLOW FROM INVESTMENT ACTIVITIES		37 637 074	(14 666 118)
EXPENSES			
INVESTMENT MANAGEMENT EXPENSES		(10 156)	(9 190)
TOTAL EXPENSES		(10 156)	(9 190)
Net change in cash during the reporting period		53 597 912	(1 452)
Cash balance at the beginning of the reporting period		682	2 134
Cash balance at the end of the reporting period	4	53 598 594	682

The accompanying notes on pages 10 to 13 form an integral part of these financial statements.

Deposit Guarantee Fund

Statement of Changes in Equity

	(Lats)
	Net financial assets
Note	5
Result 31.12.2008	87 608 358
Result of the previous reporting period	20 734 158
Result 31.12.2009	108 342 516
Result of the reporting period	24 772 564
Result 31.12.2010	133 115 080

The accompanying notes on pages 10 to 13 form an integral part of these financial statements.

Notes to 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.

The Commission's main tasks regarding enforcement of the Deposit Guarantee Law are as follow:

- to issue regulatory norms and make decisions binding to deposit takers where the amount of information to be provided is determined, as well as requirements for preparing information about guaranteed deposits and the procedure for submission of reports;
- to organize transfer of deposit takers' payments into the DGF;
- to ensure the accumulation of funds with the Deposit Guarantee Fund, the management of the Deposit Guarantee Fund and the payment of guaranteed compensations in accordance with the Deposit Guarantee Law;
- to decide on the occurrence of unavailability of deposits pursuant to the Deposit Guarantee Law;
- to determine the procedure, time and place for the payment of guaranteed compensations and publish this information;
- to consider complains regarding recognition of the right of a depositor to the guaranteed compensation, as well as the amount of guaranteed compensation and the time limits for the pay-out;
- to exercise the right of creditors to make claims against deposit takers in the amount of the guaranteed compensation paid;
- to prepare and analyse information related to the guaranteed compensations of deposit takers and publish above information;
- to analyse rules regulating deposit takers' activities, come up with proposals for the improvement of legal enactments and their harmonisation with the European Community legislation;
- to cooperate with relevant foreign financial and capital market supervisory authorities which are responsible for the deposit guarantee scheme in the relevant state, and participate in the work of international organizations of the financial and capital market supervisory institutions regarding the deposit guarantee scheme.

The Commission makes independent decisions within the limits of its authority, executes functions assigned to it by law, and holds responsibility for their execution. Activities of the Commission cannot be interfered by any authority but the institutions and officials authorised by law. The Commission's legal ability and capacity meet 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 annual financial statements were prepared based on 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 the 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 Commission presented all assets and liabilities related to the Deposit Guarantee Fund in a separate balance sheet. The Commission presented all revenues and expenses as separate statements of income and expenses.

Principles Applied in Preparing the Financial Statements

- The financial statements, except for the cash flow statement, are prepared in compliance with the accrual-based accounting principle. 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 specified on the basis of deposit takers' guaranteed deposits, which payments are reported. Expenses are recognised at the date of their occurrence.
- 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 the acquisition of assets.

Notes to Financial Statements

1. Accounting Policies of the Commission (continued)

- 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.

Securities

Securities in trust of the Commission are being held to maturity. Held-to-maturity investments originally are recognized at acquisition cost (including transaction costs) and then revaluated at amortized prime cost, deducting impairment losses. Amortized prime cost is calculated under effective interest method. Premium or discount, including original transaction costs, is part of the relevant financial instrument balance sheet value and amortized in accordance with the instrument's effective interest rate.

Receivables

The Commission steadily follows that settlements are made in due time. In case of occurrence of a doubtful debtor, if no longer a participant of financial and capital markets, the debtor is excluded from the balance sheet item *Accounts receivable*, thereby decreasing revenues of the Commission in that reporting period in which the debtor has been excluded.

Cash

In the cash flow statement, cash and its equivalents include demand deposits in lats and deposits (in lats) with original maturity up to three months.

Investment income

Investment income is recognized in the period of their occurrence applying effective interest method and interest income on debt securities and time deposits are included.

2. Investments in Securities

This item contains the acquired Latvian State Treasury securities. The value of securities has been disclosed in the balance sheet at amortised cost.

