

**Financial Statements of Deposit  
Guarantee Fund for  
2020**

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## 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 this 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.

The Commission carried out the DGF management functions and improvements in a guarantee scheme within the framework of the budget for financing its activities.

### Assets of the Deposit Guarantee Fund

In 2020, deposit takers made their payments into the DGF in accordance with the Commission's Regulations No 36 on the Preparation of the Report on Covered Deposits and the Determination of Adjustment Factors Applicable to Payments into the Deposit Guarantee Fund adopted on 13 February 2018 and Commission's Regulations No 195 on the Preparation of the Report on Covered Deposits and the Determination of Adjustment Factors Applicable to Payments into the Deposit Guarantee Fund adopted on 20 October 2020.

In the reporting period, contributions by the deposit takers into the DGF amounted to 19 304 thousand euro, i.e. up by 11.8% from the previous reporting period. At the end of reporting period, the balance of funds in the DGF was 121 529 thousand euro, and they all were in the current account in *Latvijas Banka*.

Two interest rates were applied to the balances of DGF current accounts at *Latvijas Banka*:

- 1) euro overnight index average rate (EONIA) calculated on the amount of balances of the Commission's current accounts, which does not exceed the difference between the total amount of the State Treasury's current accounts and 200 million euro, if the total balance of the State Treasury's current accounts is less than 200 million euro. The EONIA rate was negative throughout the reporting year and fluctuated on average around -0.46% (annual rate);
- 2) negative deposit facility rate, specified by the European Central Bank, applicable to the difference of balances of the Commission's accounts, for which the EONIA rate was not applied. Since mid-September 2019, the Eurosystem's deposit facility interest rate has been -0.50% (annual rate).

In general, when applying the interest rate of EONIA and Eurosystem's deposit facility, *Latvijas Banka* withheld 278.4 thousand euro on the balances of the DGF accounts in 2020.

### Ensuring Operations of the Deposit Guarantee Scheme

In order to ensure the efficient functioning of the Deposit Guarantee Scheme and to fulfil one of the functions of the Commission: to ensure the pay-out of guaranteed compensation, as well as to manage risks where the DGF needs to meet the provisions of Section 21 of the Deposit Guarantee Law in case of the occurrence of unavailability of deposits for one or more deposit takers, the Commission has developed procedure for entering into loan agreements on the borrowing of the deficient amount, if the DGF lacks sufficient funds for the pay-out of the guaranteed compensation.

In order to start, if necessary, the pay-out of guaranteed compensation within the time period specified in Section 26 of the Deposit Guarantee Law and in circumstances where the DGF lacks sufficient funds, the Commission has entered into contracts with two Latvian credit institutions regarding the lending to the DGF in amount 150 million euro, thus enabling the provision, on request, of the necessary funds for the pay-outs of guaranteed compensation. For this purpose, in 2020 the DGF earmarked 670.9 thousand euro. For the purposes of efficient use of DGF funds, the Commission has opted out of entering into credit line contracts in 2021.

### Pay-out of Guaranteed Compensation

In the reporting year, the Commission continued ensuring the pay-outs of guaranteed compensation through AS "Citadele banka" (payer bank) to the depositors of AS "Latvijas Krājbanka" in liquidation, to the depositors of ABLV Bank, AS in liquidation and to the depositors of AS "PNB Banka" in liquidation to the extent specified by the Deposit Guarantee Law. Unlike AS "Latvijas Krājbanka" in liquidation and AS "PNB Banka" in liquidation, the guaranteed compensation to the depositors of ABLV Bank, AS in liquidation have been paid from the funds of ABLV Bank, AS that in the amount of guaranteed compensation due to the depositors have been transferred to the DGF account in *Latvijas Banka*.

The Commission ensures organising the pay-outs of guaranteed compensation to LABA *Kooperatīvā Krājaizdevu sabiedrība* (hereinafter – LABA KKS) depositors from the DGF funds through the Commission.

In the reporting year, the pay-outs of guaranteed compensations amounted to 15 979.4 thousand euro, of which 81.8 thousand euro were paid to the depositors of AS "Latvijas Krājbanka" in liquidation, 4 483.0 thousand euro to the

DEPOSIT GUARANTEE FUND  
Financial and Capital Market Commission  
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depositors of ABLV Bank, AS in liquidation, 11 273.8 thousand euro to the depositors of AS "PNB Banka" in liquidation and 140.8 thousand euro to the depositors of LABA KKS.

