

**Financial Statements
of the Financial and Capital Market
Commission for 2010**

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Management Report

The Financial and Capital Market Commission (hereinafter referred to also as the Commission) was established on 1 July 2001 and has been operating in accordance with the Law on the Financial and Capital Market Commission.

On 4 December 2009, based on Article 17 (9) of the Law on the Financial and Capital Market Commission, with Decision No 156, the Commission's Board approved the Budget of the Financial and Capital Market Commission for 2010, thereby specifying the financing for maintaining the activities of the Commission and the use of these financial resources. Considering the restrictions set for state administration officials in the area of remuneration and social guarantees in accordance with provisions of the Law on Remuneration of Officials and Employees of State and Local Government Authorities and associating itself with state administration, the Commission took appropriate measures to reduce the amount of financing for remuneration, cutting average pay by 20% per employee and suspending health insurance upon expiry of insurance contracts in 2010, as well as reducing the amounts of benefits to employees. The financial and capital market participants made payments for financing the activities of the Commission in 2010 in accordance with the Regulations No 157 On the Amount of Payments by Financial and Capital Market Participants for Financing the Financial and Capital Market Commission and on the Procedures for Submission of Reports for the Year 2010 approved by the Commission's Board on 4 December 2009.

The Commission conducted accounting in accordance with the Law on Accounting and, as an independent autonomous public institution with segregated state property, prepared financial statements for the year 2010 in accordance with the Financial Accounting Policy of the Financial and Capital Market Commission approved by Decision No 43 of the Commission's Board of 27 March 2009.

Pursuant to Article 6 of the Law on the Financial and Capital Market Commission, in the reporting year the Commission managed the Deposit Guarantee Fund and the Fund for the Protection of the Insured, preparing separate financial statements for each of the funds.

As the Commission falls within the definition of a contracting authority provided by the Law on Public Procurement, all procurements for ensuring the Commission's activities were made in compliance with the requirements of the Law hereto.

On 2 March 2010, the Commission entered into an agreement on the audit of the Commission's financial statements for 2010 with SIA "Ernst & Young Baltic", which was represented by Sworn Auditor of the Republic of Latvia Diāna Krišjāne (Certificate No 124).

Funds of the Commission

In 2010, activities of the Commission were financed from payments made by the financial and capital markets participants. In 2010, the revenues of the Commission accounted for 3 992.7 thousand lats or by 0.2% more than the planned revenues as laid down in the Commission's budget for year 2010 (3 985.5 thousand lats¹). The Commission had planned the revenues from the payments of financial and capital market participants of 3 976.5 thousand lats, however, revenue result made up 3 978.6 thousand lats. The excess of revenues over the planned revenues in the Commission's budget in 2010 was made up of the claims for payments in 2010 by the financial and capital market participants, who terminated their operations in 2010 or until preparing the Commission's financial statements for 2010, where the share of payment excess was recognized as revenues for 2010 in the amount of 2 thousand lats, and of the revenues from time deposits.

Total expenses of the Commission in 2010 amounted to 3 457.7 thousand lats. According to the Commission's budget planning, the Commission's expenses, excluding provisions for vacation, in 2010 made up 3 471.8 thousand lats, which was by 11.4% less than the planned expenses (3 9171.1 thousand lats)¹. The excess of revenues over expenses in 2010 was 535 thousand lats thereby raising the Commission's performance results.

An increase in net assets in 2010 by the above amount would be related to a slight excess financing in the amount of 0.2% in comparison with the planned revenues as specified in the approved budget, as well as economy of actual

¹ See Budget Performance (page 5).

Management Report

expenses in the amount of 11.4% as compared with planned expenses. At the end of 2010, the Commission's equity or net assets accounted for 2 938.9 thousand lats, or up by 22% in comparison with end-2009. At end 2010, assets for financing the activities of the Commission amounted to 3 193.1 thousand lats.

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

Irēna Krūmane
Chairwoman
Financial and Capital Market Commission

8 April 2011

Financial and Capital Market Commission

Budget Performance

With Decision No 156 of 4 December 2009 of the Board of the Commission, the Budget of the Financial and Capital Market Commission for 2010 was approved as a result approving the budget revenues for 2010 in the amount of 3 985 520 lats and expenses in the amount 3 917 160 lats.

