

**Financial Statements  
of the Financial and Capital Market Commission for  
2011**

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### **Management Report**

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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 20 December 2010, based on Article 17 (9) of the Law on the Financial and Capital Market Commission, with Decision No 333, the Commission's Board approved the Budget of the Financial and Capital Market Commission for 2011, thereby specifying the financing for maintaining the activities of the Commission and the use of these financial resources. The financial and capital market participants made payments for financing the activities of the Commission in 2011 in accordance with the Regulations No 334 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 2011 approved by the Commission's Board on 20 December 2010.

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 2011 in accordance with the Financial Accounting Policy of the Financial and Capital Market Commission approved by Decision No 102 of the Commission's Board of 28 April 2012.

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. For the management of both Funds, only the Commission's budgetary funds were used instead of Funds' resources. In addition, within its 2011 budget the Commission managed financial stability fee which is to be paid into the national budget of the Republic of Latvia.

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 15 March 2012, the Commission entered into an agreement on the audit of the Commission's financial statements for 2011 with SIA "Deloitte Audits Latvia", which was represented by its Board member Roberts Stūģis and Sworn Auditor of the Republic of Latvia Kitija Ķepīte (Certificate No 182).

#### **Funds of the Commission**

In 2011, activities of the Commission were financed from payments made by the financial and capital markets participants. In 2011, the revenues of the Commission were recognized at 4 069.6 thousand lats, in light of funding cuts to particular financial and capital market segments they were 1.2% less than the planned revenues as laid down in the Commission's budget for year 2011 (4 117.9 thousand lats)<sup>1</sup>. The Commission had planned the revenues from the payments of financial and capital market participants of 4 110.4 thousand lats, however, revenue result made up 4 059.5 thousand lats. Pursuant to Paragraph four of the Decision No 333 of the Commission's Board dated 20 December 2010, reduction in financing was applied to two financial and capital market segments because the total amount of financing had exceeded the amount of payments determined for financing the activities of the Commission. Financing cuts were determined for individual market participants of each segment, except those market participants who made minimum payments according to their payment share in financing made by relevant segment. Financing cuts were set on financial and capital market subjects operating in the financial instruments and private pension fund markets, 22.8 thousand lats, and market subjects operating in the insurance market, 114.5 thousand lats. Payments by monetary financial institutions to the Commission failed to reach projected revenues in the amount of 1.7%, thus total Commission's revenue budget deficit made up 1.2%.

Total expenses of the Commission in 2011 amounted to 3 639.2 thousand lats. According to the budget planning, the Commission's expenses, excluding provisions for vacation, in 2011 made up 3 639.1 thousand lats, which was by 11.3% less than the planned expenses (4 103.8 thousand lats)<sup>1</sup>. The excess of expenses over revenues in 2011 was 430.4 thousand lats thereby raising the Commission's performance results.

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<sup>1</sup> See Budget Performance (page 5).

**Management Report**

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An increase in net assets in 2011 by the above amount is related to economy of actual expenses in the amount of 11.3% in comparison to the planned expenses as specified in the approved budget, as well as a slight deficit in the amount of 1.2% as compared with planned revenues. At the end of 2011, the Commission's equity or net assets accounted for 3 369.3 thousand lats, or up by 15% year-on year. At the end of 2011, assets for financing the activities of the Commission amounted to 3 590.1 thousand lats.

In 2012 it is planned that Commission's performance result will be excess of expenditure in amount of 396.8 thousand lats over its revenues. To give a boost to the financial and capital market development and to lessen concerns regarding the projected market performance ratios for 2012 and the overall financial market development expressed by representatives of the financial and capital market participant associations operating in the Consultative Council of the Financial and Capital Market, the Commission has come to an agreement with the Consultative Council of the Financial and Capital Market that the Commission will cover the increase in expenditures in 2012 (compared to the budget for 2011) by the funding arising from the performance results of previous years accumulated by the Commission.

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

Kristaps Zakulis  
Chairman  
Financial and Capital Market Commission

28 April 2012

## Financial and Capital Market Commission

### Budget Performance

With Decision No 333 of 20 December 2010 of the Board of the Commission, the Budget of the Financial and Capital Market Commission for 2011 was approved as a result approving the budget revenues for 2011 in the amount of 4 117 870 lats and expenses in the amount 4 103 840 lats.