At the end of 2020, the DGF liabilities to the deposit takers in the event of unavailability of deposits were 58 308.9 thousand euro. The pay-out of guaranteed compensation from the DGF has been provided to the depositors of deposit takers in liquidation or insolvent deposit takers within the time limits specified in the Deposit Guarantee Law.

#### **Audit of GDF's Financial Statements**

In accordance with the agreement concluded between the Commission and SIA "Baltic Audit" on 29 November 2019, SIA "Baltic Audit" carried out the audit of the DGF's financial statements for 2020.

K. Černāja-Mežmale  
Member of the Board

Acting as  
S. Purgaile  
Chairwoman of the Financial and Capital Market Commission

22 June 2021

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

## Financial Statements 2020

### Balance Sheet as of 31 December 2020

(euro)

| ASSETS   | Notes No | 31.12.2020         | 31.12.2019         |
|--|----------|--------------------|--------------------|
| <b>NON-CURRENT ASSETS</b>  |          |                    |                    |
| <b>Non-current financial assets</b>  |          | <b>200 089 697</b> | <b>295 333 034</b> |
| Accounts receivable (guaranteed compensation)                                | 4        | 200 089 697        | 295 333 034        |
| <b>CURRENT ASSETS</b>  |          |                    |                    |
| <b>Accounts receivable</b>   |          | <b>127 176 699</b> | <b>29 909 679</b>  |
| Due from deposit takers  | 2        | 5 647 882          | 4 625 400          |
| <b>Cash</b>  | 3        | <b>121 528 817</b> | <b>25 284 279</b>  |
| <b>TOTAL ASSETS</b>  |          | <b>327 266 396</b> | <b>325 242 713</b> |
| <b>LIABILITIES</b>   |          |                    |                    |
|  | Notes No | 31.12.2020         | 31.12.2019         |
| <b>EQUITY</b>  |          |                    |                    |
| Net financial assets (result)  |          | 268 801 561        | 250 812 894        |
| <b>PAYABLES</b>  |          |                    |                    |
| <b>Short-term liabilities</b>  |          | <b>58 464 835</b>  | <b>74 429 819</b>  |
| Liabilities on loan facility   | 8        | 89 166             | 189 028            |
| Liabilities on settlement services   |          | 44 988             | 12 207             |
| Liabilities to the bank assigned to make pay-outs of guaranteed compensation | 6        | 21 805             | 165 269            |
| <b>Accrued liabilities</b>   |          | <b>58 308 876</b>  | <b>74 063 315</b>  |
| Accrued liabilities for guaranteed compensation                              | 5        | 58 308 876         | 74 063 315         |
| <b>TOTAL LIABILITIES</b>   |          | <b>327 266 396</b> | <b>325 242 713</b> |

The accompanying notes on pages 9 to 14 form an integral part of these financial statements.

Financial statements presented on pages from 5 to 8 have been approved by the Decision No 80 (Min. No 28, item 7) of 22 June 2021 of the Board of the Financial and Capital Market Commission.

## Statement of Income and Expenses 2020

|  |               | (euro)             |                   |
|--|---------------|--------------------|-------------------|
|  | Notes No      | 2020               | 2019              |
| <b>REVENUES</b>  |               |                    |                   |
| <b>PAYMENTS BY DEPOSIT TAKERS</b>  |               | <b>19 303 741</b>  | <b>17 646 071</b> |
| Payments by credit institutions  |               | 19 267 397         | 17 233 192        |
| Payments by savings and loan associations  |               | 36 344             | 34 669            |
| Single payments*   |               | -                  | 301 128           |
| Reduction in provisions**  |               | -                  | 76 683            |
| Overdue payments   |               | -                  | 399               |
|  |               | <b>19 303 741</b>  | <b>17 646 071</b> |
| <b>EXPENSES</b>  |               |                    |                   |
| <b>GUARANTEED COMPENSATION PAYMENTS</b>  |               | -                  | -                 |
| Changes in pay-outs of guaranteed compensation   |               | 55 379             | 8 246 259         |
| Recognized claims on guaranteed compensation   |               | (55 379)           | (8 246 259)       |
| <b>PROVISIONS FOR IRRECOVERABLE CLAIMS</b>   | 4             | (365 674)          | 35 213 596        |
| <b>LOAN FACILITY EXPENSES</b>  | 8             | (670 953)          | (1 321 321)       |
| <b>CURRENT ACCOUNT EXPENSES</b>  |               | (278 447)          | (707 544)         |
| <b>TRANSFER OF DGF PARTICIPANTS' FUNDS TO DEPOSIT<br/>GUARANTEE SCHEMES OF OTHER MEMBER STATES</b> |               | -                  | (2 109 582)       |
|  |               | <b>(1 315 074)</b> | <b>31 075 149</b> |
|  |               | <b>17 988 667</b>  | <b>48 721 220</b> |
|  | <b>RESULT</b> |                    |                   |

