

**Financial Statements of Deposit  
Guarantee Fund for 2011**

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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), as well as to perform activities in the field of the protection of the depositor interests.

In 2011, the Commission ensured management of DGF and improvement of deposit guarantee scheme within the framework of the budget for financing its activities the amount of which was approved by Decision No 333 "On the Budget of the Financial and Capital Market Commission for 2011" by the Commission's Board on 20 December 2010. In the reporting year, within the framework of DGF and State loan granted, the Commission ensured payment of guaranteed compensations to the depositors of deposit takers included in the Latvian deposit guarantee scheme in the event of occurrence of deposit unavailability.

#### **Deposit Guarantee Fund Assets**

In 2011, deposit takers made their annual 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 2011 in accordance with the Financial Accounting Policy of the Financial and Capital Market Commission approved by Decision No 102 of the Commission's Board of 28 April 2012.

In the reporting period, payments of deposit takers into the DGF amounted to 18 307.8 thousand lats. DGF revenues from investments were 4 427.3 thousand lats, but investment management expenses were in the amount of 5.2 thousand lats. In order to cover guaranteed compensation payments to depositors of two deposit-takers included in the Latvian deposit guarantee scheme, on 31 December 2011 there were expenses for the DGF for pay-outs of guaranteed compensations amounting to 295 859.3 thousand lats and resulting in the Commission's claims against both deposit-takers. The DGF result in 2011 was negative because of the payments of guaranteed compensations carried out in accordance with provisions of Article 14 (1) of the Deposit Guarantee Law and accumulation of funds for guaranteed compensation payments; however, upon recognizing the amount of guaranteed compensations in the claim rights, the DGF result turned out positive. At the end of 2011, the DGF total assets were 384 449.9 thousand lats, of which the DGF equity (result) made up 155 538 thousand lats, financing from the granted loan was 186 434.2 thousand lats and funding from accrued liabilities to the deposit taker for guaranteed compensation in case of unavailability of deposits was 42 477.7 thousand lats. Until the DGF had no liabilities to depositors of deposit-taker subjected to unavailability of deposits, the DGF funds were composed of payments of deposit taker, single payments in accordance with Paragraphs 2 and 3 of Article 7 and Article 8 (1) of the Deposit Guarantee Law and income from investments. Since DGF ensures guaranteed compensation payments, the DGF equity is made up as the difference between above income and revenue costs, and the sum of secured guaranteed compensation payments that has been restored with claims on the insolvent JSC "Latvijas Krājbanka" and Raunas Kooperatīvā krājaizdevu sabiedrība. Because of uncertainty about the future status of the insolvent JSC "Latvijas Krājbanka", the Commission has not assessed the amount of claims against the insolvent JSC "Latvijas Krājbanka" in the amount of estimated revenues from the sale of insolvent JSC "Latvijas Krājbanka" assets.

In accordance with the Deposit Guarantee Law, the Commission ensures accumulation and management of DGF funds, i.e. the Commission ensures entering of the deposit takers' payments into the DGF account with the Bank of Latvia and consequently the Commission placed free funds of DGF in time deposits with the Bank of Latvia until the moment when the occurrence of the deposit unavailability was ascertained at the JSC "Latvijas Krājbanka".

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, thus the DGF income from investments materially shrank in 2011 in comparison with previous periods.

The DGF assets placed in the Latvian treasury securities were held to maturity; however, upon the occurrence of inaccessibility of deposits in the JSC "Latvijas Krājbanka", securities were sold. The Commission sold the DGF debt securities to the State Treasury of the Republic of Latvia at nominal value and in the amount of accrued income at the time of repurchase, thus sale did not result in any losses for DGF.

#### **Management of the Deposit Guarantee Fund**

In 2010, the Commission established the Fund Management Committee (for management of 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 improving, enhancing 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 compensations to investors. The make-up of the Fund Management Committee (hereinafter – the Committee) was 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 Committee consisted of the representatives from the Supervision Department, Legal and Licensing Department, Financial Division, Information Technology Division and the Commission's Bureau.