(Lats)

	Actual result ²	Reporting year budget ²	Reporting year result, %	Budget surplus (+) or deficit (-)
REVENUES (+)	3 992 754	3 985 520	100.2	7 234
REVENUES RELATED TO SUPERVISION OF MONETARY FINANCIAL INSTITUTIONS	2 876 788	2 833 770	101.5	
Payments by credit institutions	2 864 138	2 821 120	101.5	
Payments by credit unions	12 650	12 650	100.0	
REVENUES RELATED TO INSURANCE SUPERVISION	936 073	935 780	100.0	
Payments by life assurance companies	131 902	131 750	100.1	
Payments by other insurance companies	804 171	804 030	100.0	
REVENUES RELATED TO SUPERVISION OF THE FINANCIAL INSTRUMENTS MARKET AND PRIVATE PENSION FUNDS	208 694	206 970	100.8	
Payments by securities market participants	163 694	161 970	101.1	
Payments by private pension funds	45 000	45 000	100.0	
TIME DEPOSITS INCOME AND OTHER REVENUES	(28 801)	9 000	-320	
Reduction in market participant financing ³ or revenues in the period before reporting period	(41 255)	-	-	
Income from interest on time deposits	12 454	9 000	138.4	
EXPENSES (-)	3 471 844	3 917 160	88.6	445 316
Staff remuneration and other payments, State social insurance compulsory contributions	2 685 095	2 845 800	94.4	
Staff remuneration and other payments	2 163 524	2 292 570	94.4	
State social insurance compulsory contributions	521 571	553 230	94.3	
Staff insurance	36 323	37 260	97.5	
Improvements of staff professional skills and business trips	166 211	269 280	61.7	
Telecommunication and information	102 505	120 890	84.8	
Public awareness campaigns and internal and external communications	11 881	22 400	53.0	
Maintenance and general service expenses	243 889	301 940	80.8	
Professional services	71 462	147 750	48.4	
Participation in international organisations	100 504	115 910	86.7	
Depreciation/amortisation/write-off of capital investments	53 974	55 930	96.5	
RESULT	520 910	68 360		452 550

² In compliance with the principle of accrual-based accounting.

³ In accordance with the Commission's Regulations No 157 of 4 December 2009, financial and capital market participants who have opened a branch abroad and who make payments to the supervisors of the relevant country for its supervision, are eligible to reduce their payment for financing the activities of the Commission by the amount of the payment to the foreign supervisory authority.

Financial and Capital Market Commission

Balance Sheet

			(Lats)	
ASSETS	Note	31.12.2010	31.12.2009	
LONG-TERM INVESTEMENTS	2	202 433	193 126	
Intangible investments		75 954	65 080	
Fixed assets		121 016	128 046	
Prepayments for long-term investments		5 463	-	
CURRENT ASSETS		2 990 671	2 419 754	
Inventories		52	43	
Accounts receivable		620 265	1 182 285	
Due from market participants to the Commission	3	607 124	1 175 661	
Other receivables	9	9 920	3 237	
Staff receivables		3 221	3 387	
Prepaid expenses	6	10 642	12 310	
Cash	10	2 359 712	1 225 116	
TOTAL ASSETS		3 193 104	2 612 880	

			(Lats)	
LIABILITIES	Note	31.12.2010	31.12.2009	
EQUITY	7	2 938 947	2 403 910	
Net assets of the Commission (result)		2 938 947	2 403 910	
PAYABLES		254 157	208 970	
Prepayments to the Commission by market participants	4	53 067	-	
Accounts payable to suppliers	8	71 489	66 544	
Accounts payable to staff		-	115	
Overpaid taxes	5	917	1 044	
Provision for vacations		111 956	126 087	
Provision for liabilities		16 728	15 180	
TOTAL LIABILITIES		3 193 104	2 612 880	

The accompanying notes on pages 10 to 18 form an integral part of these financial statements.

Financial statements presented on pages 6 to 16 have been approved by Decision No 62 (Min. No 14, item 7) of 8 April 2011 by the Board of the Financial and Capital Market Commission.

