

**Financial Statements of Fund for the
Protection of the Insured for
2010**

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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

Fund for the Protection of the Insured

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 its task is to manage the Fund for the Protection of the Insured pursuant to Article 6 of the Law hereof.

In the reporting year, the Commission managed also the FPI within the framework of the budget for financing its activities. On 4 December 2009, based on Article 17 (9) of the Law on the Financial and Capital Market Commission, with Decision No 156 the Commission's Board approved the Budget of the Financial and Capital Market Commission for 2010 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 2010 was entered into with Ernst & Young Baltic SIA, which was represented by Sworn Auditor of the Republic of Latvia Diāna Krišjāne (Certificate No 124).

Fund for the Protection of the Insured Assets

In 2010, 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. 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 2010 in accordance with the Financial Accounting Policy of the Financial and Capital Market Commission approved by Decision No 43 of the Commission's Board on 27 March 2009.

In the reporting period, payments of FPI participants amounted to 635.6 thousand lats. FPI revenues from investments were 442.7 thousand lats. Total net financial assets of FPI rose by 1 077.7 thousand lats, or by 18.2%. At end-2010, net financial assets of FPI made up 7 015.3 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 or in time deposits with the Bank of Latvia in accordance with the Investment Policy and Investment Procedures for the Deposit Guarantee Fund and the Fund for the Protection of the Insured of 15 September 2006 approved by the Commission's Board, as well as with the Investment Policy and Investment Procedures for the Deposit Guarantee Fund and the Fund for the Protection of the Insured of 21 May 2010 replacing provisions of above Policies and Procedures.

In 2010, the 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 to be 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 2010, the 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, but time deposits were placed in accordance with the Agreement on Opening and Servicing of Accounts entered into between the Commission and the Bank of Latvia.

In the reporting period, the Commission placed the FPI assets into the Latvian State treasury securities and in 7-day time deposits. By end-2010, of total FPI securities portfolio, 56.4% were placed into the long-term securities and the rest – 43.6% – in short-term securities. Investment term structure of the Fund for the Protection of the Insured at the end of 2010 broken by the maturity of debt securities was as follows: up to one year, 49.4%, from one year to five years, 25.2%, and from five years to nine years, 25.4%. In 2010, return on the FPI assets was 6.84%, which was calculated by dividing the sum of FPI investment revenues during 2010 by the average asset value of the FPI assets in 2010.

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

Management Report

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 revise and update the plan concerning the FPI management process and ensure control over its implementation.

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

I. Krumane
Chairwoman
Financial and Capital Market Commission

8 April 2011

Fund for the Protection of the Insured

Balance Sheet

		(Lats)			
ASSETS		31.12.2010		31.12.2009	
	Note	FPI1	FPI2	FPI1	FPI2
LONG-TERM INVESTMENTS		923 285	2 573 897	816 054	2 350 484
Investments in securities	2	923 285	2 573 897	816 054	2 350 484
CURRENT ASSETS		967 082	2 551 112	747 281	2 023 820
Receivables		68 285	108 142	60 074	118 555
Due from the Fund's participants	3	68 284	108 142	60 074	118 554
Other receivables		1	-	-	1
Investments in securities	2	895 365	2 442 596	687 156	1 905 212
Cash		3 432	374	51	53
TOTAL ASSETS		1 890 367	5 125 009	1 563 335	4 374 304
<hr/>					
LIABILITIES		31.12.2010		31.12.2009	
	Note	FPI1	FPI2	FPI1	FPI2
EQUITY	4	1 890 353	5 124 969	1 563 323	4 374 269
Net financial assets (result)		1 890 353	5 124 969	1 563 323	4 374 269
PAYABLES		14	40	12	35
Liabilities related to securities settlement services		14	40	12	35
TOTAL LIABILITIES		1 890 367	5 125 009	1 563 335	4 374 304

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 62 (Min. No 14 item 7) of 8 April 2011 of the Board of the Financial and Capital Market Commission.

Fund for the Protection of the Insured

Statement of Income and Expenses

(Lats)					
		2010		2009	
	Note	FPI1	FPI2	FPI1	FPI2
REVENUES					
Payments by the Fund participants ¹		210 726	424 907	197 796	544 019
Incomes from investment		116 467	326 245	90 853	248 608
TOTAL REVENUES		327 193	751 152	288 649	792 627
EXPESNES					
Investment management expenses		(163)	(452)	(133)	(376)
TOTAL EXPENSES		(163)	(452)	(133)	(376)
EXCESS OF REVENUES OVER EXPENSES (RESULT)		327 030	750 700	288 516	792 251

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

¹In 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)

		2010		2009	
	Note	FPI1	FPI2	FPI1	FPI2
FINANCING					
Payments by the Fund participants ²		202 515	435 319	219 442	593 214
Other payments		-	-	(175) ³	-
CASH FLOW FROM FINANCING		202 515	435 319	219 267	593 214
INVESTMENT ACTIVITIES					
Increase in debt securities		(318 346)	(763 550)	(291 474)	(796 319)
Income from investments		119 372	328 999	72 265	203 299
CASH FLOW FROM INVESTMENT ACTIVITIES		(198 974)	(434 551)	(219 209)	(593 020)
EXPENSES					
Investment management expenses		(160)	(447)	(130)	(368)
TOTAL EXPENSES		(160)	(447)	(130)	(368)
NET CHANGE IN CASH IN THE REPORTING PERIOD		3 381	321	(72)	(174)
Cash balance at the beginning of the reporting period		51	53	123	227
Cash balance at the end of the reporting period		3 432	374	51	53

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.

