

**Financial Statements of Deposit  
Guarantee Fund for  
2014**

# Deposit Guarantee Fund

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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 ensure the protection of the depositors' interests.

In 2014, the Commission carried out the DGF management functions and improvements in a deposit guarantee scheme within the framework of the budget for financing its activities the amount of which was approved by Decision No 291 on the Approval of the Budget of the Financial and Capital Market Commission for 2014 by the Commission's Board on 19 December 2013. In the reporting year, the Commission continued provision of State-guaranteed compensation payments with the funds raised by the DGF through a payer bank to the depositors of the JSC *Latvijas Krājbanka* (in liquidation) in the amount up to that stated in the Deposit Guarantee Law.

#### Deposit Guarantee Fund Assets

In 2014, 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 adopted on 22 October 2009. The Commission conducted accounting in accordance with the Law on Accounting and, as an independent autonomous public institution possessing a segregated State property, prepared the DGF financial statements for the year 2014 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, contributions by the deposit takers into the DGF amounted to 34 509.9 thousand euro, i.e. up 7% on the previous period. Compensation for the DGF assets held with the Bank of Latvia was paid according to the euro overnight index average (EONIA) rate up to 10 June 2014, pursuant to the provisions of the Agreement on the Opening and Servicing of Accounts between the Commission and the Bank of Latvia. As from 11 June 2014, the Euro system deposit facility rate has been applied to the DGF account balances in the Bank of Latvia, which at the end of 2014 was below zero, i.e. negative: -0.2% (annual rate). However, in case the State Treasury's total current account balance was below 200 million euro per day, the Bank of Latvia applied a spread to the Commission's current accounts in the Bank of Latvia, among them including also the DGF accounts, but not exceeding the amount of Commission's current account balance. In such case the Bank of Latvia paid account balance compensation to the extent permitted, applying the EONIA rate provided that it was not below zero. In 2014, the DGF paid 53 402 euro, applying the Euro system deposit facility interest rate (negative). In the reporting year, pay-outs of guaranteed compensations amounted to 1 215 thousand euro, of which 1 088 thousand euro were paid to the JSC *Latvijas Krājbanka's* depositors as well as in cases of occurrence of unavailability of deposits identified in 2014: to the cooperative credit union *Metalurģs* - 100.5 thousand euro and cooperative credit union *Vecumnieki* – 26.5 thousand euro. To date, the DGF has paid guaranteed compensations in total of 471 295.7 thousand euro. Since the guaranteed compensations due to the depositors of the JSC *Latvijas Krājbanka* (in liquidation) and *Raunas Kooperatīvās krājaizdevu sabiedrība* had been recognized as expenses in the year 2011, only adjustments to the pay-outs due to the deposit takers were indicated in the expenses in 2012 and 2013, but the guaranteed compensations due in cases of unavailability of deposits identified in 2014 were reflected in the year 2014 expenses, i.e., 127.1 thousand euro. In 2011, before commencement of the payment of guaranteed compensations, the DGF financial assets (result) were 212 million euro, at the end of 2014 total assets already amounted to 135.9 million euro, including claims against deposit takers 56.3 million euro more for paid-out guaranteed compensations. By the end of 2014, the DGF liabilities to the depositors of deposit taker in the event of unavailability of deposits were only 10 192.3 thousand euro. Considering the DGF recoveries from the realization of the JSC *Latvijas Krājbanka's* (in liquidation) assets in the amount of 222.86 million euro and contributions of the DGF participants, till January 2014 the DGF was capable of repaying the State debt in the amount of 264 million euro. While the DGF had no liabilities to depositors of deposit-taker facing unavailability of deposits, the DGF funds were composed of deposit takers' contributions, single payments made in accordance with Paragraphs 2 and 3 of Article 7 and Article 8 (1) of the Deposit Guarantee Law and income from investments. Since the DGF ensures guaranteed compensation payments, the DGF equity has been made up as the difference between above revenues and expenses, related to the payable amount of guaranteed compensations and the cost of attracted funds expenses thereto.

