

**Financial Statements of Fund for the
Protection of the Insured for
2009**

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Abbreviations:

FPI – Fund for the Protection of the Insured

FPI1 – Fund for the Protection of the Insured made up by contributions of life insurance companies

FPI2 – Fund for the Protection of the Insured made up by contributions of other insurance companies

Deposit Guarantee Fund

Management Report

The Financial and Capital Market Commission (hereinafter referred to also as the Commission) commenced its activities on 1 July 2001 and is operating in accordance with the Law on the Financial and Capital Market Commission and pursuant to Article 6 of the Law its task is to manage the Fund for the Protection of the Insured.

Within the framework of the budget for financing its activities, the Commission managed also the FPI. On 21 November 2008, based on Article 17 (9) of the Law on the Financial and Capital Market Commission, with Decision No 169 Commission's Board approved the Budget of the Financial and Capital Market Commission for 2009 thereby specifying the financing for activities of the Commission and the use of these funds.

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

In the reporting year, the State Audit Office did not perform any audits relating to activities of the FPI managed by the Commission.

Fund for the Protection of the Insured assets

In 2009, the FPI participants made payments into the FPI in accordance with the Commission's Regulations on Reporting Payments Made to the Fund for the Protection of the Insured approved by Decision No 91 of the Board of the Commission on 24 July 2009 and in accordance with the Regulations on the Procedure for Making Payments to the Fund for the Protection of the Insured approved by Decision No 23/8 by the Board of the Commission on 14 December 2001. The Commission conducted accounting in accordance with the Law on Accounting and, as an independent autonomous public institution possessing state property, prepared the FPI financial statements for the year 2009 in accordance with the Financial Accounting Policy of the Financial and Capital Market Commission approved by Decision No 43 of the Commission's Board on 27 March 2009.

In the reporting period, payments of participants of FPI amounted to 741.8 thousand lats. FPI revenues from investments were 339.5 thousand lats. Total net financial assets of FPI rose by 1 080.8 thousand lats, or 22.3%. By end-2009, net financial assets of FPI made up 5 937.6 thousand lats.

In accordance with the Law on Insurance Companies and Supervision Thereof, the Commission ensures accumulation and management of funds with the FPI for the purpose of the law, i.e. the Commission ensures entering of the FPI participants' payments into an account with the Bank of Latvia and places free assets of FPI in the Latvian government securities in accordance with the Investment Policy and Investment Procedures for the Deposit Guarantee Fund and the Fund for the Protection of the Insured of 15 September 2006 approved by the Commission's Board.

In 2009, FPI assets were invested pursuant to the Investment Policy and Investment Procedures for the Deposit Guarantee Fund and the Fund for the Protection of the Insured, which stipulate asset investments only in the primary market of securities in the currency in which payments from FPI are made. Above investment policy prescribes that the FPI 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 2009, FPI assets managed by the Commission were invested in compliance with the agreement entered into with the State Treasury on the primary placement of the assets of the Fund for the Protection of the Insured into the Latvian treasury securities.

In the reporting period, the Commission placed the FPI assets into the short-term Latvian State treasury securities. By end-2009, of total FPI securities portfolio, 56% were placed into the long-term securities and the rest – 44% – in short-term securities. Investment term structure of the Fund for the Protection of the Insured at the end of 2009 broken by debt security maturity was as follows: up to one year, 46.7%; from one year to five years, 13.4%; and from five years to ten years, 39.9%. In 2009, return on FPI assets was 6.29%, which was calculated by dividing the sum of investment revenues of the FPI during 2009 by the average asset value of the FPI assets in 2009.

Management of the Fund of the Protection of the Insured

In 2010, the Commission established the Fund Management Committee (Deposit Guarantee Fund, Fund for the Protection of the Insured and Investor Protection Scheme), comprised of eight Commission specialists in the relevant

Management Report

fund management areas and responsible for improvement, advancement and planning of the funds, as well as coordination of activities in case of unavailability of deposits, insolvency of the insurer or payment of compensation to investors. The make-up of the Fund Management Committee (hereinafter – the Committee) is comprised of the Chairperson of the Committee simultaneously being also a board member of the Commission, Deputy Chairman of the Committee and members of the Committee. The make-up of the Committee consists of the following structural units of the Commission:

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

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

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

- to draw up proposals to the Board of the Commission regarding the FPI management and binding internal rules of the Commission;
- to cooperate with international institutions (International Monetary Fund, European Forum of Deposit Insurers, European Commission etc.) within its authority, other public authorities and participants of the financial and capital markets in the area of FPI management;
- to review draft FPI financial reports;
- to consider and update the plan concerning the FPI management process and ensure control over its implementation.