The accompanying notes on pages 9 to 14 form an integral part of these financial statements.

\* In accordance with Section 8(2) of the Deposit Guarantee Law.

\*\* In accordance with Section 25(3) of the Deposit Guarantee Law.

## Cash Flow Statement 2020

(euro)

|   | Notes No | 2020               | 2019                 |
|---|----------|--------------------|----------------------|
| <b>CORE ACTIVITIES</b>  |          |                    |                      |
| DEPOSIT TAKERS' PAYMENTS  |          | 18 284 658         | 17 301 738           |
| Payments by credit institutions   |          | 18 248 746         | 16 966 617           |
| Payments by savings and loan associations   |          | 35 912             | 33 991               |
| Single payments   |          | -                  | 301 128              |
| Overdue payments  |          | -                  | 2                    |
| NET GUARANTEED COMPENSATION PAYMENTS*   |          | (16 122 914)       | (299 270 000)        |
| GUARANTEED COMPENSATION REIMBURSEMENT   |          | 95 099 273         | 44 000 570           |
| PROVISIONS FOR GUARANTEED COMPENSATION  | 7        | -                  | -                    |
| LOAN FACILITY CHARGES   |          | (770 809)          | (1 489 228)          |
| CURRENT ACCOUNT EXPENSES  |          | (245 670)          | (790 975)            |
| OTHER PAYMENTS  |          | -                  | (65)                 |
| DGF costs related to transfers of DGF contributions to other European Union deposit guarantee schemes |          | -                  | (2 109 582)          |
| <b>CASH FLOW FROM CORE ACTIVITIES</b>   |          | <b>96 244 538</b>  | <b>(242 357 542)</b> |
| <b>INVESTMENT ACTIVITIES</b>  |          |                    |                      |
| <b>CASH FLOW FROM INVESTMENT ACTIVITIES</b>   |          | <b>-</b>           | <b>-</b>             |
| <b>FINANCING</b>  |          |                    |                      |
| <b>CASH FLOW FROM FINANCING</b>   |          | <b>-</b>           | <b>-</b>             |
| <b>Changes in cash during the reporting period</b>  |          | <b>96 244 538</b>  | <b>(242 357 542)</b> |
| <b>Cash balance at the beginning of the reporting period</b>  |          | <b>25 284 279</b>  | <b>267 641 821</b>   |
| <b>Cash balance at the end of the reporting period</b>  | 3        | <b>121 528 817</b> | <b>25 284 279</b>    |

The accompanying notes on pages 9 to 14 form an integral part of these financial statements.

\* Including reimbursed overcharges of guaranteed compensation.

## Statement of Changes in Equity 2020

|  | (euro)               |
|--|----------------------|
|  | Net financial assets |
| <b>Net financial assets 31.12.2018</b> | <b>202 091 674</b>   |
| Result of the reporting period         | 48 721 220           |
| <b>Net financial assets 31.12.2019</b> | <b>250 812 894</b>   |
| Result of the reporting period         | 17 988 667           |
| <b>Net financial assets 31.12.2020</b> | <b>268 801 561</b>   |

The accompanying notes on pages 9 to 14 form an integral part of these financial statements.



## Notes to the Financial Statements

The Financial and Capital Market Commission was established and has been operating in accordance with 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 markets.

The main tasks of the Commission in compliance with the provisions of the Deposit Guarantee Law are as follows:

- to issue regulatory requirements and make decisions binding to deposit takers whereby the amount of reporting information is determined, as well as requirements for preparing information on the eligible 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 compensation 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 compensation 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 to action of creditors against deposit takers regarding the amount of the guaranteed compensation paid;
- to gather and analyse information related to the guaranteed compensation 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 analyse 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 markets' 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 markets' supervisory authorities regarding the deposit guarantee scheme.