	Actual result <sup>2</sup>	Reporting year budget <sup>2</sup>	Reporting year result, %	(Lats) Budget surplus (+) or deficit (-)
<b>REVENUES (+)</b>	<b>4 069 576</b>	<b>4 117 870</b>	<b>98.8</b>	<b>-48 294</b>
<b>REVENUES RELATED TO SUPERVISION OF MONETARY FINANCIAL INSTITUTIONS</b>	<b>2 859 945</b>	<b>2 910 810</b>	98.3	
Payments by credit institutions	2 898 428	2 895 630	98.1	
Payments by credit unions	15 983	15 180	105.3	
Payments by payment institutions	1 823	-	-	
Payments by electronic money institutions	192	-	-	
Reduction in market participant financing <sup>3</sup>	-56 481	-	-	
<b>REVENUES RELATED TO INSURANCE SUPERVISION</b>	<b>930 940</b>	<b>930 940</b>	100	
Payments by life assurance companies	146 530	146 530	100	
Payments by other insurance companies	837 575	784 410	106.7	
Reduction in market participant financing <sup>3</sup>	-53 165	-	-	
<b>REVENUES RELATED TO SUPERVISION OF THE FINANCIAL INSTRUMENTS MARKET AND PRIVATE PENSION FUNDS</b>	<b>268 620</b>	<b>268 620</b>	100	
Payments by securities market participants	213 510	213 510	100	
Payments by private pension funds	55 110	55 110	100	
<b>TIME DEPOSITS INCOME</b>	<b>10 071</b>	<b>7 500</b>	134.3	
<b>EXPENSES (-)</b>	<b>3 639 102</b>	<b>4 103 840</b>	88.7	<b>464 738</b>
Staff remuneration and other payments, State social insurance compulsory contributions	2 782 829	2 986 050	93.2	
Staff remuneration and other payments <sup>4</sup>	2 243 487	2 407 630	93.2	
State social insurance compulsory contributions	539 342	578 420	93.2	
Improvements of staff professional skills and business trips	186 168	269 450	69.1	
Telecommunication and information	115 722	135 650	85.3	
Public awareness campaigns and internal and external communications	26 766	23 430	114.2	
Maintenance and general service expenses	273 195	311 350	87.8	
Professional services	55 842	104 150	53.6	
Participation in international organisations	138 076	209 100	66.0	
Depreciation/amortisation of capital investments	60 504	64 660	93.6	
<b>RESULT</b>	<b>430 474</b>	<b>14 030</b>		<b>416 444</b>

<sup>2</sup> In compliance with the principle of accrual-based accounting, except provisions for vacations, which are not included in the budget.

<sup>3</sup> In accordance with the Commission's Regulations No 334 of 20 December 2010, 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 in the reporting period.

<sup>4</sup> As from 01.03.2011, the monthly salary of the Commission's officials and employees have been set in accordance with provisions of the Law on Remuneration of Officials and Employees of State and Local Government Authorities, considering the value of the post (level of responsibility and complexity), qualification of individual official or employee and assessment of competence, as well as financial sector remuneration. The Commission Chairman's remuneration does not exceed the amount of the average monthly salary published in the official statistical statement by the Central Statistical Bureau regarding the financial and insurance sector remuneration in the year before the previous year (i.e. 2009), to which the coefficient of 4.95 is applied.

## Financial and Capital Market Commission

### Balance Sheet

			(Lats)	
ASSETS	Note	31.12.2011	31.12.2010	
<b>LONG-TERM INVESTEMENTS</b>	2	<b>222 745</b>	<b>202 433</b>	
Intangible investments		91 583	75 954	
Fixed assets		120 853	121 016	
Prepayments for long-term investments		-	5 463	
Investments in leasehold improvements		10 309	-	
<b>CURRENT ASSETS</b>		<b>3 367 371</b>	<b>2 990 671</b>	
<b>Inventories</b>		<b>45</b>	<b>52</b>	
<b>Accounts receivable</b>		<b>844 881</b>	<b>620 265</b>	
Due from market participants to the Commission	3	813 436	607 124	
Other receivables	9	31 304	9 920	
Staff receivables		141	3 221	
<b>Prepaid expenses</b>	6	<b>12 458</b>	<b>10 642</b>	
<b>Cash</b>	10	<b>2 509 987</b>	<b>2 359 712</b>	
<b>TOTAL ASSETS</b>		<b>3 590 116</b>	<b>3 193 104</b>	