The task for the Committee in 2010 in relation to the management of the FPI assets and compliance with responsibilities set by the Law on Insurance Companies and Supervision Thereof is to evaluate the FPI assets investment policy, which has to ensure assets in safe keeping, prompt accessibility of assets and their liquidity.

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

I. Krumane
Chairwoman
Financial and Capital Market Commission

7 May 2010

Fund for the Protection of the Insured

Balance Sheet

		(lats)			
ASSETS		31.12.2009		31.12.2008	
	Note	FPI1	FPI2	FPI1	FPI2
LONG TERM INVESTMENTS		816 054	2 350 484	851 507	2 526 843
Investments in securities	2	816 054	2 350 484	851 507	2 526 843
CURRENT ASSETS		747 281	2 023 820	423 485	1 055 202
Receivables		60 074	118 555	81 720	167 749
Due from the Fund's participants	3	60 074	118 554	81 720	167 749
Other receivables		-	1	-	-
Investments in securities	2	687 156	1 905 212	341 642	887 226
Cash		51	53	123	227
TOTAL ASSETS		1 563 335	4 374 304	1 274 992	3 582 045

LIABILITIES		31.12.2009		31.12.2008	
	Note	FPI1	FPI2	FPI1	FPI2
EQUITY	4	1 563 323	4 374 269	1 274 807	3 582 018
Net financial assets (result)		1 563 323	4 374 269	1 274 807	3 582 018
PAYABLES		12	35	185	27
Overpaid prepayments		-	-	175	-
Liabilities related to securities settlement services		12	35	10	27
TOTAL LIABILITIES		1 563 335	4 374 304	1 274 992	3 582 045

The accompanying notes on pages 9 to 12 form an integral part of these financial statements.

Financial statements presented on pages 5 to 12 have been approved by the Decision No 134 (Min. No 17, item 8) of 7 May 2010 of the Board of the Financial and Capital Market Commission.

Fund for the Protection of the Insured

Statement of Income and Expenses

(lats)					
		2009		2008	
Note	FPI1	FPI2	FPI1	FPI2	
REVENUES					
Payments by the Fund participants ¹	197 796	544 019	234 753	708 277	
Incomes from investment	90 853	248 608	61 009	160 755	
TOTAL REVENUES	288 649	792 627	295 762	869 032	
EXPENSES					
Guaranteed compensations	-	-	-	(64)	
Investment management expenses	(133)	(376)	(102)	(285)	
TOTAL EXPENSES	(133)	(376)	(102)	(349)	
EXCESS OF REVENUES OVER EXPENSES (RESULT)	288 516	792 251	295 660	868 683	

The accompanying notes on pages 9 to 12 form an integral part of these financial statements.

¹ In accordance with Article 95 (1) of the Law on Insurance Companies and Supervision Thereof.

Fund for the Protection of the Insured

Cash Flow Statement

					(lats)
		2009		2008	
	Note	FPI1	FPI2	FPI1	FPI2
FINANCING					
Payments by Fund participants ²		219 442	593 214	313 639	751 098
Other payments		(175) ³	-	175 ⁴	-
CASH FLOW FROM FINANCING ACTIVITIES		219 267	593 214	313 814	751 098
INVESTMENT ACTIVITIES					
Increase in debt securities		(291 474)	(796 319)	(734 306)	(1 041 671)
Income from investments		72 265	203 299	325 575	136 880
CASH FLOW FROM INVESTMENT ACTIVITIES		(219 209)	(593 020)	(408 731)	(904 791)
EXPENSES					
Payment of guaranteed compensations ⁵		-	-	-	-
Investment management expenses		(130)	(368)	(93)	(257)
TOTAL EXPENSES		(130)	(368)	(93)	(257)
NET CHANGE IN CASH IN THE REPORTING PERIOD		(72)	(174)	(95 010)	(153 950)
Cash balance at the beginning of the reporting period		123	227	95 133	154 177
Cash balance at the end of the reporting period		51	53	123	227

The accompanying notes on pages 9 to 12 form an integral part of these financial statements.

² In accordance with Article 95 (1) of the Law on Insurance Companies and Supervision Thereof.

³ Repayment of assets transferred into the Fund by mistake.

⁴ Assets transferred into the Fund by mistake.

