

Financial Statements of Fund for the Protection of the Insured for 2012

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

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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 27 December 2011, based on Article 17 (9) of the Law on the Financial and Capital Market Commission, with Decision No 317 the Commission's Board approved the Budget of the Financial and Capital Market Commission for 2012 thereby specifying the financing for activities of the Commission and the use of these funds.

Fund for the Protection of the Insured Assets

In 2012, the FPI participants made contributions to 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 2012 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 736.2 thousand lats, while in 2011 - 689.6 thousand lats. FPI revenues from investments in 2012 were 349.2 thousand lats, but in 2011 – 332.1 thousand lats. Total net financial assets of FPI increased by 1 084.9 thousand lats, or 13.5%. At the end of 2012 net financial assets of FPI were in the amount of 9 121.2 thousand lats.

In accordance with the Law on Insurance Companies and Supervision Thereof, the Commission ensures accumulation and management of the FPI funds according to the purpose of above Law, i.e. the Commission ensures entering of the FPI participants' payments into a current 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 2012, 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 stipulate investment of funds 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 5% to be held with the Bank of Latvia or to be invested in debt securities with maturity equal or less than one year. In 2012, the FPI assets managed by the Commission were invested in accordance with the agreement between the Commission and 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 provisions of 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 the end of 2012, of total FPI securities portfolio pursuant to their original maturity, 66.6% were placed into the long-term securities and the rest, 33.4%, in short-term securities. Investment term structure of the Fund for the Protection of the Insured at the end of 2012 broken by the maturity of debt securities was as follows: up to one year, 44.3%, from one year to five years, 22.8%, and from five years to nine years, 32.9%. In 2012, return on the FPI assets was 4.07%, which was calculated by dividing the sum of FPI investment revenues during 2012 by the average asset value of the FPI assets in 2012. 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.

Management of the Fund for the Protection of the Insured

From 2010 to March 2012, the Fund Management Committee (for management of Deposit Guarantee Fund, Fund for the Protection of the Insured and investor protection scheme) was set up within the Commission, comprised of eight Commission specialists in the relevant fund management areas and responsible for improving, advancing and planning the activities 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

Management Report

Committee) was 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 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 March 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 paying out the guaranteed compensations to depositors.

On 15 March 2012, the Commission entered into an agreement with SIA "Deloitte Audits Latvia", according to which the audit firm will perform the audit of the FPI financial statements for a further five years, starting with the 2011 financial year. In performing the FPI financial statement audit for 2012, SIA "Deloitte Audits Latvia" was represented by the Member of the Board Roberts Stūģis and the Sworn Auditor of the Republic of Latvia Inguna Staša (Certificate No 145), who both 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

30 April 2013

Fund for the Protection of the Insured

Balance Sheet

(Lats)

| ASSETS | | 31.12.2012 | | 31.12.2011 | |
|-------------------------------------------------------|------|------------------|------------------|------------------|------------------|
| | Note | FPI1 | FPI2 | FPI1 | FPI2 |
| LONG-TERM INVESTMENTS | | 1 379 499 | 3 719 678 | 1 656 946 | 4 450 584 |
| Investments in securities | 2 | 1 379 499 | 3 719 678 | 1 656 946 | 4 450 584 |
| CURRENT ASSETS | | 1 183 399 | 2 838 870 | 556 177 | 1 372 719 |
| Accounts receivable | | 88 548 | 125 068 | 72 279 | 116 215 |
| Due from the Fund's participants | 3 | 88 548 | 125 067 | 72 278 | 116 191 |
| Other receivables | | - | 1 | 1 | 24 |
| Investments in securities | 2 | 1 091 351 | 2 695 081 | 480 412 | 1 122 122 |
| Cash | | 3 500 | 18 721 | 3 486 | 134 382 |
| TOTAL ASSETS | | 2 562 898 | 6 558 548 | 2 213 123 | 5 823 303 |
| <hr/> | | | | | |
| LIABILITIES | | 31.12.2012 | | 31.12.2011 | |
| | Note | FPI1 | FPI2 | FPI1 | FPI2 |
| EQUITY | 4 | 2 562 878 | 6 558 498 | 2 213 106 | 5 823 260 |
| Net financial assets (result) | | 2 562 818 | 6 558 498 | 2 213 106 | 5 823 260 |
| PAYABLES | | 20 | 50 | 17 | 44 |
| Liabilities related to securities settlement services | | 20 | 50 | 17 | 44 |
| TOTAL LIABILITIES | | 2 562 898 | 6 558 548 | 2 213 123 | 5 823 304 |