Financial and Capital Market Commission

Statement of Income and Expenses

	Note	2010	(Lats) 2009
REVENUES			
REVENUES RELATED TO SUPERVISION OF MONETARY FINANCIAL INSTITUTIONS		2 833 816	3 779 598
Payments by credit institutions		2 821 166	3 766 848
Payments by credit unions		12 650	12 750
REVENUES RELATED TO INSURANCE SUPERVISION		936 073	1 056 751
Payments by life assurance companies		131 902	120 881
Payments by other insurance companies		804 171	935 870
REVENUES RELATED TO SUPERVISION OF THE FINANCIAL INSTRUMENTS MARKET AND PENSION FUNDS		208 694	251 404
Payments by securities market participants		163 694	202 922
Payments by private pension funds		45 000	48 482
INCOME FROM INTEREST ON THE BALANCE OF THE CURRENT ACCOUNT		12 454	15 028
OTHER PAYMENTS ⁴		1 717	479
TOTAL REVENUES		3 992 754	5 103 260
EXPENSES			
Staff remuneration and other payments	11	(2 685 095) ⁵	(3 298 296)
Staff remuneration and other payments		(2 163 524)	(2 657 221)
State social insurance compulsory contributions		(521 571)	(641 075)
Provision for vacation		14 131	16 608
Staff insurance		(36 323) ⁶	(65 647) ⁷
Improvements of professional skills and business trips	12	(166 211)	(146 439)
Telecommunication and information	13	(102 505)	(106 738)
Public information and external and internal communications		(11 881)	(23 382)
Maintenance and general service expenses	14	(243 889)	(322 960)
Professional services	15	(71 462)	(101 442)
Participation in international organisations		(100 503)	(75 416)
Depreciation/amortisation/write-off of capital investments	2	(53 974)	(53 918)
TOTAL EXPENSES		(3 457 712)	(4 177 630)
EXCESS OF REVEUES OVER EXPENSES (RESULT)		535 042	925 630

The accompanying notes on pages 10 to 18 form an integral part of these financial statements.

⁴ Specified payments for previous periods by financial and capital market participants.

⁵ Item expenses were reduced showing solidarity with state administration employees, in 2010 cutting expenses for remuneration of each Commission's employee by 20% on average compared to the agreed remuneration for 2009.

⁶ Item expenses were reduced because of discontinuing staff health and accident insurance upon the expiry of such insurance contracts. In 2010, employee health insurance was covered for seven months, accident insurance coverage – for nine months.

⁷ Expenses on staff health and accident insurance coverage included for the full year 2009.

Financial and Capital Market Commission

Cash Flow Statement

	Note	2010	(Lats) 2009
RECEIPTS			
RECEIPTS RELATED TO SUPERVISION OF MONETARY FINANCIAL INSTITUTIONS		3 279 611	3 375 963
Payments by credit institutions		3 265 837	3 363 851
Payments by credit unions		13 774	12 112
RECEIPTS RELATED TO SUPERVISION OF INSURANCE		999 122	834 090
Payments by life assurance companies		149 527	35 578
Payments by other insurance companies		849 595	798 512
RECEIPTS RELATED TO SUPERVISION OF THE FINANCIAL INSTRUMENTS MARKET AND PENSION FUNDS		323 170	222 535
Payments by securities market participants		274 919	177 524
Payments by private pension funds		48 251	45 011
INCOME FROM INTEREST ON THE BALANCE OF THE CURRENT ACCOUNT		13 569	13 756
TOTAL RECEIPTS		4 615 472	4 446 344
EXPENSES			
Staff remuneration and other payments		(2 684 049)	(3 297 681)
Staff remuneration and other payments		(2 162 431)	(2 656 306)
State social insurance compulsory contributions		(521 618)	(641 375)
Staff insurance		(36 418)	(65 552)
Improvements of professional skills and business trips		(165 996)	(147 291)
Telecommunication and information		(103 064)	(109 922)
Public awareness campaigns and external and internal communications expenses		(11 009)	(23 254)
Maintenance and general service expenses		(248 631)	(330 637)
Professional services		(60 744)	(111 945)
Participation in international organisations		(107 680)	(75 416)
TOTAL EXPENSES		(3 417 591)	(4 161 698)
INVESTMENT ACTIVITIES			
Capital expenditure	2	(63 285)	(63 940)
TOTAL INVESTMENT ACTIVITIES		(63 285)	(63 940)
Net change in cash during the reporting period		1 134 596	220 706
Cash balance at the beginning of the reporting period		1 225 116	1 004 410
Cash balance at the end of the reporting period	10	2 359 712	1 225 116

The accompanying notes on pages 10 to 18 form an integral part of these financial statements.