Fund for the Protection of the Insured

Statement of Changes in Equity

	(Lats)		
	Net financial assets		Equity
	FPI1	FPI2	FPI
Note			4
Result 31.12.2008	1 274 807	3 582 018	4 856 825
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
Result of the reporting period	327 030	750 700	1 077 730
Result 31.12.2010	1 890 353	5 124 969	7 015 322

The accompanying notes on pages 9 to 12 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 whereby the amount of information to be provided is determined, as well as requirements for preparing information about the guaranteed insurance indemnities and reporting procedures;
- to arrange transfer of insurers' payments into the FPI;
- to ensure accumulation of funds with the FPI, 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 this 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 its pay-out, as well as to arrange 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 for 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 the FPI in a single balance sheet, separating the parts of the funds made up of life insurers payments from the payments of other insurers. 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 interests 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.

Notes to Financial Statements

- Assets are recognised at historic cost. Assets are booked on the date of their acquisition either in the amount of paid cash or cash equivalents or at the fair value of other consideration provided plus any other costs related directly to the acquisition of assets.
- Transactions and other events are reflected 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 trust of the Commission are being held to maturity. Held-to-maturity investments originally are recognized at acquisition cost (including transaction costs) and then revaluated at amortized prime cost, deducting impairment losses. Amortized prime cost is calculated under the 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 has been 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 as follow:

Issue No.	Issue date	Maturity date	Maturity (%) ⁴	Nominal value		Book value 31.12.2010	
				FPI1	FPI2	FPI1	FPI2
LV0000590024	04.07.2008.	04.07.2019.	6.74	330 500	862 600	339 436	885 921
LV0000590016	10.08.2007.	10.08.2018.	5.81	164 000	373 100	162 440	367 552
LV0000580033	02.12.2005.	02.12.2015.	3.99	97 100	531 700	93 731	515 151
LV0000570083	03.09.2010.	03.09.2015.	5.68	51 300	77 500	52 102	78 711
LV0000560043	23.04.2010.	23.04.2013.	5.79	164 800	403 100	170 803	417 481
LV0000580017	14.02.2003.	14.02.2013.	4.86	100 000	295 000	104 773	309 081
Long-term investments				907 700	2 543 000	923 285	2 573 897

Issue No.	Issue date	Maturity date	Maturity (%) ⁴	Nominal value		Book value 31.12.2010	
				FPI1	FPI2	FPI1	FPI2
LV0000541506	02.12.2010.	02.12.2011.	1.51	-	115 700	-	114 089
LV0000570059	03.11.2006.	03.11.2011.	5.23	117 400	277 900	117 659	278 851

⁴ Annual rate of return.

Fund for the Protection of the Insured

Notes to Financial Statements

LV0000541480	11.11.2010.	11.11.2011.	1.24	228 200	764 700	225 764	756 536
LV0000541456	03.06.2010.	03.06.2011.	3.70	247 300	439 700	243 436	432 831
LV0000541399	01.04.2010.	01.04.2011.	3.40	20 500	262 800	20 326	260 573
LV0000541381	18.03.2010.	18.03.2011.	3.47	73 100	33 800	72 564	33 552
LV0000541340	18.02.2010.	18.02.2011.	5.69	103 900	226 600	103 106	224 869
LV0000541332	11.02.2010.	11.02.2011.	6.17	10 600	58 100	10 525	57 687
LV0000541324	04.02.2010.	04.02.2011.	6.39	90 800	236 600	90 243	235 149
LV0000541316	28.01.2010.	28.01.2011.	6.44	11 800	48 700	11 742	48 459
Short-term investments				903 600	2 464 600	895 365	2 442 596

				Nominal value		Book value 31.12.2009	
Issue No.	Issue date	Maturity date	(%) ⁵	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

				Nominal value		Book value 31.12.2009	
Issue No.	Issue date	Maturity date	(%) ⁵	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
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

Total book value of securities:

31.12.2010		31.12.2009	
FPI1	FPI2	FPI1	FPI2
1 818 650	5 016 493	1 503 210	4 255 696

3. Due from Market Participants to the FPI

This item contains amounts due from FPI participants for Q4 2010.

⁵ Annual rate of return.

Notes to Financial Statements

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.

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 2010, set out on pages 5 through 12 which comprise the balance sheet as at 31 December 2010, the statements of income and expense, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Financial and Capital Market Commission's management is responsible for the preparation and fair presentation of these financial statements according to the Financial Accounting Policies of the Financial and Capital Market Commission approved by the Commission's Board, which are in compliance with International Public Sector Accounting Standards (IPSAS) used by public sector entities in the preparation of accounting and financial statements and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above give a true and fair view of the financial position of the Fund as at 31 December 2010, and of the results of their operations and their cash flows for the year then ended in accordance with the Financial Accounting Policies of the Financial and Capital Market Commission approved by the Commission's Board, which are in compliance with International Public Sector Accounting Standards (IPSAS) used by public sector entities in the preparation of accounting and financial statements.

Report on Compliance of the Management Report

Furthermore, we have read the Management Report for the year ended 31 December 2010 (included on pages 3 through 4 of the accompanying 2010 annual report) and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2010.

SIA „Ernst & Young Baltic”
Licence Nr. 17

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A SAFE ELECTRONIC SIGNATURE AND CONTAINS A TIME STAMP

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

Riga,
11 April 2011