

Financial Statements of Fund for the Protection of the Insured for 2019

Abbreviation:

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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Management Report

The Financial and Capital Market Commission (hereinafter referred to also as the Commission) commenced its activities on 1 July 2001 and has been 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 (hereinafter referred to also as FPI) in accordance with Section 6 of the Law hereof. The FPI management has been performed within the framework of the budget for financing the activities of the Commission.

The Commission kept accounting records in accordance with the Law on Accounting and prepared the FPI financial statements for the year 2019 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.

FPI Assets

In 2019, the FPI participants did not make payments in the FPI as they were suspended with the Commission's decision on 1 January 2016, having regard of the provisions of Section 288 (2) and (3) of the Insurance and Reinsurance Law.

In the reporting year, net financial assets of FPI grew by 138.2 thousand euro, or 0.7%, and on 31 December 2019 net financial assets (equity) of FPI made up 19 315.4 thousand euro.

In accordance with the Insurance and Reinsurance Law, the Commission shall ensure accumulation and management of the FPI assets pursuant to the purpose of above Law.

The Commission shall manage the FPI assets under the provisions of the Investment Policy and Investment Procedures for the Deposit Guarantee Fund and the Fund for the Protection of the Insured that stipulate investment of assets only in the primary securities market in the currency, in which payments from FPI are payable. In 2019, the FPI assets managed by the Commission were not invested in accordance with terms of investment in debt securities.

Two interest rates were applied to the balances of FPI accounts at the Bank of Latvia:

- 1) euro overnight index average rate (EONIA) calculated on the amount of balances of the Commission's current accounts, which does not exceed the difference between the total amount of the State Treasury's current accounts and 200 million euro, if the total balance of the State Treasury's current accounts is less than 200 million euro. The EONIA rate was negative throughout the reporting year and fluctuated on average around -0.368% (annual rate);
- 2) negative deposit facility interest rate, specified by the European Central Bank, applicable to the difference of balances of the Commission's accounts, for which the EONIA rate was not applied. Since mid-September the Eurosystem's deposit facility interest rate has been -0.5% (annual rate) (since mid-March 2016, the Eurosystem's deposit facility interest rate was -0.4%.

In general, when applying the interest rate of EONIA and Eurosystem's deposit facility, the Bank of Latvia withheld 626 thousand euro on the balances of the FPI accounts in 2019.

Results of the FPI Asset Investment Policy

In 2019, the assets held in the FPI accounts were not invested in debt securities. Investment maturity structure of the FPI at the end of 2019 broken by the maturity of debt securities was as follows: 57.48% - up to one year and 42.52% from one year to two years. In 2019, return on the FPI assets was 1.1%, which was calculated by dividing the sum of FPI investment revenues during 2019 by the average asset value of the FPI assets in 2019. In 2018, return on the FPI assets was 1.7%.

Audit of FPI Financial Statements

In accordance with an agreement between the Commission and SIA "Baltic Audit" on the audit of the FPI financial statements for 2019 entered into on 29 November 2019 the audit was performed by SIA "Baltic Audit".

Santa Purgaile
Chairwoman
Financial and Capital Market Commission

7 July 2020

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Financial Statements 2019

Balance Sheet as of 31 December 2019

| (euro) | | | | | |
|---|----------|------------------|-------------------|------------------|-------------------|
| ASSETS | | 31.12.2019 | | 31.12.2018 | |
| | Notes No | FPI1 | FPI2 | FPI1 | FPI2 |
| NON-CURRENT ASSETS | | 572 521 | 1 242 658 | 1 373 838 | 2 897 196 |
| Investments in securities | 2 | 572 521 | 1 242 658 | 1 373 838 | 2 897 196 |
| CURRENT ASSETS | | 5 099 638 | 12 407 118 | 4 254 253 | 10 654 819 |
| Accounts receivable | | - | - | - | - |
| Due from the Funds' participants | | - | - | - | - |
| Investments in securities | 2 | 800 290 | 1 652 658 | 2 679 833 | 7 173 088 |
| Cash | | 4 299 348 | 10 754 460 | 1 574 420 | 3 481 731 |
| TOTAL ASSETS | | 5 672 159 | 13 649 776 | 5 628 091 | 13 552 015 |
| (euro) | | | | | |
| LIABILITIES | | 31.12.2019 | | 31.12.2018 | |
| | Notes No | FPI1 | FPI2 | FPI1 | FPI2 |
| EQUITY | | 5 670 297 | 13 645 122 | 5 627 183 | 13 549 999 |
| Net financial assets (result) | 3 | 5 670 297 | 13 645 122 | 5 627 183 | 13 549 999 |
| PAYABLES | | 1 862 | 4 654 | 908 | 2 016 |
| Liabilities related to securities settlement services | | 1 862 | 4 654 | 908 | 2 016 |
| TOTAL LIABILITIES | | 5 672 159 | 13 649 776 | 5 628 091 | 13 552 015 |

The accompanying notes on pages 8 to 10 form an integral part of these financial statements.