Financial and Capital Market Commission

Statement of Changes in Equity

	(Lats)
	Equity (net assets) of the Commission
Note	
Result 31.12.2008	1 478 310
Result of the reporting period	925 600
Result 31.12.2009	2 403 910
Fixed assets write-off in 2010 charged directly to the result	1 (5)
Result of the reporting period	535 042
Result 31.12.2010	2 938 947

The accompanying notes on pages 10 to 18 form an integral part of these financial statements.

Notes to the Financial Statements

The Financial and Capital Market Commission was established and has been operating under 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 soundness of the financial and capital market.

In accordance with the Law on the Financial and Capital Market Commission, its key functions are as follow:

- to issue binding rules and regulations and directives setting out requirements for the functioning of financial and capital market participants and calculation and reporting of their performance indicators;
- to regulate activities of financial and capital market participants by controlling compliance with regulatory requirements and directives issued by the Commission;
- to specify the qualification and conformity requirement for financial and capital market participants and their officials;
- to establish the procedure for licensing and registration of financial and capital market participants;
- to collect and analyse information (data) relating to the financial and capital market and to publish it;
- to ensure accumulation of funds with the Deposit Guarantee Fund, and Fund for the Protection of the Insured, their management and payment of compensation from these funds in accordance with the Deposit Guarantee Law and Law on Insurance Companies and Supervision Thereof;
- to ensure payment of compensations to investors in accordance with the Investor Protection Law;
- to analyse regulatory requirements pertaining to the financial and capital market and draft proposals for their improvement and harmonisation with the regulatory requirements of Community;
- to engage in systemic studies, analysis and forecasting of the financial and capital market development;
- to cooperate with foreign financial and capital market supervisory authorities and participate in activities of international financial and capital market supervision institutions.

The Commission makes independent decisions within the limits of its authority, executes functions assigned to it by law, and is responsible for their execution. No one is entitled to interfere with the activities of the Commission, except 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 offices are located at Kungu iela 1 in Riga.

1. Accounting Policies of the Commission

Basis for Preparation of the Financial Statements

The financial statements for reporting year were prepared by using as guidelines 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 the public sector entities in the preparation of accounting and financial statements.

The accounting principles applied for the reporting period and previous years were used consistently.

The assets and liabilities presented in the financial statements are the assets and liabilities related to ensuring the activities of the Commission. The Commission reflected revenues and expenses related to its financing in the statements of income and expenses.

The long-term assets acquired from the budget for the Commission's establishment and commencement of activities at the launch of the Commission's activities were used to ensure activities of the Commission; consequently, these assets were included in the general balance sheet of the Commission, as well as asset depreciation/amortisation or write-off were included in the Commission's statement of income and expenses.

Notes to the Financial Statements

1. Accounting Policies of the Commission (continued)

Principles Applied in Preparing the Financial Statements

- The financial statements, except for the cash flow statement, are prepared in compliance with the principle of accrual-based accounting. 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 business operations performed by financial and capital market participants, which are reported and from which the payments are to be calculated. Expenses are recognised at the date of their occurrence, including accrued vacation expenses proportionate to the time actually worked. Accrued vacation expenses shall be specified for each staff member for his or her paid vacation days accrued up to 31 December of the respective calendar year.
- Assets are recognised at historic 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 acquisition of assets.
- Transactions and other events are reflected by taking into account 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.