The Commission, in the performance of its tasks, 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 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 offices are located in Riga, at 1 Kungu Street and 2 Krāmu Street (until 31 December 2020).

### 1. Accounting Policy

#### Basis for the Preparation of the Financial Statements

In the reporting year, the financial statements were prepared based on the Financial Accounting Policy of the Financial and Capital Market Commission approved by the Commission's Board.

The accounting principles for 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 their occurrence, regardless of the time of settlement of accounts. 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 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 scope 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, extending the outstanding balance of receivables for the DGF expenses over the period when the debtor has been excluded.

Provisions for doubtful debts related to the settlement of claims on guaranteed compensation have been made only in case the Commission possesses information necessary for carrying out plausible estimates on recoverable value of the 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, if any.

### **Investment Income**

Investment income is recognized in the period of their occurrence. Where the DGF funds are invested in debt securities, investment income is recognised applying the effective interest rate method, including also interest income from fixed term deposits, if any.

### **Accounting for Claims and Liabilities for the Pay-out of Guaranteed Compensation**

The right to the guaranteed compensation payment is to the depositors of deposit taker for which unavailability of deposits is recognised, who comply with the requirements of the Deposit Guarantee Law, and therefore liabilities for the compensation in an appropriate amount to be paid have been recognised on the date of recognition of unavailability of deposits by the deposit taker. The claim against the deposit taker (in liquidation) is set in amount of liabilities to the depositor of deposit taker. Whereas the application for a claim to the deposit taker (in liquidation) can be made by the DGF merely for the guaranteed compensation paid in accordance with Section 22 of the Deposit Guarantee Law, remaining claims against the deposit taker (in liquidation) are accrued claims on the rights to action (the guaranteed compensation to be paid). The claim is covered according to the amount of money received from the deposit taker (in liquidation), but liabilities to the depositors of deposit taker for whom unavailability of deposits has been recognised are covered according to the amounts of guaranteed compensation actually paid to the depositors.

### **Provisions for Doubtful Debts**

At the end of each reporting period when preparing financial statements, the Commission shall evaluate information at its disposal in order to assess claims on guaranteed compensation, i.e. claims against the deposit taker (in liquidation) or insolvent the deposit takers, including against AS "Latvijas Krājbanka" (in liquidation) regarding the recoverable value of guaranteed compensation paid. Where the information is sufficient to determine the amount of definitely non-recoverable claims, the Commission shall make provisions which are deemed irrecoverable and recognised in the loss of irrecoverable claims on guaranteed compensation. However, if the circumstances arise that the recoverable value is increased, having assessed the changes in the value the Commission shall reverse the provisions as part of changes in the value, so that the DGF's balance sheet reflects the plausible estimates on the claim.

### **Correction of Errors of Previous Reporting Periods**

Where the presentation of the current annual report reveals facts and circumstances, which have an essential role in preparing a correct financial statement and which after its actual occurrence had to be extended to the previous reporting period, a retrospective error correction report shall be included in the current financial statement and appropriate corrections shall be made to the data for the preceding period.

## **2. Due from Deposit Takers**

This item contains the amounts due from deposit takers to the DGF for Q4 2020 and Q4 2019.

|  | <b>2020</b>      | <b>2019</b>      |
|--|------------------|------------------|
| Due from credit institutions           | 5 635 043        | 4 616 394        |
| Due from savings and loan associations | 12 839           | 9 006            |
|  | <b>5 647 882</b> | <b>4 625 400</b> |

### 3. Cash

This item reflects the DGF funds held in current accounts in *Latvijas Banka*.

