

Financial Statements of Fund for the Protection of the Insured for 2011

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

Table of Contents

Management Report	3
Balance Sheet	5
Statement of Income and Expenses	6
Cash Flow Statement	7
Statement of Changes in Equity	8
Notes to the Financial Statements	9

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 20 December 2010, based on Article 17 (9) of the Law on the Financial and Capital Market Commission, with Decision No 333 the Commission's Board approved the Budget of the Financial and Capital Market Commission for 2011 thereby specifying the financing for activities of the Commission and the use of these funds.

Fund for the Protection of the Insured Assets

In 2011, the FPI participants made payments into the FPI in accordance with the Commission's Regulations on Reporting Payments due 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 kept accounting records 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 2011 in accordance with the Financial Accounting Policy of the Financial and Capital Market Commission approved by Decision No 102 of the Commission's Board on 28 April 2012.

In the reporting period, payments of FPI participants amounted to 689.6 thousand lats, while in 2010 - 635.6 thousand lats. FPI revenues from investments in 2011 were 332.1 thousand lats, while in 2010 - 442.7 thousand lats. Total net financial assets of FPI increased by 1 021 thousand lats, or by 15%. At the end of 2011, net financial assets of FPI were in the amount of 8 036.4 thousand lats.

In accordance with the Law on Insurance Companies and Supervision Thereof, the Commission ensures accumulation and management of the FPI funds in accordance with law requirements, i.e. the Commission ensures entering of the FPI participants' payments into an account with the Bank of Latvia and places free funds 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 2011, 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 that stipulates asset investments only in the primary securities market 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% to be held with the Bank of Latvia or to be invested in debt securities with maturity equal or less than one year. In 2011, the FPI assets managed by the Commission were invested in accordance with the agreement 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, and time deposits were placed in accordance with the Agreement on the Opening and Servicing of Accounts 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-2011, of total FPI securities portfolio, 78.6% were placed into the long-term securities and the rest – 21.4% – in short-term securities. Investment term structure of the Fund for the Protection of the Insured at the end of 2011 broken by the maturity of debt securities was as follows: up to one year, 21.4%, from one year to five years, 39.7%, and from five years to nine years, 38.9%. In 2011, return on the FPI assets was 4.41%, which was calculated by dividing the sum of FPI investment revenues during 2011 by the average asset value of the FPI assets in 2011. 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 for the Protection of the Insured

In 2010 the Commission established the Fund Management Committee (for management of Deposit Guarantee Fund, Fund for the Protection of the Insured and investor protection scheme), comprised of eight Commission specialists in the relevant fund management areas and responsible for improving, advancing 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) was comprised of the Chairperson of the Committee simultaneously being also a Board member of the Commission, Deputy

Management Report

Chairman of the Committee and members of the Committee. The Committee consisted of the representatives from the Supervision Department, Legal and Licensing Department, Financial Division, Information Technology Division and Commission's Office.

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

- to draw up proposals to the Board of the Commission regarding the FPI management and relevant 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 market in the area of FPI management;
- to review draft FPI financial report.

In 2012, the Commission set up the Guarantee Funds Division, which has taken over key responsibilities of the Committee in the area of Funds management and will be in charge of enhancing, improving and developing financing systems of the Latvian guarantee system (Deposit Guarantee Fund, Fund for the Protection of the Insured and investor protection scheme), under its mandate to cooperate with international institutions (International Monetary Fund, the European Deposit Insurance Forum, the European Commission etc.), other state institutions and the financial and capital market participants in the area of the FPI management, as well as in cooperation with the Commission experts to coordinate the necessary activities in case of unavailability of deposits, bankruptcy/insolvency of insurer or in case of payment of guaranteed compensations to depositors.

On 15 March 2012, the Commission entered into an agreement on the audit of the FPI financial statements for 2011 with SIA "Deloitte Audits Latvia", which was represented by Member of the Board Roberts Stūģis and Sworn Auditor of the Republic of Latvia Kitija Ķepīte (Certificate No 182), who have become acquainted with this Management Report.

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

Kristaps Zakulis
Chairman
Financial and Capital Market Commission

28 April 2012

Fund for the Protection of the Insured

Balance Sheet

		(Lats)			
ASSETS		31.12.2011		31.12.2010	
	Note	FPI1	FPI2	FPI1	FPI2
LONG-TERM INVESTMENTS		1 656 946	4 450 584	923 285	2 573 897
Investments in securities	2	1 656 946	4 450 584	923 285	2 573 897
CURRENT ASSETS		556 177	1 372 719	967 082	2 551 112
Receivables		72 279	116 215	68 285	108 142
Due from the Fund's participants	3	72 278	116 191	68 284	108 142
Other receivables		1	24	1	-
Investments in securities	2	480 412	1 122 122	895 365	2 442 596
Cash		3 486	134 382	3 432	374
TOTAL ASSETS		2 213 123	5 823 303	1 890 367	5 125 009
LIABILITIES		31.12.2011		31.12.2010	
	Note	FPI1	FPI2	FPI1	FPI2
EQUITY	4	2 213 106	5 823 260	1 890 353	5 124 969
Net financial assets (result)		2 213 106	5 823 260	1 890 353	5 124 969
PAYABLES		17	44	14	40
Liabilities related to securities settlement services		17	44	14	40
TOTAL LIABILITIES		2 213 123	5 823 304	1 890 367	5 125 009

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

Financial statements presented on pages 5 to 11 have been approved by the Decision No 103 (Min. No 18 item 16) of 28 April 2012 of the Board of the Financial and Capital Market Commission.