			(Lats)	
LIABILITIES	Note	31.12.2011	31.12.2010	
<b>EQUITY</b>	7	<b>3 369 263</b>	<b>2 938 947</b>	
Net assets of the Commission (performance result)		3 369 263	2 938 947	
<b>PAYABLES</b>		<b>220 853</b>	<b>254 157</b>	
Prepayments to the Commission by market participants	4	-	53 067	
Accounts payable to suppliers	8	92 883	71 489	
Taxes payable	5	774	917	
Provisions for vacations		112 050	111 956	
Provisions for liabilities		15 146	16 728	
<b>TOTAL LIABILITIES</b>		<b>3 590 116</b>	<b>3 193 104</b>	

The accompanying notes on pages 11 to 17 form an integral part of these financial statements.

Financial statements presented on pages 7 to 17 have been approved by Decision No 103 (Min. No 18, item 16) of 28 April 2012 by the Board of the Financial and Capital Market Commission.

Financial and Capital Market Commission

**Statement of Income and Expenses**

	Note	2011	(Lats) 2010
<b>REVENUES</b>			
REVENUES RELATED TO SUPERVISION OF MONETARY FINANCIAL INSTITUTIONS		2 859 945	2 833 816
Payments by credit institutions		2 841 947	2 821 166
Payments by credit unions		15 983	12 650
Payments by monetary institutions		1 823	-
Payments by electronic money institutions		192	-
REVENUES RELATED TO SUPERVISION OF INSURANCE		930 940	936 073
Payments by life assurance companies		146 530	131 902
Payments by other insurance companies		784 410	804 171
REVENUES RELATED TO SUPERVISION OF THE FINANCIAL INSTRUMENTS MARKET AND PENSION FUNDS		268 620	208 694
Payments by financial instruments market participants		213 510	163 694
Payments by private pension funds		55 110	45 000
INCOME FROM INTEREST ON THE BALANCE OF THE CURRENT ACCOUNT		10 071	12 454
OTHER PAYMENTS <sup>5</sup>		-	1 717
<b>TOTAL REVENUES</b>		<b>4 069 576</b>	<b>3 992 754</b>
<b>EXPENSES</b>			
Staff remuneration and other payments	11	(2 782 829)	(2 685 095)
Staff remuneration and other payments		(2 243 487)	(2 163 524)
State social insurance compulsory contributions		(539 342)	(521 571)
Provisions for vacation		(93)	14 131
Staff insurance		- <sup>6</sup>	(36 323) <sup>7</sup>
Improvements of professional skills and business trips	12	(186 168)	(166 211)
Telecommunication and information	13	(115 722)	(102 505)
Public awareness campaigns and external and internal communications		(26 766)	(11 881)
Maintenance and general service expenses	14	(273 195)	(243 889)
Professional services	15	(55 842)	(71 462)
Participation in international organisations		(138 076) <sup>8</sup>	(100 503)
Depreciation/amortisation/write-off of capital investments	2	(60 504)	(53 974)
<b>TOTAL EXPENSES</b>		<b>(3 639 195)</b>	<b>(3 457 712)</b>
<b>EXCESS OF REVENUES OVER EXPENSES (RESULT)</b>		<b>430 381</b>	<b>535 042</b>

The accompanying notes on pages 11 to 17 form an integral part of these financial statements.

<sup>5</sup> Precised payments for previous periods by financial and capital market participants.

<sup>6</sup> Item expenses were suspended in accordance with the Law on Remuneration of Officials and Employees of State and Local Government Authorities.

<sup>7</sup> Item expenses were phased out in line with the provisions of the Law on Remuneration of Officials and Employees of State and Local Government Authorities regarding social guarantees of employees. In 2010, employee health insurance was covered for seven months, accident insurance coverage – for nine months.

<sup>8</sup> Increase in item expenses related to restructuring and increase in membership fees of those EU organizations where the Commission has been representing Latvia.