In accordance with the Deposit Guarantee Law, the Commission ensures accumulation and management of DGF funds, i.e. in the reporting year the Commission ensured entering of the deposit takers' payments into the account of the DGF opened with the Bank of Latvia and consequently placed free funds of DGF in time deposits with the Bank of Latvia, as well as ensured the payment of guaranteed compensations to the depositors specified by the subjects pursuant to the

## Deposit Guarantee Fund

### Management Report

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Deposit Guarantee Law. Moreover, following the introduction of the Euro system deposit negative facility rate in 2014, payments have been made for holding the DGF account balances in the Bank of Latvia. The amount of the DGF funds accumulated in 2015 and amendments to the Deposit Guarantee Law regarding a borrowing potential enabled the Commission to make changes in the Investment Policy and Investment Procedures for the Deposit Guarantee Fund and the Fund for the Protection of the Insured, providing for investment of the DGF funds in short-term securities with maturity up to nine months. Thus by reducing the DGF cash balance in the Bank of Latvia, also the DGF interest rate would be cut for holding the funds in the Bank of Latvia.

#### Management of the Deposit Guarantee Fund

In 2012, the Guarantee Funds Division was set up in the Commission, and it has been in charge of the issues related to improving, enhancing and drafting the Funds' financing mechanisms of the Latvian deposit guarantee scheme (namely, 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 public authorities and the financial and capital market operators within the scope of the DGF management, as well as in cooperation with the Commission's specialists - coordination of necessary steps in case of occurrence of deposit unavailability of the deposit taker, the insurer's bankruptcy or insolvency and in case of payment of guaranteed compensation to investors. In November 2014, this division was renamed the Resolution and Guarantee Funds Division, as it would be responsible also for the resolution process management.

On 15 March 2012, the Commission entered into an agreement with SIA Deloitte Audits Latvia, according to which the audit firm would perform the DGF financial statements audit for further five years, starting with the 2011 financial year. In performing the audit of the DGF financial statements for 2014, SIA Deloitte Audits Latvia was represented by its Board Member Roberts Stugis and the Sworn Auditor of the Republic of Latvia Inguna Staša (Certificate No 145), who both were acquainted with this Management Report.

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

Kristaps Zakulis  
Chairman  
Financial and Capital Market Commission

29 April 2015

## Deposit Guarantee Fund

### Balance Sheet

(euro)

ASSETS	Notes	31.12.2014	31.12.2013
<b>LONG-TERM INVESTMENTS</b>		<b>66 551 243</b>	<b>111 446 322</b>
Settlement of Claims on Guaranteed Compensations	4	66 551 243	111 446 322
<b>CURRENT ASSETS</b>		<b>79 559 454</b>	<b>16 310 817</b>
<b>Accounts receivable</b>		<b>9 152 625</b>	<b>8 338 961</b>
Due from deposit takers	2	9 149 626	8 337 476
Claims on the guaranteed compensation payer bank	8	2 999	1 376
Other receivables		-	109
<b>Cash</b>	<b>3</b>	<b>70 406 829</b>	<b>7 971 856</b>
<b>TOTAL ASSETS</b>		<b>146 110 698</b>	<b>127 757 139</b>

LIABILITIES	Notes	31.12.2014	31.12.2013
<b>EQUITY</b>	<b>6</b>	<b>135 906 356</b>	<b>101 431 511</b>
Net financial assets (result)		135 906 356	101 431 511
<b>PAYABLES</b>		<b>10 204 342</b>	<b>26 325 628</b>
<b>Short-term liabilities</b>		<b>12 050</b>	<b>15 043 121</b>
Loan liabilities	7	-	15 043 121
Liabilities on settlement services		12 050	-
<b>Accrued liabilities</b>		<b>10 192 292</b>	<b>11 282 507</b>
Accrued liabilities for guaranteed compensations	4	10 192 292	11 282 507
<b>TOTAL LIABILITIES</b>		<b>146 110 698</b>	<b>127 757 139</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 70 (Min. No 17, item 4) of 29 April 2015 of the Board of the Financial and Capital Market Commission.

Deposit Guarantee Fund

**Statement of Income and Expenses**

		(euro)	
	Notes	2014	2013
<b>REVENUES</b>			
PAYMENTS BY DEPOSIT TAKERS		34 509 890	32 200 987
Payments by credit institutions		34 479 314	32 171 499
Payments by credit unions		30 576	29 241
Single payments		-	142
Overdue payments		-	105
INVESTMENT INCOME		22 718	6 589
<b>TOTAL REVENUES</b>		<b>34 532 608</b>	<b>32 207 576</b>
<b>EXPENSES</b>			
GUARANTEED COMPENSATION PAYMENTS		-	-
Changes in guaranteed compensation payments		-	(1 015)
Accumulated guaranteed compensations	4	(127 015)	(5 332)
Recognized claims on guaranteed compensation payments	4	127 015	6 347
PROVISIONS FOR NON-RECOVERABLE CLAIMS	5	(1 538)	(192 120 420)
LOAN EXPENSES	7	(2 708)	(473 060)
CURRENT ACCOUNT EXPENSES		(53 517)	-
<b>TOTAL EXPENSES</b>		<b>(57 763)</b>	<b>(192 593 480)</b>
<b>RESULT</b>		<b>34 474 845</b>	<b>(160 385 904)</b>