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

Financial statements presented on pages from 5 to 11 have been approved by the Decision No 88 (Min. No 17 item 2) of 30 April 2013 of the Board of the Financial and Capital Market Commission.

Fund for the Protection of the Insured

Statement of Income and Expenses

| | (Lats) | | | |
|------------------------------------------------------|----------------|----------------|----------------|----------------|
| | 2012 | | 2011 | |
| | FPI1 | FPI2 | FPI1 | FPI2 |
| REVENUES | | | | |
| Payments by the Fund's participants ¹ | 252 615 | 483 606 | 230 914 | 458 713 |
| Income from investments | 97 375 | 252 203 | 92 023 | 240 078 |
| TOTAL REVENUES | 349 990 | 735 809 | 322 937 | 698 791 |
| EXPENSES | | | | |
| Investment management expenses | (218) | (571) | (184) | (500) |
| TOTAL EXPENSES | (218) | (571) | (184) | (500) |
| EXCESS OF REVENUES OVER EXPENSES (RESULT) | 349 772 | 735 238 | 322 753 | 698 291 |

The accompanying notes on pages 9 to 11 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) | | | |
|--------------------------------------------------------------|------------------|------------------|------------------|------------------|
| | 2012 | | 2011 | |
| | FPI1 | FPI2 | FPI1 | FPI2 |
| CORE ACTIVITIES | | | | |
| Payments by the Fund's participants ² | 236 345 | 474 730 | 226 920 | 450 664 |
| CASH FLOW FROM CORE ACTIVITIES | 236 345 | 474 730 | 226 920 | 450 664 |
| INVESTMENT ACTIVITIES | | | | |
| Increase in debt securities | (334 945) | (843 971) | (314 373) | (544 141) |
| Income from investments | 98 829 | 254 144 | 87 689 | 227 982 |
| Investment management expenses | (215) | (564) | (182) | (497) |
| CASH FLOW FROM INVESTMENT ACTIVITIES | (236 331) | (590 391) | (226 866) | (316 656) |
| NET CHANGE IN CASH IN THE REPORTING PERIOD | 14 | (115 661) | 54 | 134 008 |
| Cash balance at the beginning of the reporting period | 3 486 | 134 382 | 3 432 | 374 |
| Cash balance at the end of the reporting period | 3 500 | 18 721 | 3 486 | 134 382 |

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 31.12.2010 | 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 |
| Result of the reporting period | 349 772 | 735 238 | 1 084 863 |
| Result 31.12.2012 | 2 562 878 | 6 558 498 | 9 121 229 |

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

Notes to the 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 of 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, draft proposals for improvement and harmonisation of the regulatory requirements with the Community rules and regulations;
- to cooperate with the relevant foreign financial and capital market 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 pertaining to the guarantee scheme.

The Commission makes independent decisions within the limits of its authority, performs 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 applied 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 the 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 rate 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 market, 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 reporting period of their occurrence applying effective interest rate method and it comprises interest income from debt securities.