### 4. Settlement of Claims on Guaranteed Compensation

|  | <b>2020</b>        | <b>2019</b>        |
|--|--------------------|--------------------|
| 1. Settlement of claims on guaranteed compensation to depositors of AS "Latvijas Krājbanka" (in liquidation)   | <b>9 320 451</b>   | <b>9 619 846</b>   |
| Rights of action (on the guaranteed compensation paid)   | 173 653 986        | 173 572 145        |
| Provisions for irrecoverable claims on the paid guaranteed compensation  | (164 689 783)      | (199 903 379)      |
| Maturity of provisions for irrecoverable claims on the paid guaranteed compensation  | (354 773)          | 35 213 596         |
| Accrued claims on the rights of action (the guaranteed compensation to be paid)  | 711 021            | 737 484            |
| 2. Settlement of claims on overpaid guaranteed compensation against persons (depositors of AS "Latvijas Krājbanka" (in liquidation))                             | -                  | <b>1 774</b>       |
| Rights of action (to the guaranteed compensation paid)   | 1 482              | 1 774              |
| Amount of non-recoverable claim written off in losses  | (1 482)            | -                  |
| 3. Settlement of claims on guaranteed compensation to the depositors of dissolved savings and loan association <i>Raunas Kooperatīvās krājaizdevu sabiedrība</i> | -                  | -                  |
| Rights of action (on the guaranteed compensation overpaid)   | -                  | 51 253             |
| Amount of non-recoverable claim written off in losses  | -                  | (51 253)           |
| 4. Settlement of claims on guaranteed compensation to depositors of insolvent savings and loan association <i>Vecumnieku Kooperatīvās krājaizdevu sabiedrība</i> | -                  | <b>9 417</b>       |
| Rights of action (on the guaranteed compensation paid)   | 9 417              | 9 417              |
| Amount of non-recoverable claim written off in losses  | (9 417)            | -                  |
| 5. Settlement of claims on guaranteed compensation to depositors of ABLV Bank, AS (in liquidation)   | <b>6 021 550</b>   | <b>6 021 550</b>   |
| Accrued claims on the rights of action (the guaranteed compensation to be paid)  | 6 021 550          | 6 021 550          |
| 6. Settlement of claims on guaranteed compensation to depositors of AS "PNB Banka" (in liquidation)  | <b>184 680 447</b> | <b>279 680 447</b> |
| Rights of action (on the guaranteed compensation paid)   | 164 253 511        | 247 979 636        |
| Accrued claims on the rights of action (the guaranteed compensation to be paid)  | 20 426 936         | 31 700 811         |
| 7. Settlement of claims on guaranteed compensation to depositors of LABA KKS   | <b>67 249</b>      | -                  |
| Rights of action (on the guaranteed compensation paid)   | 38 382             | -                  |
| Accrued claims on the rights of action (the guaranteed compensation to be paid)  | 28 867             | -                  |
|  | <b>200 089 697</b> | <b>295 333 034</b> |

At the end of 2020, the DGF creditor claims against AS "Latvijas Krājbanka" (in liquidation) constituted 472 512 962 euro (compared to 472 431 121 euro at the end of 2019). In 2020, the administrator of AS "Latvijas Krājbanka" (in liquidation) had not repaid to the DGF guaranteed compensation paid to the bank's depositors and the amount repaid is equal the amount of covered guaranteed compensation of 298 858 976 euro by the end of 2019, resulting in outstanding claims in amount of 173 653 986 euro (compared to 173 572 145 euro at the end of 2019).

Accrued claims on rights of action in amount of 27 188 374 euro regarding guaranteed compensation due to the depositors of AS "Latvijas Krājbanka" (in liquidation), LABA KKS, ABLV Bank, AS (in liquidation) and AS "PNB Banka" (in liquidation) were presented also as accrued liabilities in the amount as determined for due guaranteed compensation and they likely will be considered as guaranteed compensation due to the depositors.

In accordance with the agreement between the Commission and *Vecumnieku Kooperatīvo krājaizdevu sabiedrība* in 2020 the insolvent *Vecumnieku Kooperatīvā krājaizdevu sabiedrība* had not paid guaranteed compensation to its depositors, therefore it was decided to write off in losses the amount of 9 417 euro as non-revocable claim (in 2019, 570 euro were repaid).