The measures taken by the Committee in 2010 and 2011 concerning the ability of DGF to meet the obligations in accordance with the Deposit Guarantee Law in a controlled and coordinated manner were as follows:

- carrying out inspections of deposit takers aimed at assessing technical capacity 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;
- drafting 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;
- setting criteria for a credit institution, which potentially could make guaranteed compensation payments to the depositors, and preparing contracts for signing with the credit institutions that would be committed to carry out guaranteed compensation payments;
- initiating cooperation as regards payments of guaranteed compensations with the states where branches of the Latvian banks are located and preparing cooperation agreements for signing hereof;
- ensuring prompt action and coordinating necessary measures to be taken in case of the occurrence of unavailability of deposits.

In 2012, the Commission set up the Guarantee Funds Division, to which key tasks of the Committee regarding the Funds management in relevant areas are delegated, as well as issues related to improving, enhancing and drafting the Funds financing mechanisms of the Latvian deposit guarantee scheme (Deposit Guarantee Fund, Fund for the Protection of the Insured and investor protection scheme), within their jurisdiction cooperation with international institutions (International Monetary Fund, European Forum of Deposit Insurers, the European Commission etc.), other state institutions and the financial and capital market participants in respect to the DGF management, as well as in cooperation with the Commission's specialists - coordination of necessary steps in case of unavailability of deposits of a the deposit taker, the insurer's bankruptcy/ insolvency and in case of payment of guaranteed compensation to investors.

On 15 March 2012, an agreement on the audit of the DGF financial statements for 2011 was entered into with SIA "Deloitte Audits Latvia", which was represented by its Board member Roberts Stugiš and Sworn Auditor of the Republic of Latvia Inguna Staša (Certificate No 145), who have become acquainted with this Management Report.

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

Kristaps Zakulis  
Chairman of the Financial and Capital Market Commission

28 April 2012

## Deposit Guarantee Fund

### Balance Sheet

(Lats)

ASSETS	Note	31.12.2011	31.12.2010
<b>LONG-TERM INVESTMENTS</b>			
Investments in securities	2	-	55 636 892
Settlement of claims on guaranteed compensation	5	338 531 302	-
<b>CURRENT ASSETS</b>			
<b>Accounts receivable</b>		<b>7 559 009</b>	<b>4 345 649</b>
Due from deposit takers	3	4 587 397	4 342 838
Receivables for transactions with securities	2	2 951 795	-
Other receivables		19 817	2 811
<b>Investments in securities</b>	2	<b>-</b>	<b>19 534 546</b>
<b>Cash</b>	4	<b>38 359 544</b>	<b>53 598 594</b>
<b>TOTAL ASSETS</b>		<b>384 449 855</b>	<b>133 115 681</b>

LIABILITIES	Note	31.12.2011	31.12.2010
<b>EQUITY</b>			
Net financial assets (result)	6	155 537 981	133 115 080
<b>PAYABLES</b>			
<b>Long-term liabilities</b>		<b>172 260 000</b>	<b>-</b>
Loan liabilities (long-term portion)	7	172 260 000	-
<b>Short-term Liabilities</b>		<b>14 174 181</b>	<b>601</b>
Liabilities on securities settlement services		-	601
Liabilities on guaranteed compensation to the bank assigned to make pay-outs	8	547 135	-
Loan liabilities (short-term portion)	7	13 627 046	-
<b>Accrued liabilities</b>		<b>42 477 693</b>	<b>-</b>
Accrued liabilities on guaranteed compensations	5	42 477 693	-
<b>TOTAL LIABILITIES</b>		<b>384 449 855</b>	<b>133 115 681</b>

The accompanying notes on pages 9 to 13 form an integral part of these financial statements.