## Financial and Capital Market Commission

### Cash Flow Statement

		(Lats)	
	Note	2011	2010
<b>RECEIPTS</b>			
RECEIPTS RELATED TO SUPERVISION OF MONETARY FINANCIAL INSTITUTIONS		2 603 345	3 279 611
Payments by credit institutions		2 588 122	3 265 837
Payments by credit unions		13 960	13 774
Payments by monetary institutions		1 145	-
Payments by electronic money institutions		118	-
RECEIPTS RELATED TO SUPERVISION OF INSURANCE		993 133	999 122
Payments by life assurance companies		130 024	149 527
Payments by other insurance companies		863 109	849 595
RECEIPTS RELATED TO SUPERVISION OF THE FINANCIAL INSTRUMENTS MARKET AND PENSION FUNDS		203 649	323 170
Payments by financial instruments market participants		143 263	274 919
Payments by private pension funds		60 386	48 251
INCOME FROM INTEREST ON THE BALANCE OF THE CURRENT ACCOUNT		10 056	13 569
<b>TOTAL RECEIPTS</b>		<b>3 810 183</b>	<b>4 615 472</b>
<b>EXPENSES</b>			
Staff remuneration and other payments		(2 783 193)	(2 684 049)
Staff remuneration and other payments		(2 243 684)	(2 162 431)
State social insurance compulsory contributions		(539 509)	(521 618)
Staff insurance		-	(36 418)
Improvements of professional skills and business trips		(181 740)	(165 996)
Telecommunication and information		(99 540)	(103 064)
Public awareness campaigns and external and internal communications		(26 403)	(11 009)
Maintenance and general service expenses		(275 626)	(248 631)
Professional services		(57 721)	(60 744)
Participation in international organisations		(154 803)	(107 680)
<b>TOTAL EXPENSES</b>		<b>(3 579 026)</b>	<b>(3 417 591)</b>
<b>INVESTMENT ACTIVITIES</b>			
Capital expenditure		(80 882)	(63 285)
<b>TOTAL INVESTMENT ACTIVITIES</b>		<b>(80 882)</b>	<b>(63 285)</b>
<b>Net change in cash during the reporting period</b>		<b>150 275</b>	<b>1 134 596</b>
<b>Cash balance at the beginning of the reporting period</b>		<b>2 359 712</b>	<b>1 225 116</b>
<b>Cash balance at the end of the reporting period</b>	10	<b>2 509 987</b>	<b>2 359 712</b>

The accompanying notes on pages 11 to 17 form an integral part of these financial statements.



Financial and Capital Market Commission

**Statement of Changes in Equity**

(Lats)

		<b>Equity (net assets) of the Commission</b>
	Note	
<b>Result 31.12.2009</b>		<b>2 403 910</b>
Fixed assets write-off in 2010 charged directly to the result	1	(5)
Result of the reporting period		535 042
<b>Result 31.12.2010</b>		<b>2 938 947</b>
Fixed assets write-off in 2011 charged directly to the result	1	(65)
Result of the reporting period		430 381
<b>Result 31.12.2011</b>		<b>3 369 263</b>

The accompanying notes on pages 11 to 17 form an integral part of these financial statements.

### Notes to the Financial Statements

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The Financial and Capital Market Commission was established and has been operating under the Law on the Financial and Capital Market Commission. The Commission as an autonomous public authority exercises regulation and supervision of activities of Latvian credit institutions, credit unions, insurance companies and insurance intermediaries, financial instruments market participants and private pension funds. Since 2011, it has been regulating and supervising payment institutions and electronic money institutions.

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 make decisions on setting out requirements for the functioning of financial and capital market participants, calculating and reporting their performance indicators;
- to regulate the financial and capital market and activities of its participants by controlling their compliance with regulatory requirements and directives issued by the Commission;
- to specify the qualification and conformity requirement for the 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 the 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 manage financial stability fee;
- to analyse regulatory requirements pertaining to the financial and capital market, develop proposals for their improvement and harmonisation with the regulatory requirements of European 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 the work 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 enforcement. 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 to property owned by the state and has an independent balance sheet. The Parliament of the Republic of Latvia (*Saeima*) executes supervision of the Commission.

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

#### 1. Accounting Policies of the Commission

##### **Basis for Preparation of the Financial Statements**

The financial statements for the reporting year were prepared based on the Financial Accounting Policies of the Financial and Capital Market Commission approved by the Commission's Board, which are developed 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.

