

Financial Statements of Fund for the Protection of the Insured for 2014

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

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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 in accordance with 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 19 December 2013, based on Article 17 (9) of the Law on the Financial and Capital Market Commission, with Decision No 291 the Commission's Board approved the Budget of the Financial and Capital Market Commission for 2014 thereby specifying the financing for activities of the Commission and the use of these funds.

Funds for the Protection of the Insured Assets

In 2014, 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 authority possessing the State property, prepared the FPI financial statements for the year 2014 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 1 263.1 thousand euro, while in 2013 - 1 189.2 thousand euro. The FPI revenues from investments in 2014 were 474.3 thousand euro, but in 2013 - 478.2 thousand euro. Total net financial assets of FPI increased by 1 736 thousand euro, or 11.9%. At the end of 2014, net financial assets of FPI made up 16 380.7 thousand euro.

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 21 May 2010 approved by the Commission's Board.

In 2014, 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 2014, 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, whereas account balance compensation was paid according to the euro overnight index average (EONIA) rate by 10 June 2014, pursuant to the provisions of the Agreement on the Opening and Servicing of Accounts between the Commission and the Bank of Latvia. As from 11 June 2014, the Euro system deposit facility rate has been applied to the FPI account balances in the Bank of Latvia, which at the end of 2014 was below zero, i.e. negative: -0.2% (annual rate). However, in cases where the State Treasury's total current account balance was below 200 million euro per day, the Bank of Latvia applied a spread to the Commission's current accounts in the Bank of Latvia, among them including also the FPI accounts, but not exceeding the amount of Commission's current account balance. In such case the Bank of Latvia paid account balance compensation to the extent permitted, applying the EONIA rate provided that it was not below zero. In 2014, the FPI paid 325 euro, applying the Euro system deposit facility interest rate (negative).

In the reporting period, the Commission placed the FPI assets into the Latvian State treasury securities with original maturity of 12 months and five years. At the end of 2014, of total FPI securities portfolio pursuant to their original maturity 89.1% were placed into the long-term securities and the rest, 10.9%, in short-term securities. Investment maturity structure of the FPI at the end of 2014 broken by the maturity of debt securities was as follows: 17.8% - up to one year, 71.3% - from one year to five years, 10.9% - from five years to seven years. In 2014, return on the FPI assets was 3.05%, which was calculated by dividing the sum of FPI investment revenues during 2014 by the average asset value of the FPI assets in 2014. In 2013, return on the FPI assets was 3.46%.

Fund for the Protection of the Insured

Management Report

Management of the Fund for the Protection of the Insured

In March 2012, the Commission set up the Guarantee Funds Division, which has been 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 cooperation with international institutions (the International Monetary Fund, the European Deposit Insurance Forum, the European Commission etc.), other public authorities and the financial and capital market participants in the area of the FPI management, as well as in cooperation with the Commission experts coordination of the necessary activities in case of unavailability of deposits, bankruptcy/insolvency of insurer or in case of paying out the guaranteed compensations to the investors. In November 2014, this division was renamed the Resolution and Guarantee Funds Division, as it would be responsible for the resolution process management.

On 15 March 2012, the Commission entered into an agreement with SIA Deloitte Audits Latvia, according to which the audit firm would perform the audit of the FPI financial statements for the next five years, starting with the financial year 2011. In performing the FPI financial statement audit for 2014, SIA Deloitte Audits Latvia was represented by the Member of the Board Roberts Stugis 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

29 April 2015

Fund for the Protection of the Insured

Balance Sheet

(euro)

ASSETS		31.12.2014		31.12.2013	
	Notes	FPI1	FPI2	FPI1	FPI2
LONG-TERM INVESTMENTS		3 834 249	9 331 505	3 642 104	9 301 495
Investments in securities	2	3 834 249	9 331 505	3 642 104	9 301 495
CURRENT ASSETS		930 968	2 284 135	544 180	1 157 008
Accounts receivable		144 961	214 796	137 206	203 447
Due from the Fund's participants	3	144 961	214 796	137 206	203 446
Other receivables		-	-	-	1
Investments in securities	2	780 330	1 996 803	402 041	926 990
Cash		5 677	72 536	4 933	26 571
TOTAL ASSETS		4 765 217	11 615 640	4 186 284	10 458 503
LIABILITIES		31.12.2014		31.12.2013	
	Notes	FPI1	FPI2	FPI1	FPI2
EQUITY		4 765 180	11 615 542	4 186 251	10 458 424
Net financial assets (result)	4	4 765 180	11 615 542	4 186 251	10 458 424
PAYABLES		37	98	33	79
Liabilities related to securities settlement services		37	98	33	79
TOTAL LIABILITIES		4 765 217	11 615 640	4 186 284	10 458 503

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 70 (Min. No 17, item 4) of 29 April 2015 of the Board of the Financial and Capital Market Commission.