Financial statements presented on pages 5 to 13 have been approved by the Decision No 103 (Min. No 18, item 16) of 28 April 2012 of the Board of the Financial and Capital Market Commission.

Deposit Guarantee Fund

**Statement of Income and Expenses**

		(Lats)	
	Note	2011	2010
<b>REVENUES</b>			
PAYMENTS BY DEPOSIT TAKERS		18 307 876	16 798 536
Payments by credit institutions		18 132 906	16 783 360
Payments by credit unions		16 838	15 164
Single payments <sup>1</sup>		158 130	-
Overdue payments		2	12
INVESTMENT INCOME		4 427 251	7 983 908
<b>TOTAL REVENUES</b>		<b>22 735 127</b>	<b>24 782 444</b>
<b>EXPENSES</b>			
GUARANTEED COMPENSATION PAYMENTS		-	-
Pay-outs of guaranteed compensations	5	(295 859 284)	-
Accumulated guaranteed compensations	5	(42 477 693)	-
Recognized claims on guaranteed compensations		338 336 977	-
LOAN EXPENSES	7	(307 046)	-
INVESTMENT MANAGEMENT EXPENSES		(5 180)	(9 880)
<b>TOTAL EXPENSES</b>		<b>(312 226)</b>	<b>(9 880)</b>
<b>EXCESS OF REVENUES OVER EXPENSES</b>		<b>22 422 901</b>	<b>24 772 564</b>

The accompanying notes on pages 9 to 13 form an integral part of these financial statements.

<sup>1</sup> In accordance with Article 8 of the Deposit Guarantee Law.

Deposit Guarantee Fund

**Cash Flow Statement**

			(Lats)
	Note	2011	2010
<b>CORE ACTIVITIES</b>			
DEPOSIT TAKERS' PAYMENTS		18 063 316	15 970 994
Payments by credit institutions		17 888 774	15 956 567
Payments by credit unions		16 412	14 415
Single payments <sup>2</sup>		158 130	50 100
Overdue payment		-	12
GUARANTEED COMPENSATION PAYMENTS		(295 506 474)	-
<b>CASH FLOW FROM CORE ACTIVITIES</b>		<b>(277 443 158)</b>	<b>15 970 994</b>
<b>INVESTMENT ACTIVITIES</b>			
DECREASE IN DEBT SECURITIES		73 332 803	29 425 643
INVESTMENT INCOME		3 297 087	8 211 431
INVESTMENT MANAGEMENT EXPENSES		(5 782)	(10 156)
<b>CASH FLOW FROM INVESTMENT ACTIVITIES</b>		<b>76 624 108</b>	<b>37 626 918</b>
<b>FINANCING</b>			
GRANTED LOAN		185 580 000	-
<b>CASH FLOW FROM FINANCING</b>		<b>185 580 000</b>	<b>-</b>
<b>Net change in cash during the reporting period</b>		<b>(15 239 050)</b>	<b>53 597 912</b>
<b>Cash balance at the beginning of the reporting period</b>		<b>53 598 594</b>	<b>682</b>
<b>Cash balance at the end of the reporting period</b>	4	<b>38 359 544</b>	<b>53 598 594</b>

The accompanying notes on pages 9 to 13 form an integral part of these financial statements.

<sup>2</sup> In accordance with Article 8 of the Deposit Guarantee Law.

Deposit Guarantee Fund

**Statement of Changes in Equity**

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	(Lats)
	Net financial assets
<b>Result 31.12.2009</b>	<b>108 342 516</b>
Result of the reporting period	24 772 564
<b>Result 31.12.2010</b>	<b>133 115 080</b>
Result of the reporting period	22 422 901
<b>Result 31.12. 2011</b>	<b>155 537 981</b>

The accompanying notes on pages 9 to 13 form an integral part of these financial statements.