In the financial statements of previous years, the Commission as the manager of the DGF had taken a decision to make provisions for irrecoverable part of the claim for the guaranteed compensation to the depositors of AS "Latvijas Krājbanka" (in liquidation). Due to efficient activities of the administrator of AS "Latvijas Krājbanka" (in liquidation) in the recovery of its assets, as well as assessing the allocation of the funds recovered by the administrator to the liquidation process and covering the DGF (creditor) claims and assessing the value of the assets released by AS "Latvijas Krājbanka" (in liquidation), as well as the sluggishness in receiving the guaranteed compensation by the depositors of AS "Latvijas Krājbanka" (in liquidation) and the fact that the pay-out of guaranteed compensation to the depositors of AS "Latvijas Krājbanka" (in liquidation) was provided until 13 June 2019, the Commission was of the opinion that information at its disposal to assess the recoverable value of the claim against AS "Latvijas Krājbanka" (in liquidation) for the guaranteed compensation paid, was sufficient to carry out reversal (paying off) of provisions in amount of 14 million euro in the report for the provisions already made in previous periods in amount of 213.9 million euro. In the Commission's view, 14 million euro would be a cautious outlook for asset recovery. The recovery assessment was based on the information provided by the administrator of AS "Latvijas Krājbanka" (in liquidation), using scenario analysis. As a result, it was concluded that in the process of AS "Latvijas Krājbanka's" liquidation the DGF would likely recover additional assets maximum from 25 million euro to 10 million euro. A realistic probability was applied to the recoverable value, i.e. 75%. Consequently, the provisions for non-recoverable claims against AS "Latvijas Krājbanka" (in liquidation) at the end of reporting period were 199.9 million euro. Pursuant to the amendments to the Deposit Guarantee Law made in 2014 and modifications in 2018, which provide that the depositor is deprived of the right of action against the DGF on the guaranteed compensation on the date of five years after the date of the unavailability of deposits or the circumstances have expired which constitute the basis for the refusal of guaranteed compensation payment laid down in Section 27 (1) of the Deposit Guarantee Law, the Commission had assessed that all the guaranteed compensation due would not be paid until 13 June 2019. At the end of 2018, 90% of the guaranteed compensation due to the depositors of AS "Latvijas Krājbanka" (in liquidation) were up to 50 euro, representing 6% of the guaranteed compensation transferred to the pay-outs. In 2019, in accordance with Section 3(4) of the Deposit Guarantee Law starting from 14 June 2019, the payment of guaranteed compensation to the depositors of AS "Latvijas Krājbanka" (in liquidation), to whom guaranteed compensation was available until 13 June 2019 but they had not received it, was suspended in amount of 6 088 613.49 euro.

On 23 February 2018, with Decision No 42 On the Occurrence of Unavailability of Deposits of ABLV Bank, AS by the Commission's Board the occurrence of unavailability of deposits was established at ABLV Bank, AS. In accordance with Decision No 45 On the Pay-out of Guaranteed Compensation to the Depositors of ABLV Bank, AS of 27 February 2018 by the Commission's Board, ABLV Bank, AS was obliged to transfer the funds in the DGF account for the pay-out of guaranteed compensation, and ABLV Bank, AS fulfilled that obligation. In the context of list of covered deposits until 31 December 2018 updated by ABLV Bank, AS (in liquidation), compared to the amount of covered deposits identified by the Commission in the decision of the Commission's Board on 27 February 2018 and relevant obligation imposed on ABLV Bank, AS to provide the DGF with the funds for guaranteed compensation payments in amount of 480 423 331 euro, the Commission established accrued claims on the rights of action (guaranteed compensation due) against ABLV Bank, AS (in liquidation) in amount of 6 021 550 euro.

On 16 August 2019, by Decision No 134 the Board of the Commission established the occurrence of unavailability of deposits at AS "PNB Banka". On 22 August 2019, AS "Citadele banka" started the pay-outs of guaranteed compensation to the depositors of AS "PNB Banka", who were entitled to the compensation under the Deposit Guarantee Law, on the basis of the information contained in the accounting registers of AS "PNB Bank" on the date of the unavailability of deposits. At the end of 2020, the DGF creditor claims against AS "PNB Banka" constituted 259 253 511 euro (compared to 247 979 636 euro at the end of 2019). By the end of 2020, the administrator of AS "PNB Banka" (in liquidation) administrators had covered the claims in amount of 95 000 000 euro, resulting in outstanding claims in amount of 164 253 511 euro (compared to 247 979 636 euro at the end of 2019).

On 14 July 2020, by Decision No 96 the Board of the Commission established the occurrence of unavailability of deposits at LABA KKS. In decision-taking, the Commission took into account factual circumstances, the structure of depositors of LABA KKS and their small number, concluding that the pay-out of guaranteed compensation through a credit institution would not be appropriate, as well as for maintenance of stable and safe deposit guarantee system functioning, the organisation of guarantee compensation pay-outs to the depositors of LABA KKS should be ensured from the DGF funds through the Commission. At the end of 2020, the DGF creditor claims against LABA KKS constituted 38 382 euro.