Financial statements presented on pages from 4 to 7 have been approved by the Decision No 81 (Min. No 27, item 2) of 7 July 2019 of the Board of the Financial and Capital Market Commission.

Statement of Income and Expenses 2019

| | (euro) | | | |
|--|-----------------|-----------------|----------------|-----------------|
| | 2019 | | 2018 | |
| | FPI1 | FPI2 | FPI1 | FPI2 |
| REVENUES | | | | |
| Payments by the FPI participants ¹ | - | - | - | - |
| Income from investments | 63 370 | 144 386 | 96 347 | 226 409 |
| TOTAL REVENUES | 63 370 | 144 386 | 96 347 | 226 409 |
| EXPENSES | | | | |
| Current account expenses | (20 051) | (48 802) | (5 968) | (13 067) |
| Investment operating expenses | (205) | (461) | (437) | (1 075) |
| TOTAL EXPENSES | (20 256) | (49 263) | (6 405) | (14 142) |
| EXCESS OF REVENUES OVER EXPENSES (NET RESULT) | 43 114 | 95 123 | 89 942 | 212 267 |

The accompanying notes on pages 8 to 10 form an integral part of these financial statements.

¹ In accordance with Section 288 (2) and (3) of the Insurance and Reinsurance Law the Commission suspended payments of participants in the Funds as from 1 January 2016.

Cash Flow Statement 2019

| | 2019 | | 2018 | |
|--|------------------|-------------------|------------------|------------------|
| | FPI1 | FPI2 | FPI1 | FPI2 |
| (euro) | | | | |
| CORE ACTIVITIES | | | | |
| Payments by the Funds' participants ² | - | - | - | - |
| Current account expenses | (16 892) | (42 029) | (7 732) | (17 026) |
| CASH FLOW FROM CORE ACTIVITIES | (16 892) | (42 029) | (7 732) | (17 026) |
| INVESTMENT ACTIVITIES | | | | |
| Decrease in debt securities | 2 668 729 | 7 142 636 | 1 054 393 | 2 303 776 |
| Income from investment | 73 317 | 172 640 | 107 379 | 250 545 |
| Investment operating expenses | (226) | (518) | (445) | (1 093) |
| CASH FLOW FROM INVESTMENT ACTIVITIES | 2 741 820 | 7 314 758 | 1 161 327 | 2 553 228 |
| Change in cash in the reporting period | 2 724 928 | 7 272 729 | 1 153 595 | 2 536 202 |
| Cash balance at the beginning of the reporting period | 1 574 420 | 3 481 731 | 420 825 | 945 529 |
| Cash balance at the end of the reporting period | 4 299 348 | 10 754 460 | 1 574 420 | 3 481 731 |

The accompanying notes on pages 8 to 10 form an integral part of these financial statements.

² In 2019 and 2018, the FPI participants did not make payments in the FPI as they were suspended with the Commission's decision as from 1 January 2016, having regard of Section 288 (2) and (3) of the Insurance and Reinsurance Law.

Statement of Changes in Equity 2019

| | (euro) | | |
|--|----------------------|----------------------|-------------------|
| | Net financial assets | Net financial assets | Equity |
| | FPI1 | FPI2 | FPI |
| Net financial assets 31.12.2017 | 5 537 241 | 13 337 732 | 18 874 973 |
| Result of the reporting period | 89 942 | 212 267 | 302 209 |
| Net financial assets 31.12.2018 | 5 627 183 | 13 549 999 | 19 177 182 |
| Result of the reporting period | 43 114 | 95 123 | 138 237 |
| Net financial assets 31.12.2019 | 5 670 297 | 13 645 122 | 19 315 419 |

The accompanying notes on pages 8 to 10 form an integral part of these financial statements.

Notes to the Financial Statements

1. Accounting Policies for FPI

Basis for the Preparation of the Financial Statements

The annual financial statements for the reporting period were prepared based on the Financial Accounting Policy of the Financial and Capital Market Commission approved by the Commission's Board.