Long-term Investments

Long-term investments were recognised by taking as guidelines the Commission's Financial Accounting Policies, which prescribe that they were intangible and fixed-type investments with the period of practical use over one year and they would be used for provision of services, maintenance of other fixed assets and the needs of the Commission's administration. In accordance with the Commission's Financial Accounting Policies, depreciation and amortisation rates for the Commission's long-term investments (annual interest) are as follow:

- software, licences and information systems, if their right of use is unlimited (if the right of use is limited, then in accordance with effectiveness of the right of use intangible assets) 20%
- other intangible assets licences 10%
- computers, data storage devices, communications and office equipment 20%
- other fixed assets 10%

Depreciation rates for the Commission's fixed assets were harmonized with depreciation rates for fixed assets set for budgetary institutions in the Republic of Latvia. Depreciation rates for long-term investments, acquired as from 2006, were applied in compliance with the Regulation No 440, On Fixed Asset Depreciation Rates for Budgetary Institutions and Application Conditions, issued by the Cabinet of Ministers of the Republic of Latvia on 21 June 2005 complying with above rates. Whereas depreciation rates for long-term investments, acquired before 2006, were applied in compliance with Regulation No 96, On Fixed Asset Depreciation Rates for Budgetary Institutions, issued by the Cabinet of the Republic of Latvia on 6 March 2001, stipulating the following annual depreciation rates:

- computers, data storage devices, communications and office equipment 35%
- other fixed assets 20%

The depreciation for the Commission's fixed assets is calculated until their residual value reaches 5 lats as provided for by the Regulations No 96 of the Cabinet of Ministers of 6 March 2001 On Fixed Asset Depreciation Rates for Budgetary Institutions. For reconstructing long-term investments acquired before 2006, their depreciation rates have been changed in compliance with provisions on fixed asset depreciation rates of the Regulation No 440, On Fixed Asset

Notes to the Financial Statements

Depreciation Rates for Budgetary Institutions and Application Conditions, issued by the Cabinet of Ministers of the Republic of Latvia on 21 June 2005.

The amount of depreciation calculated for fixed assets and value of excluded fixed assets were included into the Commission's statement of income and expenses, except for the fixed assets taken over from budgetary institutions (the Insurance Supervision Inspectorate, the Securities Market Commission and the Deposit Guarantee Fund Administration) on 1 July 2001, the depreciation of which was directly charged against the book value of fixed assets in the Commission's balance sheet still in 2006 and the Commission's equity (net assets). Such a method is provided by the Regulations No 96 of the Cabinet of Ministers of 6 March 2001 On Fixed Asset Depreciation Rates for Budgetary Institutions, for in the respective budgetary institutions fixed assets were expensed in their full value at the date of acquisition and a corresponding fixed asset fund for this amount was credited to equity. In 2010, as no depreciation for those fixed assets was developed. Six items were excluded from above fixed assets in 2009, but in 2010 – one item.

Notes to the Financial Statements**Accounts Receivable**

The Commission steadily follows that the financial and market participants make settlements in due time. In case of a doubtful debtor, if the debtor is no longer a participant of the financial and capital markets it will be removed from the balance sheet item *Accounts receivable* thereby decreasing revenues of the Commission in that reporting period during which the debtor was excluded.

Cash

In the cash flow statement, cash and its equivalents include demand deposits in lats and deposits (in lats) with original maturity up to three months.

2. Long-term Investments

	Book value 31.12.2008	Additions in the reporting period	Re-valuated	Write-offs or disposals	Depreciation			Book value 31.12.2009
					Charge in the reporting period	Corrections, transfer	Reversal due to disposals	
Intangible assets ⁸	53 442	35 074	-	-	(23 436)	-	-	65 080
Fixed assets								
Computers and office equipment	79 758	27 855	-	(16 413)	(25 876)	-	16 018	81 342
Other fixed assets	49 698	1 247	1 260	(9 527)	(4 201)	-	8 227	46 704
Prepayments for long-term investments	236	-	-	(236)	-	-	-	-
	183 134	64 176	1 260	(26 176)	(53 513)	-	24 245	193 126

	Book value 31.12.2009	Additions in the reporting period	Re-valuated	Disposals	Depreciation			Book value 31.12.2010
					Charge in the reporting period	Corrections, transfer	Reversal due to disposals	
Intangible assets ⁸	65 080	33 105	-	-	(22 231)	-	-	75 954
Fixed assets								
Computers and office equipment	81 342	21 739	-	(1 403)	(26 985)	-	883	75 576
Other fixed assets	46 704	2 978	-	(128)	(4 231)	-	117	45 440
Prepayments for long-term investments	-	5 463	-	-	-	-	-	5 463
	193 126	63 285	-	(1 531)	(53 447)	-	1 000	202 433

⁸ Licences, software and other intangible assets.