## **5. Accrued Liabilities for Guaranteed Compensation**

This item reflects the DGF liabilities to the depositors who have not yet received eligible guaranteed compensation in the event the deposit takers encounter unavailability of deposits. In the reporting year, the depositors of AS "Latvijas

Krājbanka" (in liquidation) were paid the guaranteed compensations of 81.7 thousand euro and the depositors of AS "PNB Banka" were paid the guaranteed compensations of 11 155.7 thousand euro.

The accrued liabilities for guaranteed compensation to the depositors of deposit takers (in liquidation) at the end of 2020 and 2019, respectively, were as follows:

| <b>Accrued Liabilities for Guaranteed Compensation</b>  | <b>2020</b>       | <b>2019</b>       |
|---|-------------------|-------------------|
| Accrued liabilities for guaranteed compensation to depositors of AS "PNB Banka" (in liquidation)          | 20 426 936        | 31 700 810        |
| Accrued liabilities for guaranteed compensation to depositors of ABLV Bank, AS (in liquidation)           | 37 142 051        | 41 625 021        |
| Accrued liabilities for guaranteed compensation to depositors of AS "Latvijas Krājbanka" (in liquidation) | 711 022           | 737 484           |
| Accrued liabilities for guaranteed compensation to depositors of LABA KKS                                 | 28 867            |                   |
| <b>Total</b>  | <b>58 308 876</b> | <b>74 063 315</b> |

#### 6. Liabilities and Claims on the Payer Bank of Guaranteed Compensation

On 24 November 2011, under the provisions of Deposit Guarantee Law the Commission entered into an agreement with AS "Citadele banka" on carrying out guaranteed compensation payments to the depositors of AS "Latvijas Krājbanka" (in liquidation). Whereas on 1 March 2018, the Commission entered into an agreement with AS "Citadele banka" on carrying out guaranteed compensation payments to the depositors of ABLV Bank, AS, and on 16 August 2019, the Commission entered into an agreement with AS "Citadele banka" on carrying out guaranteed compensation payments to the depositors of AS "PNB Banka". Under the terms of above agreements, the payer bank shall request the necessary funds for paying out guaranteed compensation from the DGF account in *Latvijas Banka*. On 31 December 2020, the DGF liabilities to the payer bank for outstanding guaranteed compensations were 21 805 euro (compared to 165 269 euro in 2019).

| <b>Claims/liabilities on the Payer Bank of Guaranteed Compensation</b>  | <b>2020</b>     | <b>2019</b>      |
|---|-----------------|------------------|
| Claims/liabilities on guaranteed compensation repayment to depositors of AS "PNB Banka" (in liquidation)          | 116 489         | (79 636)         |
| Claims/liabilities on guaranteed compensation repayment to depositors of ABLV Bank, AS                            | (135 885)       | (83 365)         |
| Claims/liabilities on guaranteed compensation repayment to depositors of "Latvijas Krājbanka" AS (in liquidation) | (2 409)         | (2 268)          |
| <b>Total</b>  | <b>(21 805)</b> | <b>(165 269)</b> |

#### 7. Provision of Funds to Depositors of ABLV Bank, AS (in Liquidation)

Pursuant to the Decision No 42 On the Occurrence of Unavailability of Deposits of ABLV Bank, AS of 23 February 2018 by the Commission's Board according to which the occurrence of unavailability of deposits was established at ABLV Bank, AS on 24 February 2018, at 00.00, as well as the Decision No 45 On the Pay-out of Guaranteed Compensation to the depositors of ABLV Bank, AS of 27 February 2018 by the Commission's Board, ABLV Bank, AS was obliged to provide the funds for the pay-out of guaranteed compensation in the DGF account at the account of *Latvijas Banka* in amount of 480.4 million euro.

| <b>Provision of Funds to Depositors of ABLV Bank, AS (in Liquidation)</b>                          | <b>2020</b>   | <b>2019</b>   |
|--|---------------|---------------|
| Provision of funds to ABLV Bank, AS (in liquidation)   | 480 423 331   | 480 423 331   |
| Guaranteed compensation paid by the payer bank to the depositors of ABLV Bank, AS (in liquidation) | (449 189 335) | (444 706 365) |

|  |                   |                   |
|--|-------------------|-------------------|
| Guaranteed compensation paid by the Commission to the depositors of ABLV Bank, AS (in liquidation) | (113 495)         | (113 495)         |
| Balance of funds of ABLV Bank, AS (in liquidation)   | <b>31 120 501</b> | <b>35 603 471</b> |

