

Financial Statements of Fund for the Protection of the Insured for 2020

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 2020 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 2020, the FPI participants did not make payments in the FPI as they were suspended by 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 34 thousand euro, or 0.18%, and on 31 December 2020 net financial assets (equity) of FPI made up 19 349.6 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. In 2020, the FPI assets owned by the Commission were not invested, considering conditions for investing in debt securities.

Two interest rates were applied to the balances of FPI accounts at *Latvijas Banka*:

- 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 -0.46% (annual rate);
- 2) negative deposit facility 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 2019, the Eurosystem's deposit facility interest rate has been -0.50% (annual rate).

In general, when applying the interest rate of EONIA and Eurosystem's deposit facility, *Latvijas Banka* withheld 77.7 thousand euro on the balances of the FPI accounts in 2020.

Results of the FPI Asset Investment Policy AAF

In 2020, the assets held in the FPI accounts were not invested in debt securities. Investment maturity structure of the FPI at the end of 2020 broken by the maturity of debt securities was: 100% up to one year. In 2020, return on the FPI assets was 0.6%, which was calculated by dividing the sum of FPI investment revenues during 2020 by the average asset value of the FPI assets in 2020. In 2019, return on the FPI assets was 1.1%.

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 2020 entered into on 29 November 2019 the audit was performed by SIA "Baltic Audit".

K. Černaja-Mežmale
Member of the Board

Acting as
S. Purgaile
Chairwoman of the Financial and Capital Market Commission

22 June 2021

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A SAFE ELECTRONIC SIGNATURE AND CONTAINS A TIME STAMP**

Financial Statements 2020

Balance Sheet as of 31 December 2020

		(euro)			
ASSETS		31.12.2020		31.12.2019	
	Notes No	FPI1	FPI2	FPI1	FPI2
NON-CURRENT ASSETS		-	-	572 521	1 242 658
Investments in securities	2	-	-	572 521	1 242 658
CURRENT ASSETS		5 685 178	13 671 779	5 099 638	12 407 118
Investments in securities	2	569 558	1 236 626	800 290	1 652 658
Cash		5 115 620	12 435 153	4 299 348	10 754 460
TOTAL ASSETS		5 685 178	13 671 779	5 672 159	13 649 776
		(euro)			
LIABILITIES		31.12.2020		31.12.2019	
	Notes No	FPI1	FPI2	FPI1	FPI2
EQUITY		5 683 049	13 666 601	5 670 297	13 645 122
Net financial assets (result)	3	5 683 049	13 666 601	5 670 297	13 645 122
PAYABLES		2 129	5 178	1 862	4 654
Payables for services		2 129	5 178	1 862	4 654
TOTAL LIABILITIES		5 685 178	13 671 779	5 672 159	13 649 776

The accompanying notes on pages 8 and 9 form an integral part of these financial statements.

Financial statements presented on pages from 4 to 7 have been approved by the Decision No 80 (Min. No 28, item 7) of 22 June 2021 of the Board of the Financial and Capital Market Commission.

Statement of Income and Expenses 2020

	(euro)			
	2020		2019	
	FPI1	FPI2	FPI1	FPI2
REVENUES				
Income from investments	37 723	81 695	63 370	144 386
TOTAL REVENUES	37 723	81 695	63 370	144 386
EXPENSES				
Current account expenses	(24 887)	(60 036)	(20 051)	(48 802)
Investment operating expenses	(84)	(180)	(205)	(461)
TOTAL EXPENSES	(24 971)	(60 216)	(20 256)	(49 263)
EXCESS OF REVENUES OVER EXPENSES (NET RESULT)	12 752	21 479	43 114	95 123

The accompanying notes on pages 8 and 9 form an integral part of these financial statements.

Cash Flow Statement 2020

(euro)

	2020		2019	
	FPI1	FPI2	FPI1	FPI2
CORE ACTIVITIES				
Current account expenses	(22 200)	(54 674)	(16 892)	(42 029)
CASH FLOW FROM CORE ACTIVITIES	(22 200)	(54 674)	(16 892)	(42 029)
INVESTMENT ACTIVITIES				
Decrease in debt securities	838 563	1 735 560	2 668 729	7 142 636
Income from investment	-	-	73 317	172 640
Investment operating expenses	(91)	(193)	(226)	(518)
CASH FLOW FROM INVESTMENT ACTIVITIES	838 472	1 735 367	2 741 820	7 314 758
Change in cash in the reporting period	816 272	1 680 693	2 724 928	7 272 729
Cash balance at the beginning of the reporting period	4 299 348	10 754 460	1 574 420	3 481 731
Cash balance at the end of the reporting period	5 115 620	12 435 153	4 299 348	10 754 460

The accompanying notes on pages 8 and 9 form an integral part of these financial statements.

Statement of Changes in Equity 2020

	Net financial assets	Net financial assets	(euro) Equity
	FPI1	FPI2	FPI
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
Result of the reporting period	12 752	21 479	34 231
Net financial assets 31.12.2020	5 683 049	13 666 601	19 349 650

The accompanying notes on pages 8 and 9 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 2020. In the reporting period, Latvian State securities in nominal value 2 452 948 euro.

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

				Nominal value		Book value 31.12.2020	
Issue No	Issue date	Maturity date	(%)*	FPI1	FPI2	FPI1	FPI2
LV0000580041	04.02.2011	04.02.2021	6.06	536 992	1 166 186	569 558	1 236 626
Long-term investments				536 992	1 166 186	569 558	1 236 626

				Nominal value		Book value 31.12.2019	
Issue No	Issue date	Maturity date	(%)*	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

				Nominal value		Book value 31.12.2019	
Issue No	Issue date	Maturity date	(%)*	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

Total book value of securities:

31.12.2020		31.12.2019	
FPI1	FPI2	FPI1	FPI2
569 558	1 236 626	1 372 811	2 895 316

3. Equity

This item represents net financial assets of the FPI. Changes thereof are disclosed in the Statement of Changes in Equity for 2020 and Notes thereto.

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

K. Černaja-Mežmale
 Member of the Board

Acting as
 S. Purgaile
 Chairwoman of the Financial and Capital Market Commission

22 June 2021

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* Annual rate of return.

*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 9 of the accompanying annual report, which comprise the balance sheet as at 31 December 2020, 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 2020, 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.

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
The date of the document is the date of its electronic signature

This document is electronically signed with a secure electronic signature and contains a time stamp