**Notes to the Financial Statements**

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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 line 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 those are intangible and fixed-type investments with the period of useful life 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, information systems and other intangible assets licences, 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%
- hardware, data storage devices, communications and office equipment 20%
- other fixed assets 10%
- investments in leasehold improvements (in accordance with effectiveness of the right of use of rented assets) 20%

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 Ministers of the Republic of Latvia on 6 March 2001, stipulating the following annual depreciation rates:

- hardware, 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

**Notes to the Financial Statements**

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 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 remaining 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 and the Commission's equity (net assets) still in 2006. 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 2011, no depreciation for those fixed assets was developed. One item was excluded from above fixed assets in 2010, but in 2011 – 15 items.

**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**

	Intangible assets <sup>9</sup>	Fixed assets		Prepayments for long-term investments	Investments in hired fixed assets	Total
		Computers and office equipment	Other fixed assets			
<b>Book value</b>						
<b>31.12.2009</b>	<b>65 081</b>	<b>81 342</b>	<b>46 703</b>	-	-	<b>193 126</b>
<b>Historical cost</b>						
<b>31.12.2009</b>	<b>302 873</b>	<b>292 955</b>	<b>207 607</b>	-	<b>89 444</b>	<b>892 879</b>
Additions	33 105	21 739	2 978	5 463	-	63 285
Revaluated	-	-	-	-	-	-
Disposals	-	(1 403)	(128)	-	-	(1 531)
<b>31.12.2010</b>	<b>335 978</b>	<b>313 291</b>	<b>210 457</b>	<b>5 463</b>	<b>89 444</b>	<b>954 633</b>
<b>Depreciation</b>						
<b>31.12.2009</b>	<b>237 792</b>	<b>211 613</b>	<b>160 904</b>	-	<b>89 444</b>	<b>699 753</b>
Charge in the reporting period	22 232	26 985	4 231	-	-	53 448
Corrections, transfer	-	-	-	-	-	-
Reversal due to disposals	-	(883)	(117)	-	-	(1 000)
<b>31.12.2010</b>	<b>260 024</b>	<b>237 715</b>	<b>165 018</b>	-	<b>89 444</b>	<b>752 201</b>
<b>Book value</b>						
<b>31.12.2010</b>	<b>75 954</b>	<b>75 576</b>	<b>45 439</b>	<b>5 463</b>	-	<b>202 432</b>
<b>Historical cost</b>						
<b>31.12.2010</b>	<b>335 978</b>	<b>313 291</b>	<b>210 457</b>	<b>5 463</b>	<b>89 444</b>	<b>954 633</b>
Additions	40 453	27 568	7 078	-	11 246	86 345
Revaluated	-	-	-	-	-	-

<sup>9</sup> Licences, software and other intangible assets.

**Notes to the Financial Statements**

Disposals, transfer	(6 847)	(64 454)	(599)	(5 463)	-	(77 363)
<b>31.12.2011</b>	<b>369 584</b>	<b>276 405</b>	<b>216 936</b>	<b>-</b>	<b>100 690</b>	<b>963 615</b>
<b>Depreciation</b>						
<b>31.12.2010</b>	<b>260 024</b>	<b>237 715</b>	<b>165 018</b>	<b>-</b>	<b>89 444</b>	<b>752 201</b>
Charge in the reporting period	24 779	28 340	5 468	-	937	59 524
Corrections, transfer	630	(447)	(183)	-	-	-
Reversal due to disposals	(7 432)	(63 012)	(411)	-	-	(70 855)
<b>31.12.2011.</b>	<b>278 001</b>	<b>202 596</b>	<b>169 892</b>	<b>-</b>	<b>90 381</b>	<b>740 870</b>
<b>Book value</b>						
<b>31.12.2011</b>	<b>91 583</b>	<b>73 809</b>	<b>47 044</b>	<b>-</b>	<b>10 309</b>	<b>222 745</b>

Changes in long-term investments in 2011 showing their reflection in the statements:

	Charge	Disposals, excluding the accrued depreciation	Total
Depreciation/amortisation, write-off of capital investments charged to the statement of income and expenses	59 524	980	60 504
Fixed asset write-off directly charged to the result, not included in the statement of income and expenses	-	65	65
	<b>59 524</b>	<b>1 045</b>	<b>60 569</b>