The accounting principles 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 from the payments of other insurers. 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, regardless of the time of settlement of accounts. 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 Insurance and Reinsurance Law. Expenses are recognised at the date of their occurrence.
- 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 presented according to their contents and economic substance and not only based on their legal form.
- The financial statements have been prepared on an on-going concern basis.

Securities

Securities in trust of the Commission are held for the purpose of obtaining principal and interest payments. 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 pursuant to 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 the timely fulfilment of obligations. In case of occurrence of a doubtful debtor, if it is no longer a participant of financial and capital markets, 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 reflected in the balance sheet at amortised cost.

In the context of the European Central Bank's policy to stimulate macroeconomic processes, one of the main instruments of which is the setting of an appropriate bank refinancing rate, as well as taking into account the impact of this rate in financial markets as a whole, including on the rates of yield of government bonds, investment of FPI assets in debt securities became disadvantageous, therefore the FPI assets were not invested in debt securities during the year 2019. In the reporting period, Latvian State securities in nominal value 9 790 628 euro were outstanding.

Investments of the FPI (euro) were placed in the Latvian Government securities' issues as follows:

| Issue No | Issue date | Maturity date | (%) ³ | Nominal value | | Book value 31.12.2019 | |
|------------------------------|------------|---------------|------------------|----------------|------------------|-----------------------|------------------|
| | | | | FPI1 | FPI2 | FPI1 | FPI2 |
| LV0000580041 | 04.02.2011 | 04.02.2021 | 6.06 | 536 992 | 1 166 186 | 572 521 | 1 242 658 |
| Long-term investments | | | | 536 992 | 1 166 186 | 572 521 | 1 242 658 |

| Issue No | Issue date | Maturity date | (%) ³ | Nominal value | | Book value 31.12.2019 | |
|-------------------------------|------------|---------------|------------------|----------------|------------------|-----------------------|------------------|
| | | | | FPI1 | FPI2 | FPI1 | FPI2 |
| LV0000570133 | 05.06.2015 | 05.06.2020 | 1.11 | 798 000 | 1 648 000 | 800 290 | 1 652 658 |
| Short-term investments | | | | 798 000 | 1 648 000 | 800 290 | 1 652 658 |

| Issue No | Issue date | Maturity date | (%) ³ | Nominal value | | Book value 31.12.2018 | |
|------------------------------|------------|---------------|------------------|------------------|------------------|-----------------------|------------------|
| | | | | FPI1 | FPI2 | FPI1 | FPI2 |
| LV0000580041 | 04.02.2011 | 04.02.2021 | 6.06 | 536 992 | 1 166 186 | 575 400 | 1 248 362 |
| LV0000570133 | 05.06.2015 | 05.06.2020 | 1.11 | 798 000 | 1 648 000 | 798 438 | 1 648 834 |
| Long-term investments | | | | 1 334 992 | 2 814 186 | 1 373 838 | 2 897 196 |

| Issue No | Issue date | Maturity date | (%) ³ | Nominal value | | Book value 31.12.2018 | |
|-------------------------------|------------|---------------|------------------|------------------|------------------|-----------------------|------------------|
| | | | | FPI1 | FPI2 | FPI1 | FPI2 |
| LV0000570125 | 21.11.2013 | 21.11.2019 | 1.875 | 399 000 | 880 000 | 401 344 | 884 977 |
| LV0000590024 | 04.07.2008 | 04.07.2019 | 6.74 | 470 259 | 1 227 369 | 485 582 | 1 267 361 |
| LV0000560076 | 12.02.2016 | 12.02.2019 | (0.039) | 1 793 000 | 5 021 000 | 1 792 907 | 5 020 750 |
| Short-term investments | | | | 2 662 259 | 7 128 369 | 2 679 833 | 7 173 088 |

Total book value of securities:

| 31.12.2019 | | 31.12.2018 | |
|------------|-----------|------------|------------|
| FPI1 | FPI2 | FPI1 | FPI2 |
| 1 372 811 | 2 895 316 | 4 053 671 | 10 070 284 |

3. Equity

This item represents net financial assets of the FPI (total result). Changes thereof are disclosed in the Statement of Changes in Equity for 2019 and Notes thereto.