## 8. Loan Facility Expenses

In 2020, in order to launch, if necessary, the pay-out of guaranteed compensation within the time period specified in Section 26 of the Deposit Guarantee Law and in circumstances where the DGF lacks sufficient funds, in 2020 the Commission entered into contracts with two Latvian credit institutions regarding the lending to the DGF in amount of 150 million euro, thus enabling the provision, on request, of the necessary funds for the pay-outs of guaranteed compensation. For this purpose, in 2020 the DGF earmarked 670.95 thousand euro. On 31 December 2020, the DGF liabilities for the earmarked funds to two Latvian credit institutions were 89 166 euro.

## 9. Litigation (Court Proceedings)

The Commission notes that there were no actual court proceedings related to the DGF in 2020.

## 10. Events after the Balance Sheet Date

It is difficult to forecast development of the future economic situation in relation to the unpredictable spread of the Covid-19 and the duration of the restrictions, which will have a significant impact on future economic development. The Commission's management is constantly assessing the situation and believes that the Commission will be able to overcome the state of emergency. However, this conclusion is based on the information available at the time of the signing of these financial statements and the impact of future developments on the Commission's future activities may differ from the management assessment.

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 require any adjustments or should be clarified in these financial statements. However, the Commission points out that in March 2021 the DGF received the first repayment from "Latvijas Krājbanka" AS in (liquidation) in amount of 3 million and in April 2021 the repayment from AS "PNB Banka" (in liquidation) of 5 million euro, which had a positive impact on the DGF's liquidity position. In addition, the Commission notes that for the purpose of efficient operating of Deposit Guarantee Scheme, the Commission has refused to conclude credit line agreements in 2021.

K. Černaja-Mežmale  
Member of the Board

Acting as  
S. Purgaile  
Chairwoman of the Financial and Capital Market Commission

22 June 2021

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

*Translation from Latvian***INDEPENDENT AUDITORS' REPORT****To the Parliament of the Republic of Latvia (Saeima)***Our opinion on the Financial Statements*

We have audited the accompanying financial statements of Deposit Guarantee Fund (the Fund), set out on pages 5 to 14 of the accompanying annual report, which comprise the balance sheet as at 31 December 2020, and the statement of income and expenses, cash flow statement, statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Deposit Guarantee Fund as of 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with the Financial Accounting Policy of the Financial and Capital Market Commission approved by the Commission's Board.

*Basis for Opinion*

In accordance with the Law on Audit Services of the Republic of Latvia we conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statement section of our report.

We are independent of the Fund in accordance with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) and independence requirements included in the Law on Audit Services of the Republic of Latvia that are relevant to our audit of the financial statements in the Republic of Latvia. We have also fulfilled our other professional ethics responsibilities and objectivity requirements in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) and Law on Audit Services of the Republic of Latvia.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Reporting on Other Information*

The Fund management is responsible for the other information. The other information is the Management Report, as set out on pages 3 to 4 of the accompanying Annual Report.

Our opinion on the financial statement does not cover the other information included in the Annual Report, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statement, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statement or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed and in light of the knowledge and understanding of the entity and its environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### *Responsibilities of Management and Those Charged with Governance for the Financial Statement*

Management is responsible for the preparation of the financial statement that give a true and fair view in accordance with the Financial Accounting Policy of the Financial and Capital Market Commission approved by the Commission's Board and for such internal control as management determines is necessary to enable the preparation of financial statement that are free from material misstatement, whether due to fraud or error.

In preparing the financial statement, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

### *Auditor's Responsibility for the Audit of the Financial Statement*

Our objectives are to obtain reasonable assurance about whether the financial statement as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statement.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statement, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statement or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statement, including the disclosures, and whether the financial statement represent the underlying transactions and events in a manner that achieves a fair presentation.



We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Baltic Audit SIA  
Company of Certified Auditors  
Licence No 176

*Gunta Darkevica*  
Member of the Board  
Certified auditor of Latvia  
Certificate No. 165

Riga, Latvia  
The date of the document is the date of its electronic signature

*This document is electronically signed with a secure electronic signature and contains a time stamp*