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

Deposit Guarantee Fund

**Cash Flow Statement**

		(euro)	
	Notes	2014	2013
<b>CORE ACTIVITIES</b>			
DEPOSIT TAKERS' PAYMENTS		33 697 740	35 270 249
Payments by credit institutions		33 670 107	35 237 770
Payments by credit unions		27 633	32 232
Single payments		-	142
Overdue payments		-	105
NET GUARANTEED COMPENSATION PAYMENTS*		(1 218 853)	(1 576 053)
GUARANTEED COMPENSATION REIMBURSEMENT		45 020 555	49 801 999
LOAN CHARGES		(62 989)	(817 963)
CURRENT ACCOUNT EXPENSES		(41 440)	-
<b>CASH FLOW FROM CORE ACTIVITIES</b>		<b>77 395 013</b>	<b>82 678 232</b>
<b>INVESTMENT ACTIVITIES</b>			
INVESTMENT INCOME		22 800	6 907
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		<b>22 800</b>	<b>6 907</b>
<b>FINANCING</b>			
LOAN MATURITY	7	(14 982 840)	(84 226 897)
<b>CASH FLOW FROM FINANCING</b>		<b>(14 982 840)</b>	<b>(84 226 897)</b>
<b>Changes in cash during the reporting period</b>		<b>62 434 973</b>	<b>(1 541 758)</b>
<b>Cash balance at the beginning of the reporting period</b>		<b>7 971 856</b>	<b>9 513 614</b>
<b>Cash balance at the end of the reporting period</b>	3	<b>70 406 829</b>	<b>7 971 856</b>

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

\* Including reimbursed overcharges of guaranteed compensations.

Deposit Guarantee Fund

**Statement of Changes in Equity**

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	(euro)
	Net financial assets
<b>Net financial assets 31.12.2012</b>	<b>261 817 415</b>
Result of the reporting period	(160 385 904)
<b>Net financial assets 31.12.2013</b>	<b>101 431 511</b>
Result of the reporting period	34 474 845
<b>Net financial assets 31.12.2014</b>	<b>135 906 356</b>

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



## Notes to the 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 purpose of the Commission is to promote the protection of interests of investors, depositors and the insured persons as well as the development and stability of the financial and capital market.

The Commission's key responsibilities to ensure the Deposit Guarantee Law enforcement are as follows:

- to issue regulatory requirements and make decisions binding to deposit takers whereby the amount of information to be provided is determined, as well as requirements for preparing information on the guaranteed deposits and reporting procedure;
- to arrange transferring deposit takers' contributions into the DGF;
- to ensure the accumulation of funds with the DGF and their management, and the payment of guaranteed compensations from the DGF in accordance with the provisions of 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 to publish this information;
- to handle complaints regarding recognition of the right of depositor to the guaranteed compensation, as well as the amount of guaranteed compensation and the timeframe for the pay-out;
- to enforce the right of creditors to make claims against deposit takers regarding the amount of the guaranteed compensation paid;
- to gather and analyze information related to the guaranteed compensations of deposit takers and to publish this 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 that are covered in the amount determined in the Deposit Guarantee Law in case of occurrence of deposit unavailability;
- to analyze regulations and laws regulating deposit takers' activities, to suggest improvements in legal enactments and their harmonisation with the European Community regulatory provisions;
- to cooperate with relevant foreign financial and capital market supervisory authorities, which are responsible for the deposit guarantee scheme in their jurisdiction, 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, performs 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 comply 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 possesses a segregated State property 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 1 Kungu Street in Riga.

### 1. Accounting Policy

#### Basis for Preparation of the Financial Statements

In the reporting year, the annual financial statements were prepared based on the Financial Accounting Policy of the Financial and Capital Market Commission approved by the Commission's Board, which is in compliance with the International Public Sector Accounting Standards applied to 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 DGF 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

## Notes to the Financial Statements

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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 historical cost. Assets are booked either 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.