**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.

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

	<b>31.12.2011</b>	<b>31.12.2010</b>
<b>Due from the monetary financial institution sector</b>	<b>679 395</b>	<b>422 794</b>
Due from credit institutions	674 592	420 767
Due from credit unions	4 050	2 027
Payments by payment institutions	679	-
Payments by electronic money institutions	74	-
<b>Due from insurance sector</b>	<b>112 357</b>	<b>174 551</b>
Due from other insurance companies	79 142	157 841
Due from life assurance companies	33 215	16 710
<b>Due from the financial instruments market and private pension funds sector</b>	<b>21 684</b>	<b>9 779</b>
Due from financial instruments market participants	17 181	-
Due from private pension funds	4 503	9 779
	<b>813 436</b>	<b>607 124</b>

A decrease or increase in liabilities of market participants to the Commission for financing its activities at end-2011 in comparison with end of 2010 was due to the amount of financing set for market participants of each relevant sector in 2011 and 2010 pursuant to the Decision of the Commission's Board on the approval of the Budget of the Financial and Capital Market Commission for 2011 and 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 financing<sup>10</sup> 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

<sup>10</sup> For the amount of payments due from the sector for 2011 see on page 5 (Budget Performance); column: Reporting Year Budget.

**Notes to the Financial Statements**

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the Commission for relevant year and upon executing the payment it has been included in the prepayments to the Commission by the market participant.

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 the year end 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 financing 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. In 2011, market participants were exempt from financing for the activities of the Commission in the amount of prepayments.

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

	<u>31.12.2011</u>	<u>31.12.2010</u>
<b>Prepayments by the Financial Instruments Market and Private Pension Fund Sector</b>	-	<b>53 067</b>
Prepayments by the financial instruments market participants	-	53 067
	-	<b>53 067</b>

5. Taxes

Type of tax	<b>Balance on 31.12. 2010</b>	Calculated for the reporting period	Paid in the reporting period	<b>Balance on 31.12.2011</b>
Contributions to compulsory state social insurance (overcharge)	<b>933</b>	785 617	(785 756)	<b>794</b>
Personal income tax (overcharge)	<b>(16)</b>	467 104	(46 7108)	<b>(20)</b>
	<b>917</b>	1 252 721	(1 252 864)	<b>774</b>

6. Prepaid Expenses

	<u>31.12.2011</u>	<u>31.12.2010</u>
Information system maintenance and security solution services	6 361	3 742
Data base subscription fees	1 443	1 317
Periodic literature	1 544	1 662
Professional training	-	732
Insurance services	387	269
Other prepaid expenses	2 723	2 920
	<b>12 458</b>	<b>10 642</b>

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.

**Notes to the Financial Statements**

9. Other receivables

	<b>31.12.2011</b>	<b>31.12.2010</b>
Claims on the inclusion of the Commission in the IOSCO <sup>11</sup>	7 176	7 176
Due for recast membership fees for participation in the EU organizations (CESR, CEBS, CEIOPS) <sup>12</sup> for the periods before restructuring of those organizations	19 672	-
Due for business travel expense reimbursement	3 834	2 586
Other receivables	622	158
	<b>31 304</b>	<b>9 920</b>

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 2011, time deposits made up 2 340 000 lats, at end 2010 they were 2 243 100 lats.

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 the remuneration of the Board members comprised 10.7% of the total remuneration expenses (in 2010 – 12.03%). From 01.03.2011, when the Law on Remuneration of Officials and Employees of State and Local Government Authorities become binding on the Commission, where provisions provide for determining the highest remuneration within the Commission, remuneration of the member of the Commission's Board was cut, namely, remuneration of the chairman was reduced by 15.8%, deputy chairman – by 10% and other board members – by 6%. At the end of 2011, the Commission employed 118 staff members (by end-2010 – 106), and there were 119 positions at the Commission by the end of 2011 (at end- 2010 – 111).

	<b>2011</b>	<b>2010</b>
Staff remuneration and other payments	2 243 487	2 163 524
State social insurance compulsory contributions	539 342	521 571
including remuneration to the members of the Commission's Board	239 958	260 225
including State social insurance compulsory contributions for the benefit of the Commission's Board	57 806	62 688
including remuneration to members of the Consultative Council of the Financial and Capital Market	3 465	2 100
including State social insurance compulsory contributions for the benefit of the Consultative Council of the Financial and Capital Market	818	484
Average number of employees to whom remuneration/compensation was paid (per year)	112	107
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 <sup>13</sup>	2	2

12. Improvements of professional skills and business trips

	<b>2011</b>	<b>2010</b>
Training and business trips abroad*	156 967	152 697
Business trips in Latvia	100	-
Professional training in Latvia	29 101	13 514

<sup>11</sup> IOSCO – International Organization of Securities Commissions.