Securities of the DGF (in lats) were placed in the following Latvian Government securities issues:

Issue No.	Issue date	Maturity date	Annual rate of return (%)	Nominal value	Book value 31.12.2010
LV0000590024	04.07.2008.	04.07.2019.	6.74	813 800	835 920
LV0000590016	10.08.2007.	10.08.2018.	5.81	14 475 000	14 300 002
LV0000580033	02.12.2005.	02.12.2015.	3.99	19 987 800	19 322 650
LV0000560043	23.04.2010.	23.04.2013.	6.20	8 317 000	8 602 467
LV0000580017	14.02.2003.	14.02.2013.	4.86	3 390 000	3 551 809
LV0000550093	26.02.2010.	26.02.2012.	5.81	8 571 000	9 024 044
Long-term investments				55 554 600	55 636 892

Issue No.	Issue date	Maturity date	Annual rate of return (%)	Nominal value	Book value 31.12.2010
LV0000570059	03.11.2006.	03.11.2011.	5.23	7 095 500	7 137 950
LV0000541415	16.04.2010.	16.04.2011.	3.40	258 600	256 073
LV0000541399	01.04.2010.	01.04.2011.	3.40	1 889 300	1 873 287
LV0000541381	18.03.2010.	18.03.2011.	3.47	336 400	333 934
LV0000541365	05.03.2010.	05.03.2011.	4.48	5 035 300	4 996 342

Deposit Guarantee Fund

Notes to Financial Statements

LV0000541324	05.02.2010.	05.02.2011.	6.39	3 229 600	3 209 799
LV0000541308	22.01.2010.	22.01.2011.	6.56	1 733 700	1 727 161
Short-term investments				19 578 400	19 534 546

Issue No.	Issue date	Maturity date	Annual rate of return (%)	Nominal value	Book value 31.12.2009
LV0000590024	04.07.2008.	04.07.2019.	6.74	813 800	835 499
LV0000590016	10.08.2007.	10.08.2018.	5.81	14 475 000	14 249 803
LV0000580033	02.12.2005.	02.12.2015.	3.99	19 987 800	19 194 025
LV0000580017	14.02.2003.	14.02.2013.	4.86	3 390 000	3 556 566
LV0000570059	03.11.2006.	03.11.2011.	5.23	7 095 500	7 121 621
Long-term investments				45 762 100	44 957 514

Issue No.	Issue date	Maturity date	Annual rate of return (%)	Nominal value	Book value 31.12.2009
LV0000541217	05.11.2009.	05.11.2010.	14.61	7 101 800	6 220 540
LV0000541209	29.10.2009.	29.10.2010.	14.90	3 930 700	3 445 961
LV0000541142	03.09.2009.	03.09.2010.	14.53	20 685 100	18 659 503
LV0000532570	03.12.2009.	04.06.2010.	10.78	1 545 800	1 475 060
LV0000532547	12.11.2009.	14.05.2010.	13.38	1 196 400	1 137 629
LV0000532539	05.11.2009.	07.05.2010.	13.48	3 308 200	3 153 035
LV0000532505	01.10.2009.	01.04.2010.	13.64	1 828 100	1 765 916
LV0000532489	17.09.2009.	19.03.2010.	13.57	325 000	315 574
LV0000532463	03.09.2009.	05.03.2010.	13.34	9 639 600	9 414 067
LV0000532455	27.08.2009.	26.02.2010.	14.07	3 792 200	3 708 893
LV0000541050	19.02.2009.	19.02.2010.	7.22	4 566 600	4 521 440
LV0000570042	04.02.2005.	04.02.2010.	3.35	5 971 800	6 052 243
Short-term investments				63 891 300	59 869 861

Total book value of securities:

31.12.2010	31.12.2009
75 171 438	104 827 375

3. Due from deposit takers

This item contains amounts due from deposit takers to the DGF for Q4 2010 and Q4 2009.

	31.12.2010	31.12.2009
Due from credit institutions	4 338 830	3 512 042
Due from credit unions	4 008	3 254
	4 342 838	3 515 296

4. DGF Funds

This item reflects the DGF funds that are available on demand, and time deposits with maturity up to seven days. By end 2010, time deposits made up 53 598 500 lats. In 2009, the Commission did not place the DGF funds in time deposits.

Notes to Financial Statements

5. Equity

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

6. 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 were signed that would need to provide for adjustments or be clarified in this 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 the Deposit Guarantee Fund (hereinafter – the Fund) for the year ended 31 December 2010, set out on pages 6 through 13 which comprise the balance sheet as at 31 December 2010, 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

Financial and Capital Market 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 and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 Fund as at 31 December 2010, 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 2010 (included on pages 3 through 5 of the accompanying 2010 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 2010.

SIA „Ernst & Young Baltic”
Licence Nr. 17

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

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

Riga,
11 April 2011