⁵ In case of insurer's insolvency FPI guarantees repayment of compensations under the procedure provided for in the Law on Insurance Companies and Supervision Thereof.

Fund for the Protection of the Insured

Statement of Changes in Equity

	Net financial assets		(lats)
	FPI1	FPI2	Equity
Note			FPI
			4
Result 31.12.2007	979 147	2 713 335	3 692 482
Budget result of the reporting period	295 660	868 683	1 164 343
Result 31.12.2008	1 274 807	3 582 018	4 856 825
Budget result of the reporting period	288 516	792 251	1 080 767
Result 31.12.2009	1 563 323	4 374 269	5 937 592

The accompanying notes on pages 9 to 11 form an integral part of these financial statements.

Notes to Financial Statements

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

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

The Commission's main tasks regarding enforcement of the Law on Insurance Companies and Supervision Thereof are as follow:

- to issue regulations and make decisions binding to insurers setting out the amount of information to be provided, as well as requirements for preparing information about the guaranteed insurance indemnities and reporting procedures;
- to organize transfer of insurers' payments into the FPI;
- to ensure accumulation of funds with the Fund for the Protection of the Insured, their management and payment of insurance indemnities in accordance with the Law on Insurance Companies and Supervision Thereof;
- to ensure separate accumulation and use of FPI part comprised of life insurers contributions and FPI part comprised of contributions made by other insurers;
- to determine the procedure, time and place for the payment of insurance indemnities and publish the information;
- to consider complaints regarding the right of the insured to the insurance indemnity, as well as the amount of insurance indemnity and the time limits for pay-out, as well as to organize the pay-out of insurance indemnity;
- to exercise the right of creditors to make claims against the insurers in the amount of the insurance indemnity;
- to analyse regulatory requirements pertaining to activities of insurers and draft proposals for their improvement and harmonisation with the regulatory requirements of Community;
- to cooperate with the relevant foreign financial and capital markets supervisory authorities which are responsible for the guarantee scheme, and participate in international organizations of the financial and capital market supervision institutions regarding the guarantee scheme.

The Commission makes independent decisions within the limits of its authority, executes functions assigned to it by law and is responsible for their execution. No one is entitled to interfere with the activities of the Commission, except the institutions and officials authorised by law. The Commission's legal ability and capacity 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's offices are located at Kungu iela 1 in Riga.

1. Accounting Policies of the Commission

Basis for Preparation of the Financial Statements

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

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

The Commission presented all assets and liabilities related to FPI in the balance sheet, including part of the funds of FPI1 and FPI2 in separate balance sheets. The Commission reflected all revenues and expenses related to FPI 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 derived on the basis of the classes of natural person insurance performed by the insurers where the interest of the insured are to be protected and reporting on the payments provided in accordance with the provisions of the Law on the Insurance Companies and Supervision Thereof. Expenses are recognised at the date of their occurrence.
- Assets are recognised at historic cost. Assets are booked on the date of their acquisition either in the amount of paid cash or cash equivalents or at the fair value of other consideration provided plus any other costs related directly to the acquisition of assets.

Notes to Financial Statements

- Transactions and other events are reflected under the principle of substance over form, stating that transactions and events shall be recognised and disclosed according to their contents and economic substance and not only according to their legal form.
- The financial statements have been prepared on an on-going concern basis.

Securities

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

Receivables

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

Investment income

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

2. Investments in Securities

This item contains the purchased Latvian State Treasury securities. The value of securities was disclosed in the balance sheet at amortised cost.

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

Issue No.	Issue date	Maturity date	(%) ⁶	Nominal value		Book value 31.12.2009	
				FPI1	FPI2	FPI1	FPI2
LV0000590024	04.07.2008.	04.07.2019.	6.74	330 500	862 600	339 267	885 482
LV0000590016	10.08.2007.	10.08.2018.	5.81	164 000	373 100	161 913	366 158
LV0000580033	02.12.2005.	02.12.2015.	3.99	97 100	531 700	93 084	511 954
LV0000580017	14.02.2003.	14.02.2013.	4.86	100 000	295 000	104 914	309 495
LV0000570059	03.11.2006.	03.11.2011.	5.23	117 400	277 900	116 876	277 395
Long-term investments				809 000	2 340 300	816 054	2 350 484