Fund for the Protection of the Insured

Statement of Income and Expenses

		2011		2010	
	Note	AAF1	AAF2	AAF1	AAF2
(Lats)					
REVENUES					
Payments by the Fund participants ¹		230 914	458 713	210 726	424 907
Incomes from investments		92 023	240 078	116 467	326 245
TOTAL REVENUES		322 937	698 791	327 193	751 152
EXPENSES					
Investment management expenses		(184)	(500)	(163)	(452)
TOTAL EXPENSES		(184)	(500)	(163)	(452)
EXCESS OF REVENUES OVER EXPENSES (RESULT)		322 753	698 291	327 030	750 700

The accompanying notes on pages 9 to 11 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)			
	2011		2010	
Note	FPI1	FPI1	FPI2	FPI2
CORE ACTIVITIES				
Payments by the Fund participants ²	226 920	450 664	202 515	435 319
CASH FLOW FROM CORE ACTIVITIES	226 920	450 664	202 515	435 319
INVESTMENT ACTIVITIES				
Increase in debt securities	(314 373)	(544 141)	(318 346)	(763 550)
Income from investments	87 689	227 982	119 372	328 999
Investment management expenses	(182)	(497)	(160)	(447)
CASH FLOW FROM INVESTMENT ACTIVITIES	(226 866)	(316 656)	(199 134)	(434 998)
NET CHANGE IN CASH IN THE REPORTING PERIOD	54	134 008	3 381	321
Cash balance at the beginning of the reporting period	3 432	374	51	53
Cash balance at the end of the reporting period	3 486	134 382	3 432	374

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

² In accordance with Article 95 (1) of 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 31.12.2009	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
Result of the reporting period	322 753	698 291	1 021 044
Result 31.12.2011	2 213 106	5 823 260	8 036 366

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 has been established and is operating in accordance with 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 the part of FPI comprised of life insurers contributions (FPI1) and the part of FPI comprised of contributions made by other insurers (FPI2);
- 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 the work of 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 office is located at Kungu iela 1 in Riga.

1. Accounting Policies of the Commission

Basis for Preparation of the Financial Statements

The annual financial statements were prepared based on the Financial Accounting Policies of the Financial and Capital Market Commission approved by the Commission's Board, which are in compliance with the International Public Sector Accounting Standards (IPSAS) used by 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 (FPI1) from the payments of other insurers (FPI2). 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 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 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 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 as follow:

Issue No	Issue date	Maturity date	Annual rate of return (%) ³	Nominal value		Book value 31.12.2011	
				FPI1	FPI2	FPI1	FPI2
LV0000580041	04.02.2011	04.02.2021	6.06	377 400	819 600	416 839	901 924
LV0000590024	04.07.2008	04.07.2019	6.74	330 500	862 600	339 615	886 390
LV0000590016	10.08.2007	10.08.2018	5.81	164 000	373 100	163 000	369 034
LV0000570091	29.06.2011	29.06.2016	4.17	310 900	955 000	316 196	971 079
LV0000580033	02.12.2005	02.12.2015	3.99	97 100	531 700	94 408	518 540
LV0000570083	03.09.2010	03.09.2015	5.68	51 300	77 500	52 126	78 748
LV0000560043	23.04.2010	23.04.2013	5.79	164 800	403 100	170 136	416 223
LV0000580017	14.02.2003	14.02.2013	4.86	100 000	295 000	104 626	308 646
Long-term investments				1 596 000	4 317 600	1 656 946	4 450 584

Issue No	Issue date	Maturity date	Annual rate of return (%) ³	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

³ Annual rate of return.

Fund for the Protection of the Insured

Notes to Financial Statements

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

				Nominal value		Book value 31.12.2011	
Issue No	Issue date	Maturity date	(%) ⁴	FPI1	FPI2	FPI1	FPI2
LV0000541704	04.11.2011	03.11.2012	1.72	184 600	423 600	181 933	4 17 481
LV0000541571	04.03.2011	02.03.2012	1.80	193 700	364 700	193 110	363 588
LV0000541563	11.02.2011	10.02.2012	1.94	105 600	341 800	105 369	341 053
Short-term investments				483 900	1 130 100	480 412	1 122 122

				Nominal value		Book value 31.12.2010	
Issue No	Issue date	Maturity date	(%) ⁴	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
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

Total book value of securities:

31.12.2011		31.12.2010	
AAF1	AAF2	AAF1	AAF2
2 137 358	5 572 706	1 818 650	5 016 493

3. Due from Market Participants to the FPI

This item contains amounts due from FPI participants for Q4 2011 and for Q4 2010.

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 were signed that would need to provide for adjustments or be clarified in the financial statement.

⁴ Annual rate of return.

INDEPENDENT AUDITOR'S REPORT

Translation from Latvian

To the Latvian Parliament:

Report on the financial statements

We have audited the accompanying financial statements of Fund for the Protection of the Insured (hereinafter the Fund) set out on pages 5 to 11 of the accompanying annual report, which comprise the balance sheet as of 31 December 2011, a statement of income and expenses for the year 2011, statement of changes in equity and cash flow statement for the year 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Finance and capital market commission accounting policy approved by the council of Finance and capital market commission that is prepared in accordance with International Public sector accountancy standard guidelines on accountancy and financial statements for units of the public sector, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

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

Report on Other Legal and Regulatory Requirements

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

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A SAFE ELECTRONIC SIGNATURE AND CONTAINS A TIME STAMP

Roberts Stūģis
Member of the Board

Rīga, Latvia
28 April 2012

Kitija Ķepīte
Certified auditor of Latvia
Certificate No. 145