Notes to the Financial Statements

Changes in long-term investments in 2010 showing the amount of expenses disclosed in the statement of income and expenses:

	Charge	Disposals, excluding the accrued depreciation	Total
Depreciation/amortisation, write-off of capital investments charged to the statement of income and expenses	53 447	526	53 974
Fixed asset depreciation/write-off directly charged to the result, not included in the statement of income and expenses	-	5	5
	53 447	531	53 979

3. Due from Market Participants to the Commission

This item contains amounts due from financial and capital market participants to the Commission on the date set out in the statement. A decrease in liabilities of market participants to the Commission for financing its activities at end-2010 in comparison with end-2009 was due to reduction in the financing set for market participants of each relevant sector in 2010 pursuant to the Decision of the Commission's Board on the approval of the Budget of the Financial and Capital Market Commission for 2010, according to which in case any sector exceeds the prescribed amount of financing⁹ for the activities of the Commission, the share of excess for each market participant is set in accordance with the proportion of its payments to the Commission, and accordingly reducing the share of payments to the Commission for 2010, and upon executing the payment it has been included in the prepayments to the Commission by the market participant.

Due from different segments of financial and capital market participants to the Commission:

	31.12.2010	31.12.2009
Due from the monetary financial institution sector	422 794	868 589
Due from credit institutions	420 767	865 437
Due from credit unions	2 027	3 152
Due from insurance sector	174 551	237 601
Due from other insurance companies	157 841	203 266
Due from life assurance companies	16 710	34 335
Due from the financial instruments market and private pension funds sector	9 779	69 471
Due from financial instruments market participants	-	56 440
Due from private pension funds	9 779	13 031
	607 124	1 175 661

4. Prepayments of Market Participants to the Commission

This item contains amounts of prepayments made by the financial and capital market participants for financing the Commission on the date set out in the statement. Prepayments by the sector market participants were created by end-year due to reduction in financing by the sector market participants for 2010. Reduction in the financing was set pursuant to the Decision of the Commission's Board on the approval of the Budget of the Financial and Capital Market Commission for 2010, according to which in case any sector exceeds the prescribed amount of financing⁹ for the activities of the Commission, the share of excess for each market participant is set in accordance with the proportion of its payments to the Commission, and accordingly reducing the share of payments to the Commission for 2010.

Prepayments by different segments of financial and capital market participants to the Commission:

31.12.2010	31.12.2009
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⁹ For the amount of payments due from the sector for 2010 see on page 5 (Budget Performance); column: Reporting Year Budget.

Notes to the Financial Statements**Prepayments by the Financial Instruments Market and Private Pension**

Fund Sector	53 067	-
Prepayments by the financial instruments market participants	53 067	-
	53 067	-

5. Taxes

<u>Type of tax</u>	<u>Balance on 31.12.2009</u>	<u>Calculated for the reporting period</u>	<u>Paid in the reporting period</u>	<u>Balance on 31.12.2010</u>
Contributions to compulsory state social insurance (overcharge)	1 044	716 469	(716 580)	933
Personal income tax (overcharge)	-	486 262	(486 278)	(16)
	1 044	1 202 731	(1 202 858)	917

6. Prepaid Expenses

	<u>31.12.2010</u>	<u>31.12.2009</u>
Information system maintenance and security solution services	3 742	2 982
Data base subscription fees	1 317	2 064
Periodic literature	1 662	1 845
Professional training	732	441
Insurance services	269	560
Professional literature	2 920	4 418
	10 642	12 310

7. Equity

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

8. Accounts Payable to Suppliers and Contractors

This item contains payables for the materials and services supplied to the Commission in the reporting year on the date set out in the statement.