2. Investments in securities

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

Investments of the FPI (in lats) were placed in the following Latvian Government securities' issues as follow:

| Issue No | Issue date | Maturity date | (%) ³ | Nominal value | | Book value 31.12.2012 | |
|------------------------------|------------|---------------|------------------|------------------|------------------|-----------------------|------------------|
| | | | | FPI1 | FPI2 | FPI1 | FPI2 |
| LV0000580041 | 04.02.2011 | 04.02.2021 | 6.06 | 377 400 | 819 600 | 414 370 | 895 822 |
| LV0000590024 | 04.07.2008 | 04.07.2019 | 6.74 | 330 500 | 862 600 | 339 807 | 886 891 |
| LV0000590016 | 10.08.2007 | 10.08.2018 | 5.81 | 164 000 | 373 100 | 163 594 | 370 609 |
| LV0000570091 | 29.06.2011 | 29.06.2016 | 4.17 | 310 900 | 955 000 | 314 492 | 965 537 |
| LV0000580033 | 02.12.2005 | 02.12.2015 | 3.99 | 97 100 | 531 700 | 95 116 | 522 032 |
| LV0000570083 | 03.09.2010 | 03.09.2015 | 5.68 | 51 300 | 77 500 | 52 120 | 78 787 |
| Long-term investments | | | | 1 331 200 | 3 619 500 | 1 379 499 | 3 719 678 |
| Issue No | Issue date | Maturity date | (%) 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 |

³ Annual rate of return.

Fund for the Protection of the Insured

Notes to the Financial Statements

| | | | | | | | |
|------------------------------|------------|------------|------|------------------|------------------|------------------|------------------|
| 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 | (%) ⁴ | Nominal value | | Book value 31.12.2012 | |
|-------------------------------|------------|---------------|------------------|------------------|------------------|-----------------------|------------------|
| | | | | FPI1 | FPI2 | FPI1 | FPI2 |
| LV0000541795 | 16.11.2012 | 15.11.2013 | 0.66 | 307 200 | 691 100 | 305 433 | 687 125 |
| LV0000541779 | 21.09.2012 | 20.09.2013 | 0.63 | 100 600 | 242 500 | 100 146 | 241 405 |
| LV0000560043 | 23.04.2010 | 23.04.2013 | 5.79 | 164 800 | 403 100 | 170 448 | 417 134 |
| LV0000541746 | 16.03.2012 | 15.03.2013 | 1.61 | 196 900 | 370 600 | 196 259 | 369 394 |
| LV0000541738 | 17.02.2012 | 15.02.2013 | 1.72 | 138 100 | 418 200 | 137 700 | 417 292 |
| LV0000580017 | 14.02.2003 | 14.02.2013 | 4.86 | 100 000 | 295 000 | 104 483 | 308 224 |
| LV0000541720 | 03.02.2012 | 01.02.2013 | 1.76 | 77 000 | 254 900 | 76 882 | 254 507 |
| Short-term investments | | | | 1 084 600 | 2 675 400 | 1 091 351 | 2 695 081 |

| Issue No | Issue date | Maturity date | (%) ⁴ | Nominal value | | Book value 31.12.2011 | |
|-------------------------------|------------|---------------|------------------|----------------|------------------|-----------------------|------------------|
| | | | | 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 |

Total book value of securities:

| 31.12.2012 | | 31.12.2011 | |
|------------|-----------|------------|-----------|
| FPI1 | FPI2 | FPI1 | FPI2 |
| 2 470 850 | 6 414 759 | 2 137 358 | 5 572 706 |

3. Due from Market Participants to the FPI

This item contains amounts due from FPI participants for Q4 2012 and Q4 2011.

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 6 to 11 of the accompanying annual report, which comprise the balance sheet as of 31 December 2012, a statement of income and expenses for the year 2012, statement of changes in equity and cash flow statement for the year 2012, 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 2012 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 2012 set out on pages 3 - 4 of the accompanying annual report for 2012 and have not identified any material inconsistencies between the financial information contained in the management report and the financial statements for 2012.

Deloitte Audits Latvia SIA
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A SAFE ELECTRONIC SIGNATURE AND CONTAINS A TIME STAMP

Roberts Stūģis
Member of the Board

Rīga, Latvia
30 April 2013

Inguna Staša
Certified auditor of Latvia
Certificate No. 145