## Notes to Financial Statements

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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 report submission procedure;
- 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, and to determine the procedure, time and place for the payment of guaranteed compensations and publish this information;
- to consider complaints regarding recognition of the right of 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 regarding 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 follow fluctuations in deposit-takers' guaranteed deposits and inform the State Treasury of the Republic of Latvia about the deposit-takers' guaranteed deposits being covered in the amount determined in the Deposit Guarantee Law in case of occurrence of deposit unavailability;
- 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 authorities 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 except 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 office is 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 used in the reporting period and previous years were applied 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.

## Deposit Guarantee Fund

### Notes to Financial Statements

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- 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.
- Transactions and other events are reflected by taking into account the principle of substance over form, stating that transactions and events are recognised and disclosed according to their contents and economic substance and not merely 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 unless deposit unavailability of the deposit takers occurs when the assets are required for the payment of guaranteed compensations. 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 instruments balance sheet value and amortized in accordance with the relevant instrument's effective interest rate. In case the securities are sold, revenues or expenses related to selling securities are recognized in accordance with repurchase value under the terms of the securities sales agreement.

#### Accounts Receivable

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 reducing revenues of the Commission in the reporting period, in which the debtor has been excluded.

Provisions for doubtful loans related to settlement of claims on guaranteed compensations are made only in case the Commission possesses information necessary for carrying out plausible estimates on recoverable value.

#### 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 presents receivables for transactions in securities as of 31 December 2011. On 28 November 2011, the DGF debt securities were sold to the State Treasury of the Republic of Latvia at nominal value and in the amount of accrued income at the time of repurchase. Under the terms of the agreement on repurchase of debt securities entered into by the State Treasury of the Republic of Latvia and the Commission, on 31 December 2011 claim on accounts receivable against the State Treasury on the accrued income and the sum of debt securities, calculated as difference between total nominal value and total value of securities issue at discount, amounted to 2 951 795 lats. On 4 January 2012, the State Treasury settled accounts for the accrued income of repurchased securities and discount values.

This item contains the acquired Latvian State Treasury securities as of 31 December 2010. The value of securities was disclosed in the balance sheet at amortised cost.

On 31 December 2010, the DGF investments (in lats) were placed in the Latvian Government securities issues as follows:

Issue No.	Issue date	Maturity date	Annual rate of return (%)	Nominal value	Book value
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

## Deposit Guarantee Fund

### Notes to Financial Statements

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
<b>Long-term investments</b>				<b>55 554 600</b>	<b>55 636 892</b>

Issue No.	Issue date	Maturity date	Annual rate of return (%)	Nominal value	Book value
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
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
<b>Short-term investments</b>				<b>19 578 400</b>	<b>19 534 546</b>

Total book value of securities:

<b>31.12.2011</b>	<b>31.12.2010</b>
-	75 171 438

### 3. Due from deposit takers

This item contains amounts due from deposit takers to the DGF for Q4 2011 and Q4 2010.

	<b>31.12.2011</b>	<b>31.12.2010</b>
Due from credit institutions	4 582 961	4 338 830
Due from credit unions	4 436	4 008
	<b>4 587 397</b>	<b>4 342 838</b>

### 4. DGF Funds

This item reflects the DGF funds that are available on demand, and time deposits with maturity up to seven days. At the end of 2011, funds in the amount of 38 359 544 lats were available on demand. At the end of 2010, time deposits up to seven days amounted to 53 598 500 lats and 94 lats were available on demand.