9. Accounts Payable on Other Claims

	<u>31.12.2010</u>	<u>31.12.2009</u>
Due to the Commission for the inclusion of the Commission in the IOSCO ¹⁰	7 176	-
Due to the Commission for business travel expense reimbursement	2 586	1 850
Other accounts payable to the Commission	158	1 387
	9 920	3 237

10. Funds of the Commission

This item reflects the Commission's funds that are available on demand and time deposits with maturity up to seven days. By end 2010, time deposits made up 2 243 100 lats. In 2009, the Commission did not make time deposits.

11. Staff Remuneration and Other Payments

This item contains remuneration to the staff of the Commission and members of the Consultative Council of the Financial and Capital Market, including remuneration paid for specific work done for the Commission. Expenses related to remuneration to the Board members comprised 12.03% of the total remuneration expenses (in 2009 – 10.9%). At the end of 2010, the Commission employed 106 staff members (by end-2009 – 110), and there were 111 positions at the Commission by the end of 2010 (at end-2009 – 112).

¹⁰ International Organization of Securities Commissions.

Notes to the Financial Statements

	2010	2009
Staff remuneration and other payments	2 163 524	2 657 221
State social insurance compulsory contributions	521 571	641 075
including remuneration to the members of the Commission's Board	260 225	324 623
including State social insurance compulsory contributions for the benefit of the Commission's Board	62 688	78 126
including remuneration to members of the Consultative Council of the Financial and Capital Market	2 100	3 360
including State social insurance compulsory contributions for the benefit of the Consultative Council of the Financial and Capital Market	484	809
Average number of employees to whom remuneration/compensation was paid (per year)	107	111
including the number of members of the Commission's Board	5	5
including the number of members of the Consultative Council of the Financial and Capital Market	2	3

12. Improvements of professional skills and business trips

	2010	2009
Training and business trips abroad*	152 697	130 379
Professional training in Latvia	13 514	16 060
	166 211	146 439

* Includes business travel expense reimbursement related to participation in the institutions of the European Union and other international organizations, reducing above expenses by 15 823 lats in 2010, by 13 053 lats in 2009.

Of total business trips, in 2010 business trips abroad comprised 81%, as compared to 90% in 2009. In 2010, within the business trip framework, 40 employees of the Commission were on 178 business trips: 30 employees participated in 115 meetings of 43 working groups of the EU institutions, of which one employee took part in the meeting of the Committee of European Securities Regulators regarding the European System of Financial Supervision (ESFS) developments on which actively started in 2009; two employees participated in nine meetings of three working groups of the European Central Bank; the Chairwoman of the Commission, as a representative from the Republic of Latvia, participated in 11 meetings of the Board of Directors of the European Investment Bank, as well as in the Annual Meeting of the Boards of Governors of the World Bank and the International Monetary Fund and in the meetings with representatives of the US financial institutions regarding banking sector stabilization (in one of which an expert of the Commission also participated). Six employees met with representatives from the Belgian, Czech, Danish, Lithuanian and Swedish financial supervisory authorities regarding financial market supervision issues; nine employees had held regular meetings with representatives from the Estonian, Italian, UK, Norwegian, Finnish and Swedish central banks and financial supervisory authorities in order to carry out inspections in the subsidiaries of the Latvia's financial and capital market participants; one employee held a meeting with representatives of the Central Bank of the Russian Federation to discuss issues related to anti-money laundering and combating the financing of terrorism; one employee, as an expert in MIFID matters, took part in the training project in Turkey within the TAIEX expert group. Four employees carried out inspections in branches of the of the Latvia's financial and capital market participants in Estonia, Lithuania and Cyprus.

In 2009, business trips included regular participation of 35 employees of the Commission in 123 meetings of 37 working groups of EU institutions; the Chairwoman of the Commission (as a representative of the Republic of Latvia) participated in 13 meetings of the Board of Directors of the European Investment Bank, as well as in the Annual Meetings of the Boards of Governors of the World Bank and the International Monetary Fund. Three employees met with representatives from Belgian, UK, Lithuanian and Estonian financial supervisory authorities pertaining to banking stabilization issues; five employees had held regular meetings with representatives from Italian, Swedish, Estonian and Danish central banks and financial supervisory authorities in order to carry out inspections in the subsidiaries of the Latvia's financial and capital market participants; one employee as an expert left for a visit to Slovenia planned as part of the 4th stage inspection within the Council of Europe MONEYVAL expert group.