Fund for the Protection of the Insured

Statement of Income and Expenses

	(euro)			
	2014		2013	
	FPI1	FPI2	FPI1	FPI2
REVENUES				
Payments by the Fund's participants ¹	447 003	816 115	406 944	782 207
Income from investments	132 317	341 981	133 016	345 223
TOTAL REVENUES	579 320	1 158 096	539 960	1 127 430
EXPENSES				
Investment operating expenses	(391)	(978)	(356)	(908)
TOTAL EXPENSES	(391)	(978)	(356)	(908)
EXCESS OF REVENUES OVER EXPENSES (RESULT)		1 157 118	539 604	1 126 522

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

	(euro)			
	2014		2013	
	FPI1	FPI2	FPI1	FPI2
CORE ACTIVITIES				
Payments by the Fund's participants ²	439 248	804 767	395 732	756 716
CASH FLOW FROM CORE ACTIVITIES	439 248	804 767	395 732	756 716
INVESTMENT ACTIVITIES				
Increase in debt securities	(579 330)	(1 114 786)	(536 983)	(1 121 384)
Income from investments	141 213	356 953	141 556	365 500
Investment operating expenses	(387)	(969)	(351)	(899)
CASH FLOW FROM INVESTMENT ACTIVITIES	(438 504)	(758 802)	(395 778)	(756 783)
NET CHANGE IN CASH IN THE REPORTING PERIOD	744	45 965	(46)	(67)
Cash balance at the beginning of the reporting period	4 933	26 571	4 979	26 638
Cash balance at the end of the reporting period	5 677	72 536	4 933	26 571

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

			(euro)
	Net financial assets	Net financial assets	Equity
	FPI1	FPI2	FPI
Net financial assets 31.12.2012	3 646 647	9 331 902	12 978 549
Result of the reporting period	539 604	1 126 522	1 666 126
Net financial assets 31.12.2013	4 186 251	10 458 424	14 644 675
Result of the reporting period	578 929	1 157 118	1 736 047
Net financial assets 31.12.2014	4 765 180	11 615 542	16 380 722

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

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

- 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 coordinate 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, 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 possesses a segregated State property and has an independent balance sheet. The Parliament of the Republic of Latvia (*Saeima*) executes supervision of the Commission.

The Commission's office is located at 1 Kungu Street in Riga.

1. Accounting Policies

Basis for Preparation of the Financial Statements

The annual financial statements were prepared based on the Financial Accounting Policy of the Financial and Capital Market Commission approved by the Commission's Board, which is in compliance with the International Public Sector Accounting Standards used by public sector entities for preparing the 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 the revenues and expenses related to the 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 pursuant to 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 historical costs (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 strictly follows that settlements are made in due time. In case of occurrence of a doubtful debtor, if it is no longer a participant of financial and capital market, the debtor is excluded from the balance sheet item Accounts Receivable, thus 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 follows:

Issue No	Issue date	Maturity date	(%) ³	Nominal value		Book value 31.12.2014	
				FPI1	FPI2	FPI1	FPI2
LV0000580041	04.02.2011.	04.02.2021.	6.06	536 992	1 166 186	585 351	1 267 913
LV0000570125	21.11.2013.	21.11.2019.	1.875	399 000	880 000	407 796	899 096
LV0000590024	04.07.2008.	04.07.2019.	6.74	470 259	1 227 369	484 106	1 263 508
LV0000570117	04.10.2013.	04.10.2018.	1.96	524 613	1 178 138	530 444	1 191 233
LV0000590016	10.08.2007.	10.08.2018.	5.81	233 351	530 873	234 624	532 242
LV0000570091	29.06.2011.	29.06.2016.	4.17	442 371	1 358 843	448 761	1 378 144
LV0000560050	11.01.2013.	11.01.2016.	1.20	1 126 203	2 757 099	1 143 167	2 799 369
Long-term investments				3 732 789	9 098 508	3 834 249	9 331 505

Issue No	Issue date	Maturity date	(%) ³	Nominal value		Book value 31.12.2013	
				FPI1	FPI2	FPI1	FPI2
LV0000580041	04.02.2011.	04.02.2021.	6.06	536 992	1 166 186	587 532	1 272 203
LV0000590024	04.07.2008.	04.07.2019.	6.74	470259	1 227 369	483 794	1 262 695
LV0000570117	04.10.2013.	04.10.2018.	1.96	524 613	1 178 138	532 757	1 196 429
LV0000590016	10.08.2007.	10.08.2018.	5.81	233 351	530 873	233 671	529 710

³ Annual rate of return.