### 5. Claims on guaranteed compensations

	<b>31.12.2011</b>	<b>31.12.2010</b>
<b>Settlement of claims on guaranteed compensations to depositors of insolvent JSC "Latvijas Krājbanka"</b>	<b>338 520 987</b>	-
Accrued claims on right to demand against IJSC "Latvijas Krājbanka"	338 326 662	-
including guaranteed compensations paid to depositors of IJSC "Latvijas Krājbanka"	295 849 241	-
including guaranteed compensations due to depositors of IJSC "Latvijas Krājbanka"	42 477 421	-
Settlement of claims on overpaid guaranteed compensations against persons	194 325	-
<b>Settlement of claims on guaranteed compensations to depositors of insolvent credit union Raunas Kooperatīvā krājaizdevu sabiedrība</b>	<b>10 315</b>	-
Accrued claims on rights to demand against insolvent Raunas Kooperatīvā krājaizdevu sabiedrība	272	-
Rights to demand against insolvent Raunas Kooperatīvā krājaizdevu sabiedrība	10 043	-
	<b>338 531 302</b>	-

## Deposit Guarantee Fund

### Notes to Financial Statements

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Accrued claims on rights to demand regarding guaranteed compensations due to depositors in the amount of 42 477 693 lats are reflected also as accrued liabilities in the amount as determined due guaranteed compensations and will be likely considered as guaranteed compensations due to depositors.

Claim on rights to demand against insolvent Raunas Kooperatīvā krājaizdevu sabiedrība have been submitted to their administrator and it has included the DGF claim on the list of creditor claims.

Accrued claims on rights to demand against insolvent JSC "Latvijas Krājbanka" are presented in full in the statement, and the Commission will submit them to the administrator as first priority claim. Accrued claims on rights to demand against insolvent JSC "Latvijas Krājbanka" will be recognized as rights to demand against insolvent JSC "Latvijas Krājbanka" as soon as the Commission is entitled to submit creditor claim to the administrator.

Until the date of signing the statement claims on overpaid guaranteed compensations against persons had reduced by 96%, as the persons had repaid the overpaid guaranteed compensations into the DGF account.

On the date of approval of those financial statements the DGF did not possess information to plausibly assess claims recoverability; therefore no provisions were made to above claims (see Item 9).

#### 6. Equity

This item represents net financial assets of the DGF (total result).

#### 7. Loan liabilities

On 28 November 2011 the Commission entered into an agreement with the Republic of Latvia on granting the loan to the DGF for covering guaranteed compensations due to depositors of the JSC "Latvijas Krājbanka". The borrowing amounted to 185 580 thousand lats. If required the DGF may increase the amount of borrowing up to 200 000 thousand lats for this event of deposit unavailability. Variable interest rate is set on the borrowing for a six-month period until 28 May 2012 at 1.83% annually. The loan is granted without collateral.

At end of the reporting period the breakdown of borrowing liabilities was as follow:

	<u>31.12.2011</u>	<u>31.12.2010</u>
Up to 1 year maturity	13 320 000	-
From 1 to 5 years maturity	53 280 000	-
Above 5 years maturity	118 980 000	-
Accrued debt charges (up to 1 year maturity)	307 046	-
	<u>185 887 046</u>	-

#### 8. Liabilities to the bank that carries out payments of guaranteed compensation

On 24 November 2011 the Commission entered into the agreement with JSC "Citadele banka" (hereinafter – the payer bank) on performing guaranteed compensation payments to the depositors of JSC "Latvijas Krājbanka". Under the terms of agreement, the payer bank requires necessary funds for paying out guaranteed compensation from the DGF account with the Bank of Latvia. Until 31 December 2011, JSC "Citadele banka" had covered guaranteed compensation in the amount that was by 547 135 lats more than it had asked for settlement accounts. According to the agreement the payer bank in carrying out the payments or transfers to this effect does not require any charge for above transactions. Under the terms of agreement, the payer bank holds the funds meant for guaranteed compensation payments in its off-balance sheet, and in case the funds are not paid out to the depositors of JSC "Latvijas Krājbanka" within 12 months they have been transferred back into the account of the Bank of Latvia. For the further period, payments of guaranteed compensations will be performed based on guaranteed compensation claims of depositors of the JSC "Latvijas Krājbanka" from the payer bank.