### Accounts Receivable

The Commission steadily follows that the DGF participants' settlements are made in due time. The DGF participants' inability to meet liabilities to the DGF has been considered jointly with their ability to meet deposit taker's obligations. In case 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 the Commission's revenues in the reporting period, during which the debtor has been excluded.

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

### Cash

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

### Investment Income

Investment income is recognized in the period of their occurrence. In recognizing investment income the effective interest rate method is applied; interest income on debt securities and time deposits have been also covered.

## 2. Due from deposit takers

This item contains the amounts due from deposit takers to the DGF for Q4 2014 and Q4 2013.

	<b>31.12.2014</b>	<b>31.12.2013</b>
Due from credit institutions	9 141 902	8 330 147
Due from credit unions	7 724	7 329
	<b>9 149 626</b>	<b>8 337 476</b>

## 3. DGF Funds

This item reflects the DGF funds that are available on demand.

## Notes to the Financial Statements

## 4. Settlement of Claims on Guaranteed Compensations

	31.12.2014	31.12.2013
<b>1. Settlement of claims on guaranteed compensations to depositors of the JSC <i>Latvijas Krājbanka</i> (in liquidation)</b>	<b>66 379 689</b>	<b>111 379 689</b>
Rights to demand (to the guaranteed compensations paid)	248 275 478	292 186 802
Provisions for irrecoverable claims on guaranteed compensations paid	(192 087 694)	(192 087 694)
Accrued claims on the rights to demand (guaranteed compensations to be paid)	10 191 905	11 280 581
<b>2. Settlement of claims on overpaid guaranteed compensations against persons (depositors of JSC <i>Latvijas Krājbanka</i> (in liquidation))</b>	<b>64 552</b>	<b>64 708</b>
<b>3. Settlement of claims on guaranteed compensations to the depositors of insolvent credit union <i>Raunas Kooperatīvā krājaizdevu sabiedrība</i></b>	<b>387</b>	<b>1 925</b>
Rights to demand (to the guaranteed compensations paid)	34 264	32 726
Provisions for irrecoverable claims on guaranteed compensations paid	(34 264)	(32 726)
Accrued claims on the rights to demand (guaranteed compensations to be paid)	387	1 925
<b>4. Settlement of claims on guaranteed compensations to depositors of the insolvent cooperative credit union <i>Metalurgs</i></b>	<b>86 117</b>	-
Rights to demand (to the guaranteed compensations paid)	86 117	-
<b>5. Settlement of claims on guaranteed compensations to depositors of the insolvent cooperative credit union <i>Vecumnieki</i></b>	<b>20 498</b>	-
Rights to demand (to the guaranteed compensations paid)	20 498	-
	<b>66 551 243</b>	<b>111 446 322</b>

Accrued claims on rights to demand regarding guaranteed compensations due to the depositors of both the JSC *Latvijas Krājbanka* (in liquidation) and insolvent *Raunas Kooperatīvās krājaizdevu sabiedrība*, in the amount of 10 192 292 euro are presented also as accrued liabilities in the amount as determined for the due guaranteed compensations and as likely be considered as guaranteed compensations due to the depositors.

Until the date of signing the statement, the Commission had submitted to the administrator of insolvent *Raunas Kooperatīvās krājaizdevu sabiedrība* creditor claims in the amount of 34 264 euro and the latter included the DGF claim, recognized as unsecured creditor claim, in the list of creditor claims.

At the end of 2014, the Commission's claims (as a creditor) against the JSC *Latvijas Krājbanka* constituted 471 134 454 euro. By the end of 2014, the administrator had repaid creditor claims in the amount of 222 858 976 euro, resulting in unpaid claims in the amount of 248 275 478 euro. In disposing the JSC *Latvijas Krājbanka's* assets during the liquidation process, thus obtaining the funds to satisfy creditors' claims and maintaining insolvency proceedings and operations of the administrator, the book value of the JSC *Latvijas Krājbanka* (in liquidation) had shrunk dramatically, thereby in 2013 the Commission took a decision on creating provisions for non-recoverable claims on the paid guaranteed compensations to the depositors of the JSC *Latvijas Krājbanka* (See Note 5).

In 2014, claims on rights to demand paid out from the DGF were addressed against two more insolvent credit unions and guaranteed compensations in the amount of 127 015 euro were paid out to the members of those credit unions in 2014. After the payment of guaranteed compensations the above insolvent credit unions made repayment of guaranteed compensations in the amount of 20 400 euro, and by the end of 2014 remaining claim balances were 86 117 euro and 20 498 euro, respectively.