Notes to the Financial Statements

LV0000570091	29.06.2011.	29.06.2016.	4.17	442 371	1 358 843	448 108	1 375 944
LV0000560050	11.01.2013.	11.01.2016.	1.20	1 126 203	2 757 099	1 145 605	2 804 369
LV0000580033	02.12.2005.	02.12.2015.	3.99	138 161	756 541	136 391	747 981
LV0000570083	03.09.2010.	03.09.2015.	5.68	72 993	110 272	74 246	112 164
Long-term investments				3 544 943	9 085 321	3 642 104	9 301 495

Issue No	Issue date	Maturity date	(%) ⁴	Nominal value		Book value 31.12.2014	
				FPI1	FPI2	FPI1	FPI2
LV0000580033	02.12.2005.	02.12.2015.	3.99	138 161	756 541	137 491	753 415
LV0000570083	03.09.2010.	03.09.2015.	5.68	72 993	110 272	74 286	112 225
LV0000541985	10.07.2014.	10.07.2015.	0.152	569 000	1 132 000	568 553	1 131 163
Short-term investments				780 154	1 998 813	780 330	1 996 803

Issue No	Issue date	Maturity date	(%) ⁴	Nominal value		Book value 31.12.2013	
				FPI1	PIF2	FPI1	FPI2
LV0000541886	20.09.2013.	19.09.2014.	0.53	160 927	382 183	160 545	381 277
LV0000541811	01.02.2013.	31.01.2014.	0.33	241 604	545 956	241 496	545 713
Short-term investments				402 531	928 139	402 041	926 990

Total book value of securities:

31.12.2014		31.12.2013	
FPI1	FPI2	FPI1	FPI2
4 614 579	11 328 308	4 044 145	10 228 485

3. Due from Market Participants to the FPI

This item contains amounts due from the FPI participants for Q4 2014 and Q4 2013.

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

In 2013, the Commission cancelled all operating licences issued to the insurance undertaking IJSC "Balva", and bankruptcy proceedings were launched in that year. During the winding-up process in 2013 and 2014 the JSC "Balva" (in liquidation) was capable of settling liabilities to the insured. However, in case the IJSC "Balva" (in liquidation) failed to meet its liabilities, the FPI liability to the insured would occur only after declaring the IJSC "Balva" insolvent and at the time of materialization of the risk, it would be the case where the insurance indemnity is due. Having regard of restrictions on the activities of the IJSC "Balva", imposed in April 2013, preventing it from entering into new contracts, there is a small number of contracts that would potentially be subject to above risk, and they might have an insignificant impact on the FPI in the future taking account of insurance indemnity restrictions.

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 this financial statement.

⁴ Annual rate of return.

INDEPENDENT AUDITORS' REPORT

Translation from Latvian

To the Parliament of the Republic of Latvia:

Report on the Financial Statements

We have audited the accompanying financial statements of Fund for the Protection of the Insured set out on pages 5 to 11 of the accompanying annual report, which comprise the balance sheet as of 31 December 2014, and the statement of income and expenses, statement of changes in equity and statement of cash flows for the year then ended, 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 Financial and Capital Market Commission Council's approved Financial and Capital Market Commission's financial accounting policy which corresponds with International Public sector accounting standard guidelines of accounting and financial statement submitting to public sector units, 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 auditors' 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 auditors consider 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 Fund for the Protection of the Insured as of 31 December 2014 and of its financial performance and its cash flows for the year then ended in accordance with the Financial and Capital Market Commission Council's approved Financial and Capital Market Commission's financial accounting policy which corresponds with International Public sector accounting standard guidelines of accounting and financial statement submitting to public sector units.

INDEPENDENT AUDITORS' REPORT (continued)

Report on Other Legal and Regulatory Requirements

We have read the management report for 2014 set out on pages 3 to 4 of the accompanying annual report for 2014 and have not identified any material inconsistencies between the financial information contained in the management report and the financial statements for 2014.

SIA Deloitte Audits Latvia
License No. 43

THIS DOCUMENT IS SIGNED ELECTRONICALLY
WITH SECURE ELECTRONICAL SIGNATURE
WHICH CONTAINS TIME SEAL

Roberts Stūģis
Member of the Board

Inguna Staša
Certified Auditor
Certificate No. 145

Riga, Latvia
29 April 2015