#### 9. 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.

At the same time, there is still uncertainty about the future status of the insolvent JSC "Latvijas Krājbanka". The Commission points out that according to the insolvency plan of JSC "Latvijas Krājbanka", creditor claims could be satisfied in the amount within 68% (highest) and 39% (lowest), whereas the DGF claims – by 88.8%, if the insolvent

**Notes to Financial Statements**

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JSC "Latvijas Krājbanka's" assets are sold for the highest estimated price, but in case of forced sale they could cover only 39% to 50% of claims. The insolvency plan of JSC "Latvijas Krājbanka" does not provide for forced sale because this scenario would result in least amount of income. Till 31 December 2011, of total amount of guaranteed compensations (338.3 million lats) 88% of guaranteed compensations were paid out, but by 27 April 2012 – 322 911 647 lats or 95% of guaranteed compensations.

At present there are no property claims against the DGF or the Commission in legal proceedings in case of the insolvent JSC "Latvijas Krājbanka". However, if any property claims arise against the Commission in the case of any insolvent deposit-taker (JSC "Latvijas Krājbanka" or insolvent Raunas Kooperatīvā krājaizdevu sabiedrība), the DGF will be entitled to recognize only the claims that comply with cases specified for ensuring payment of guaranteed compensation, because the Deposit Guarantee Law does not provide for pay-outs from the DGF other than the guaranteed compensation for depositors referred to in this Law in the amount up to 100 thousand euro and the DGF management expenses, if the management of DGF is taken over by another administrator, as well as for arranging repayment of funds borrowed from the State budget for the purposes to pay out guaranteed compensation as laid down in the Law. Other claims should be covered by the Commission. However, no other property claims were submitted to the court till the date of signing the statement.

## INDEPENDENT AUDITOR'S REPORT

Translation from Latvian

To the Latvian Parliament:

### Report on the financial statements

We have audited the accompanying financial statements of Deposit Guarantee fund (hereinafter the Fund) set out on pages 5 to 13 of the accompanying annual report, which comprise the balance sheet as of 31 December 2011, a statement of income and expenses for the year 2011, statement of changes in equity and cash flow statement for the year 2011, and a summary of significant accounting policies and other explanatory information.

#### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Finance and capital market commission accounting policy approved by the council of Finance and capital market commission that is prepared in accordance with International Public sector accountancy standard guidelines on accountancy and financial statements for units of the public sector, 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.

#### 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 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 give a true and fair view of the financial position of the Deposit Guarantee fund as of 31 December 2011 and of its financial performance and its cash flows for the year then ended in accordance with the Finance and capital market commission accounting policy approved by the council of Finance and capital market commission that is prepared in accordance with International Public sector accountancy standard guidelines on accountancy and financial statements for units of the public sector.

#### Emphasis of Matter

We draw attention to Note 1 to the financial statements where accounting policy of Deposit Guarantee fund is described. In accordance with accounting policy provisions for doubtful debts for the settlement of claims on guaranteed claims are made only when the management of the Finance and Capital Market Commission has reliable information about the recoverable amount of the claim. As described in Note 5 of the financial statements as of 31 December 2011 the balance sheet asset "Settlement of claims on guaranteed compensation" includes receivable related to claims on guaranteed compensation in the amount of LV 338 531 302 LVL. As of the date of approving these financial statements the management has not enough information to reliably assess the above asset's recoverable value, thus, in accordance with the accounting policy no provisions are made for that financial asset. In accordance with management estimates the asset may not be fully recovered. Our opinion is not qualified in respect of this matter.

## Report on Other Legal and Regulatory Requirements

We have read the management report for 2011 set out on pages 3 - 4 of the accompanying annual report for 2011 and have not identified any material inconsistencies between the financial information contained in the management report and the financial statements for 2011.

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A SAFE ELECTRONIC SIGNATURE AND CONTAINS A TIME STAMP

Roberts Stūģis  
Member of the Board

Rīga, Latvia  
28 April 2012

Inguna Staša  
Certified auditor of Latvia  
Certificate No. 145