Of total professional training assignments in 2010, seminars and courses in Latvia comprised 63, while in 2009 – 127.

Notes to the Financial Statements

13. Telecommunication and information

	2010	2009
Data base information	75 334	75 882
Telecommunication and correspondence	14 734	17 383
Information inquiry services	12 437	13 473
	102 505	106 738

Data base information comprises rent of legislative base, data base of public registers, information reference data base and international regulatory requirement data base.

14. Maintenance and General Service Expenses

	2010	2009
Rent of premises	97 503	170 934
Maintenance and public utility fees	50 926	44 153
Expenses on the maintenance of the Commission's Internet resources, information system and security solutions	24 534	21 214
Other maintenance and general service expenses	70 926	86 659
	243 889	322 960

A contract between the Commission and *SIA Drave* has been concluded for the rent of premises (1 433.2 m²) in the real estate at 1 Kungu Street, Riga, for 15 years, until 31 August 2016. Under the terms of the agreement from 19 October 2008 the rent of the Commission's premises had been 20.39 euro per square metre per month. On 28 May 2009 an agreement was entered into that as from 1 June 2009 the rent would be EUR 9.68 per square metre per month (EUR 166 481 annually). Upon dramatic changes in the real estate rent market, on 23 December 2009 an additional agreement was entered into for the period 1 January – 30 April 2010 prescribing EUR 4.84 per square metre per month (EUR 27 747 over the period). The contract prescribes that the rent is set upon an agreement between the lessor and tenant corresponding to equivalent premises in Old Town of Riga and is revised no sooner than once in 24 months. Upon a written agreement between the Commission and the lessor, the contract may be terminated before its expiry date. The Commission has not intended to terminate the contract.

15. Professional Services

	2010	2009
Lawyers services	57 445	85 995
The Commission's financial statements, quality management system and information systems security audit	8 267	7 629
Expenses related to termination of operations financial and capital market participants in liquidation	1 083	3 872
Other professional services	4 667	3 946
	71 462	101 442

Expenses related to termination of operations of the financial and capital market participants in liquidation in 2010 covered bailiff services, while in 2009 – remunerations to administrators of financial and capital market participants in liquidation. Other professional services covered expenses for archiving, consultations regarding personnel management issues and provision of other specific professional services.

16. Court Proceedings and Claims

When performing supervisory functions specified by the Law on the Financial and Capital Market Commission, the Commission may become involved in court proceedings.

Theoretically, in case of any administrative action there is an option to claim damages from an institution both by appealing the institution's administrative act to the court and by initiating separate proceedings. The Commission holds the view that current proceedings, involving the Commission, are not related to risks that could provide material damages to the Commission.

Notes to the Financial Statements

17. 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.

INDEPENDENT AUDITORS' REPORT

To the Parliament of the Republic of Latvia

Report on the Financial Statements

We have audited the accompanying financial statements of Financial and Capital Market Commission (hereinafter – the Commission) for the year ended 31 December 2010, set out on pages 6 through 18 which comprise the balance sheet as at 31 December 2010, the statements of income and expense, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Financial and Capital Market Commission's management is responsible for the preparation and fair presentation of these financial statements according to the Financial Accounting Policies of the Financial and Capital Market Commission approved by the Commission's Board, which are in compliance with International Public Sector Accounting Standards (IPSAS) used by public sector entities in the preparation of accounting and financial statements 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 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 referred to above give a true and fair view of the financial position of the Commission as at 31 December 2010, and of the results of their operations and their cash flows for the year then ended in accordance with the Financial Accounting Policies of the Financial and Capital Market Commission approved by the Commission's Board, which are in compliance with International Public Sector Accounting Standards (IPSAS) used by public sector entities in the preparation of accounting and financial statements.

Report on Compliance of the Management Report

Furthermore, we have read the Management Report for the year ended 31 December 2010 (included on pages 3 through 4 of the accompanying 2010 annual report) and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2010.

SIA „Ernst & Young Baltic”
Licence Nr. 17

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

Diana Krisjane
Chairman of the board
Certified Auditor
Certificate No. 124

Riga,
11 April 2011