## 5. Provisions for non-recoverable claims

In view of efforts exerted by the administrator of the JSC *Latvijas Krājbanka* (in liquidation) in recovery of its assets, as well as having assessed distribution of the funds obtained by the administrator for maintaining the insolvency process and paying off the DGF (creditor) claim, and evaluating the asset value released by the JSC *Latvijas Krājbanka* (in liquidation), the Commission is of the opinion that there is still insufficient information to evaluate claims on the JSC *Latvijas Krājbanka* (in liquidation) regarding the recoverable amount of guaranteed compensation, but there is sufficient information to establish the amount of non-recoverable claim, and accordingly to set up provisions in the

## Notes to the Financial Statements

amount of 192 million euro. The above claim on the JSC *Latvijas Krājbanka* (in liquidation) is recognized as non-recoverable and recognized in loss arising from non-recoverable claims on the guaranteed compensation payments. In 2014, the Commission made no additional provisions for non-recoverable claims pursuant to amendments to the Deposit Guarantee Law of 2014 that provide that the right of a depositor to the guaranteed compensation lapses on the date of completion of a liquidation process, but not later than five years from the date of the occurrence of deposit unavailability. Consequently, the Commission estimated that all the due guaranteed compensations would not be drawn out until June 2019. At the end of 2014, of guaranteed compensations due to the depositors of the JSC *Latvijas Krājbanka* (in liquidation) 93% were up to 100 euro, or 9% of guaranteed compensations to be paid.

Whereas the claim on the insolvent *Raunas Kooperatīvās krājaizdevu sabiedrība* regarding the paid guaranteed compensations in view of the Commission is regarded as a hopeless claim based on information on the types and sizes of claims (DGF – unsecured claim) provided by its administrator. Therefore the Commission establishes the amount of provisions for the guaranteed compensations paid to the depositors of *Raunas Kooperatīvās krājaizdevu sabiedrība* and currently recognized as irrecoverable; by the end of 2014 this amount was 34.3 thousand euro. The amount of above claim on the insolvent *Raunas Kooperatīvās krājaizdevu sabiedrība* has been recognized in loss arising from unrecoverable claims on guaranteed compensation payments. The amount of above claim on the insolvent *Raunas Kooperatīvās krājaizdevu sabiedrība* was recognized as unrecoverable and in loss arising from irrecoverable claims on guaranteed compensation payments.

### 6. Equity

This item represents net financial assets of the DGF (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 264 056.5 thousand euro. Variable interest rate was set on the borrowing for a six-month period from 29 November 2012 to 28 May 2012 at 1.83% per year, from 29 May 2012 to 28 November 2012 it was 1.025% per year, from 29 November 2012 to 28 May 2013 at 0.815% per year, from 29 May 2013 to 28 November 2013 at 0.747% and from 29 November 2013 to 28 May 2014 at 0.733%. The loan was granted without any collateral. In 2014, total of 15 045.8 thousand euro were repaid and 84 226.9 thousand euro were repaid in 2013. The loan was repaid in full in January 2014. By the end of reporting period, the breakdown of borrowing liabilities was as follows:

	31.12.2014	31.12.2013
Part of the loan with a maturity of up to 1 year	-	14 982 840
Accrued debt charges (up to 1 year maturity)	-	60 281
	-	<b>15 043 121</b>

### 8. Claims on the Guaranteed Compensation Payer Bank

On 24 November 2011, the Commission entered into an agreement with JSC *Citadele banka* on carrying out guaranteed compensation payments to the depositors of JSC *Latvijas Krājbanka*. Under the terms of agreement, the payer bank requests the necessary funds for paying out guaranteed compensations from the DGF account in the Bank of Latvia. Until 31 December 2014, the JSC *Citadele banka* had covered guaranteed compensations in the amount that was by 2 999 less than it had asked for the settlement of accounts, while in 2013 – by 1 376 euro less respectively, thus creating DGF claims in the above amount on the payer bank. According to the agreement the payer bank in carrying out the payments or transfers to this effect does not require any charge for transactions. Under the agreement, the payer bank holds the funds meant for guaranteed compensation payments in its off-balance sheet.