4. Provisions for Potential Pay-outs from the FPI

In 2013, the Commission cancelled all operating licences issued to the insurance undertaking AAS "Balva", and self-liquidation procedure was launched in 2013. Whereas by the judgement of Riga City Northern District Court of 6 July 2016 in civil proceedings No C32261716 the legal person insurance undertaking IJSC "Balva", reg. no 40003064944, was declared insolvent; consequently, insolvency proceedings were initiated and an insolvency administrator was appointed.

The Commission notes that the deadline for submitting creditor claims against insolvent AAS "Balva" has been closed and since it does not have any existing insurance contracts with natural persons whose interests are protected by the FPI, the FPI liabilities to the persons insured by insolvent AAS "Balva" have not been registered. Whereas in 2016, the administrator included a creditor claim in the list of insolvent AAS "Balva" creditor claims, which is an insurance claim debt for 2005,

³ Annual rate of return.

FUND FOR THE PROTECTION OF THE INSURED

Financial and Capital Market Commission

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theoretically subject to the guaranteed insurance indemnity. The FPI shall be obliged to cover the guaranteed insurance indemnity only in case the insurer does not have sufficient funds for covering insurance claims in full, and on the basis of a list drawn by the administrator on the payable guaranteed insurance indemnities. Since the administrator has not requested the Commission to ensure insurance indemnity to that creditor, the FPI has not recognized in the FPI statements the possible provision of insurance indemnity to the person insured by insolvent AAS "Balva". The amount of insurance indemnity provided by the FPI would be 3 000 euro (according to Section 285 (1), Clause 2 of the Insurance and Reinsurance Law).

At the time of preparing the statement there were no other insolvent insurance undertakings.

5. Events after the Balance Sheet Date

Following the end of the financial year, in March 2020, restrictions related to the spread of the new coronavirus COVID-19 entered into force in the Republic of Latvia and other countries, which significantly hinders national and global economic development. It is not expected how the situation could develop in the future, and consequently there is uncertainty about economic development. The Commission's management is constantly assessing the situation and believes that the Commission will be able to overcome the COVID-19 situation. However, this conclusion is based on the information available at the time of the signing this financial statement and the impact of future developments on the Commission's further activities may differ from the management assessment.

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 require any adjustments or should be clarified in these financial statements.

Santa Purgaile
Chairwoman
Financial and Capital Market Commission

7 July 2020

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Translation form Latvian

INDEPENDENT AUDITORS' REPORT

To the Parliament of the Republic of Latvia (Saeima)

Our opinion on the Financial Statements

We have audited the accompanying financial statements of Fund for the Protection of the Insured (the Fund), set out on pages 4 to 10 of the accompanying annual report, which comprise the balance sheet as at 31 December 2019, and the statement of income and expenses, cash flow statement, statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Fund for the Protection of the Insured as of 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with the Financial Accounting Policy of the Financial and Capital Market Commission approved by the Commission's Board.

Basis for Opinion

In accordance with the Law on Audit Services of the Republic of Latvia we conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statement section of our report.

We are independent of the Fund in accordance with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) and independence requirements included in the Law on Audit Services of the Republic of Latvia that are relevant to our audit of the financial statements in the Republic of Latvia. We have also fulfilled our other professional ethics responsibilities and objectivity requirements in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) and Law on Audit Services of the Republic of Latvia.

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

Other matter

The financial statements for the year ended 31 December 2018 were audited by other auditors who issued an unmodified opinion on 7 May 2019.

Reporting on Other Information

The Fund management is responsible for the other information. The other information is the Management Report, as set out on page 3 of the accompanying Annual Report.

Our opinion on the financial statement does not cover the other information included in the Annual Report, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statement, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statement or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed and in light of the knowledge and understanding of the entity and its environment obtained in the course of our audit, we conclude that there is a material

misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statement

Management is responsible for the preparation of the financial statement that give a true and fair view in accordance with the Financial Accounting Policy of the Financial and Capital Market Commission approved by the Commission's Board and for such internal control as management determines is necessary to enable the preparation of financial statement that are free from material misstatement, whether due to fraud or error.

In preparing the financial statement, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditor's Responsibility for the Audit of the Financial Statement

Our objectives are to obtain reasonable assurance about whether the financial statement as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statement.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statement, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statement or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statement, including the disclosures, and whether the financial statement represent the underlying transactions and events in a manner that achieves a fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Baltic Audit SIA
Company of Certified Auditors
Licence No 176

Gunta Darkevica
Member of the Board
Certified auditor of Latvia
Certificate No. 165

Riga, Latvia
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