<sup>12</sup> CESR – Committee of European Securities Regulators, CEIOPS – Committee of European Insurance and Occupational Pensions Supervisors, CEBS – Committee of European Banking Supervisors.

<sup>13</sup> Representatives of non-governmental organizations (professional societies) of the financial and capital market make up the Consultative Council of Financial and Capital Market and their number was six both in 2011 and 2010.

**Notes to the Financial Statements****186 168**      **166 211**

\* Includes business travel expense reimbursement related to participation in the institutions of the European Union and other international organizations, reducing above expenses by 14 159 lats in 2011 and by 15 823 lats in 2010.

## 13. Telecommunication and information

	<u>2011</u>	<u>2010</u>
Data base information	90 143	75 334
Telecommunication and correspondence	13 184	14 734
Information inquiry services	12 395	12 437
	<b>115 722</b>	<b>102 505</b>

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

	<u>2011</u>	<u>2010</u>
Rent of premises and archive shelves	124 882	97 503
Maintenance of office premises and public utility fees	51 870	50 926
Expenses on the maintenance of the Commission's Internet resources, information system and security solutions	23 371	24 534
Other maintenance and general service expenses	73 072	70 926
	<b>273 195</b>	<b>243 889</b>

A contract between the Commission and *SIA Drave* was concluded for the rent of premises (1 433.2 m<sup>2</sup>) in the real estate at 1 Kungu Street, Riga, for 15 years, until 31 August 2016, contractual obligations were later taken over by "KEY 1" following its merger with *SIA Drave* resulting from reorganization. On 23 December 2009 an agreement was entered into for the period from 1 January 2010 to 30 April 2010 setting the monthly rent of the Commission's premises at 4.84 euro per square metre (27 747 euro over the period), whereas after 30 April 2010 till the end of the year it was 9.68 euro per square metre (110 987 euro over the period). In 2011, the monthly rent of the Commission's premises was 9.76 euro per square metre (due to changes in the VAT rate). On 12 May 2011, an agreement on the rent of additional premises of 93 square metres was reached from 4 July 2011 making up total rental space of 1 526.20 square metres (in total 173 214.63 euro 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

	<u>2011</u>	<u>2010</u>
Expert opinions	23 910	6 050
Lawyers services	14 744	51 395
The Commission's financial statements, quality management system and information systems security audits	5 490	8 267
Expenses related to termination of operations of financial and capital market participants under liquidation	2 462	1 083
Other professional services	9 236	4 667
	<b>55 842</b>	<b>71 462</b>

Expenses related to termination of operations of the financial and capital market participants in liquidation in years 2011 and 2010 covered bailiff services. Other professional services covered expenses for archiving, translation, 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.



**Notes to the Financial Statements**

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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.

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 AUDITOR'S REPORT

**Translation from Latvian**

To the Latvian Parliament:

### **Report on the financial statements**

We have audited the accompanying financial statements of Financial and Capital Market Commission (hereinafter the Commission) set out on pages 5 to 17 of the accompanying annual report, which comprise the balance sheet as of 31 December 2011, a budget performance, a statement of income and expenses for the year 2011, statement of changes in equity and cash flow statement for the year 2011, and a summary of significant accounting policies and other explanatory information.

#### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Finance and capital market commission accounting policy approved by the council of Finance and capital market commission that is prepared in accordance with International Public sector accountancy standard guidelines on accountancy and financial statements for units of the public sector, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

#### Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Financial and Capital Market Commission as of 31 December 2011 and of its financial performance and its cash flows for the year then ended in accordance with the Finance and capital market commission accounting policy approved by the council of Finance and capital market commission that is prepared in accordance with International Public sector accountancy standard guidelines on accountancy and financial statements for units of the public sector.

### **Report on Other Legal and Regulatory Requirements**

We have read the management report for 2011 set out on pages 3 - 4 of the accompanying annual report for 2011 and have not identified any material inconsistencies between the financial information contained in the management report and the financial statements for 2011.

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

Roberts Stūģis  
Member of the Board

Rīga, Latvia  
28 April 2012

Kitija Ķepīte  
Certified auditor of Latvia  
Certificate No. 145