### 9. Events after the Balance Sheet Date

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

The Commission, however, will follow the process of recovering the recoverable funds of the JSC *Latvijas Krājbanka* (in liquidation) and in case of any positive changes in the recovered funds the Commission will either reverse the appropriate amount of provisions or create additional provisions. The current JSC *Latvijas Krājbanka* (in liquidation) administrator's activities plan for the next 12 months envisages vigorous measures for recovery of assets and optimization of expenses. Of total creditor claims recognized by the JSC *Latvijas Krājbanka's* administrator until 31 December 2014, 48% were the DGF claims. Having assessed estimates made by the administrator regarding the JSC

**Notes to the Financial Statements**

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*Latvijas Krājbanka's* (in liquidation) recoverable assets as well as the amount of assets that are subject to legal proceedings and taking into account administrative expenses of SIA KPMG Baltics and the compensation for recovered funds due to the administrator, the Commission estimates that the DGF could recover 45–70 million euro more after 31 December 2014. Therefore it is expected that the DGF will recover up to 90% of currently remaining claim. This means that overall the DGF will recover up to 55%–60% of total guaranteed compensations paid and due to the depositors of the JSC *Latvijas Krājbanka* (in liquidation). Until 31 December 2014, of the total amount of guaranteed compensations (481.4 million euro) 97.8% were already paid out.

**10. Contingent Liabilities**

The Commission currently has been involved in legal proceedings against the JSC *Latvijas Krājbanka* (in liquidation) regarding recognition of the guaranteed compensation due to the four former vice presidents of the *Latvijas Krājbanka*. In case the court rules in favour of paying out the guaranteed compensations, the DGF liabilities to the depositors of *Latvijas Krājbanka* could be increased in the amount of 44 180 euro.

In case any additional property claims are made against the Commission in relation to the case of any insolvent deposit takers (See Note 15 of the Financial Statement of the Financial and Capital Market Commission for 2014), the DGF will be in capacity to recognize only those claims that meet the guaranteed compensation payment provisions, as the Deposit Guarantee Law allows for no other pay-outs from the DGF than to the depositors set by this Law in the amount up to 100 thousand euro and the DGF management costs, if the DGF management is transferred to another manager, as well as repayment of borrowings for guaranteed compensations. Any other claims should be satisfied by the Commission.

## INDEPENDENT AUDITORS' REPORT

Translation from Latvian

To the Parliament of the Republic of Latvia:

### Report on the Financial Statements

We have audited the accompanying financial statements of Deposit Guarantee Fund (hereinafter – Fund) set out on pages 5 to 13 of the accompanying annual report, which comprise the balance sheet as of 31 December 2014, and the statement of income and expenses, statement of changes in equity and statement of cash flows for the year then ended, 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 Financial and Capital Market Commission Council's approved Financial and Capital Market Commission's financial accounting policy which corresponds with International Public sector accounting standard guidelines of accounting and financial statement submitting to public sector units, 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 auditors' 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting 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 Deposit Guarantee Fund as of 31 December 2014 and of its financial performance and its cash flows for the year then ended in accordance with the Financial and Capital Market Commission Council's approved Financial and Capital Market Commission's financial accounting policy which corresponds with International Public sector accounting standard guidelines of accounting and financial statement submitting to public sector units.

## INDEPENDENT AUDITORS' REPORT (continued)

### Emphasis of matter

We draw your attention to note 1 of attached financial statements, where accounting policy of Depositors Guarantee Fund is described. In accordance with approved accounting policy allowances for doubtful receivables for guaranteed deposits are made only when Finance and Capital Market Commission management has available information to credibly evaluate recoverable value of these receivables. As described in note 4 of these financial statements, as at 31.12.2014 Fund's balance sheet asset position "Settlement of Claims on Guaranteed Compensations" includes receivables from LAS "Latvijas Krajbanka" for guaranteed deposit compensations in amount of EUR 248 275 478. As at signing date of these financial statements there is no information available to credibly estimate recoverable value of these receivables but there is available information to credibly estimate amount that certainly will not be recovered and accordingly to form allowance in amount of 192 087 694 EUR. As described in note 9 of these financial statements, in accordance to management information respective receivable will not be fully recovered, but the management does not have information to credibly estimate additional allowance. We do not qualify our opinion in respect of this matter.

### **Report on Other Legal and Regulatory Requirements**

We have read the management report for 2014 set out on pages 3 to 4 of the accompanying annual report for 2014 and have not identified any material inconsistencies between the financial information contained in the management report and the financial statements for 2014.

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WITH SECURE ELECTRONICAL SIGNATURE  
WHICH CONTAINS TIME SEAL

Roberts Stūģis  
Member of the Board

Riga, Latvia  
29 April 2015

Inguna Staša  
Certified Auditor  
Certificate No. 145