Issue No.	Issue date	Maturity date	(%) ⁶	Nominal value		Book value 31.12.2009	
				FPI1	FPI2	FPI1	FPI2
LV0000541258	03.12.2009.	03.12.2010.	11.62	-	95 300	-	85 073
LV0000541217	05.11.2009.	05.11.2010.	14.61	165 700	558 400	145 138	489 108
LV0000541209	29.10.2009.	29.10.2010.	14.90	10 400	68 400	9 117	59 965
LV0000541142	03.09.2009.	03.09.2010.	14.53	40 700	56 400	36 714	50 877
LV0000532570	03.12.2009.	04.06.2010.	10.78	7 500	-	7 157	-
LV0000541134	04.06.2009.	04.06.2010.	12.67	231 000	424 000	218 567	401 180
LV0000541100	14.05.2009.	14.05.2010.	12.24	30 500	79 600	29 130	76 024
LV0000541092	29.04.2009.	30.04.2010.	11.49	14 700	62 600	14 145	60 235
LV0000541076	02.04.2009.	01.04.2010.	9.27	19 900	254 200	19 435	248 258

⁶ Annual rate of return.

Notes to Financial Statements

2. Investments in Securities (continued)

Issue No.	Issue date	Maturity date	Maturity (%) ⁷	Nominal value		Book value 31.12.2009	
				FPI1	FPI2	FPI1	FPI2
LV0000541068	19.03.2009.	19.03.2010.	8.39	70 600	32 700	69 334	32 114
LV0000541050	19.02.2009.	19.02.2010.	7.22	93 200	199 300	92 278	197 329
LV0000532430	13.08.2009.	12.02.2010.	11.95	10 000	26 200	9 859	25 831
LV0000570042	04.02.2005.	04.02.2010.	3.35	35 800	176 800	36 282	179 218
Short-term investments				730 000	2 033 900	687 156	1 905 212

Issue No.	Issue date	Maturity date	Maturity (%) ⁷	Nominal value		Book value 31.12.2008	
				FPI1	FPI2	FPI1	FPI2
LV0000590024	04.07.2008.	04.07.2019.	6.74	330 500	862 600	340 209	887 941
LV0000590016	10.08.2007.	10.08.2018.	5.81	164 000	373 100	161 417	364 847
LV0000580033	02.12.2005.	02.12.2015.	3.99	97 100	531 700	92 414	508 925
LV0000580017	14.02.2003.	14.02.2013.	4.86	100 000	295 000	105 047	309 889
LV0000570059	03.11.2006.	03.11.2011.	5.23	117 400	277 900	116 135	276 017
LV0000570042	04.02.2005.	04.02.2010.	3.35	35 800	176 800	36 285	179 224
Long-term investments				844 800	2 517 100	851 507	2 526 843

Issue No.	Issue date	Maturity date	Maturity (%) ⁷	Nominal value		Book value 31.12.2008	
				FPI1	FPI2	FPI1	FPI2
LV0000541019	05.12.2008.	04.12.2009.	11.15	3 700	66 700	3 318	59 811
LV0000540987	07.11.2008.	06.11.2009.	9.63	27 900	192 200	25 617	176 475
LV0000540979	04.09.2008.	04.09.2009.	8.23	34 800	49 300	33 133	46 528
LV0000540961	06.06.2008.	05.06.2009.	6.91	203 600	355 900	197 603	345 417
LV0000550085	30.03.2007.	30.03.2009.	5.62	17 300	219 800	18 061	229 467
LV0000540953	13.03.2008.	13.03.2009.	6.29	64 700	29 900	63 910	29 528
Short-term investments				352 000	913 800	341 642	887 226

Total book value of securities:

31.12.2009		31.12.2008	
FPI1	FPI2	FPI1	FPI2
1 503 210	4 255 696	1 193 149	3 414 069

3. Due from Market Participants to the FPI

This item contains amounts due from FPI participants for Q4 2009, Q4 2008 and Q3 2008 in the amount of 25 176 lats.

4. Equity

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

⁷ Annual rate of return.

Notes to Financial Statements

5. Events after the Balance Sheet Date

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

INDEPENDENT AUDITORS' REPORT

To the Parliament of the Republic of Latvia

Report on the Financial Statements

We have audited the accompanying financial statements of the Fund for the Protection of the Insured (hereinafter – the Fund) for the year ended 31 December 2009, set out on pages 5 through 12 which comprise the balance sheet as at 31 December 2009, the statements of income and expense, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Report on Compliance of the Management Report

Furthermore, we have read the Management Report for the year ended 31 December 2009 (included on pages 3 through 4 of the accompanying 2009 annual report) and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2009.

SIA Ernst & Young Baltic
Licence No. 17

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

Riga, 7 May 2010