

**Financial Statements
of the Financial and Capital Market
Commission for 2012**

Financial and Capital Market Commission

Table of Contents

Management Report	3
Budget Performance	5
Balance Sheet	6
Statement of Income and Expenses	7
Cash Flow Statement	8
Statement of Changes in Equity	9
Notes to the Financial Statements	10
Independent Auditor`s Report	17

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, and since 12 January 2012 Kristaps Zakulis has been Chairman of the Commission.

On 23 December 2011, based on Article 17 (9) of the Law on the Financial and Capital Market Commission, with Decision No 317, the Commission's Board approved the Budget of the Financial and Capital Market Commission for 2012, 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 2012 in accordance with the Regulations No 318 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 2012 approved by the Commission's Board on 23 December 2011.

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 2012 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 2012 budget the Commission dealt with administration of 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 a five-year agreement on the audit of the Commission's financial statements with SIA "Deloitte Audits Latvia". In performing the audit of the Commission's financial statements for 2012, SIA "Deloitte Audits Latvia" was represented by its Board member Roberts Stugiņš and Sworn Auditor of the Republic of Latvia Inguna Staša, (Certificate No 145).

Funds of the Commission

In 2012, activities of the Commission were financed from payments made by the financial and capital market participants. In 2012, the revenues of the Commission were recognized at 4 224.6 thousand lats, of which financing from particular financial and capital market segments in amount of 4 208.5 thousand lats, and they were 1.1% more than the planned revenues, as laid down in the Commission's budget for year 2012 (4 178.3 thousand lats)¹. The Commission had planned the revenues from the payments of financial and capital market participants of 4 159.8 thousand lats, however, as the monetary financial institution segment failed to provide the Commission with the planned financing in the amount of 5.9%, but other segments covered above deficiency, the Commission did not cut financing for any of the segments for 2012. Already in 2011, 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 2012 amounted to 4 097.5 thousand lats. According to the budget planning, the Commission's expenses, excluding provisions for vacation, in 2012 totalled 4 085.5 thousand lats, which was by 11% less than the planned expenses (4 575.2 thousand lats)¹. Notwithstanding that a deficit of 396.8 thousand lats was planned in the Commission's budget, using the funds at its disposal appropriately and efficiently the Commission reached positive performance results in the fiscal year. The excess of expenses over revenues in 2012 was 127 thousand lats, thereby raising the Commission's performance results.

¹ See Budget Performance (page 5).

Management Report

An increase in net assets in 2012 by the above amount was due to the economy of actual expenses in the amount of 11% in comparison to the planned expenses as specified in the approved budget, as well as due to a slight deficit of 1.1% as compared to planned revenues. At the end of 2012, the Commission's equity or net assets accounted for 3 496.3 thousand lats, or up by 4% year-on-year. At the end of 2012, assets for financing the activities of the Commission amounted to 3 726 thousand lats.

In 2012 it was planned that the Commission's performance result would be in excess of expenditure over revenues in amount of 396.8 thousand lats. Also in 2013, a deficit of 482 thousand lats has been projected in the Commission's performance result. The Commission has come to an agreement with the Consultative Council of the Financial and Capital Market that in 2013 the Commission will cover provisions in the amount of 10% required for expenditures 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

30 April 2013

Financial and Capital Market Commission

Budget Performance

With Decision No 317 of 23 December 2011 of the Board of the Commission, the Budget of the Financial and Capital Market Commission for 2012 was approved as a result approving the budget revenues for 2012 in the amount of 4 178 315 lats and expenses in the amount 4 575 160 lats.

(Lats)

	Actual result ²	Reporting year budget ²	Reporting year result, %	Budget surplus (+) / deficit (-)
REVENUES (+)	4 224 632	4 178 315	101.1	46 317
REVENUES RELATED TO SUPERVISION OF MONETARY FINANCIAL INSTITUTIONS	2 767 040	2 939 910	94	
Payments by credit institutions	2 783 410	2 919 000	95	
Payments by credit unions	17 809	17 510	102	
Payments by payment institutions	3 323	2 900	115	
Payments by electronic money institutions	1 319	500	264	
Reduction in market participant financing ³	(38 821)	-	-	
REVENUES RELATED TO INSURANCE SUPERVISION	1 102 646	932 250	118	
Payments by life assurance companies	161 337	136 385	118	
Payments by other insurance companies	966 740	795 865	122	
Reduction in market participant financing ³	(25 431)	-	-	
REVENUES RELATED TO SUPERVISION OF THE FINANCIAL INSTRUMENTS MARKET AND PRIVATE PENSION FUNDS	338 831	287 665	118	
Payments by financial instruments market participants	253 935	215 665	118	
Payments by private pension funds	84 896	72 000	118	
OTHER REVENUES FROM MARKET PARTICIPANTS	9 200	10 600	87	
UPDATED DATA ON REVENUES FROM PREVIOUS PERIOD	210	-	-	
OVERDUE PAYMENTS	2	-	-	
REVENUES FROM TIME DEPOSITS	6 703	7 890	85	
EXPENSES (-)	4 085 538	4 575 160	89.3	489 668
Staff remuneration and other payments, mandatory State social insurance contributions ⁴	3 039 762	3 255 660	93	
Employee insurance	16 607	18 300	91	
Improvements of staff professional skills and business trips	243 216	351 140	69	
Telecommunication and information	126 419	129 560	98	
Public awareness campaigns and internal and external communications	10 906	33 430	33	
Maintenance and general service expenses	310 261	346 000	90	
Professional services	86 436	93 540	92	
Participation fees in international organisations	183 599	286 130	64	
Depreciation/amortisation of capital investments	68 332	61 400	111	
RESULT	139 094	(396 845)		535 985

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

³ In accordance with the Commission's Regulations No 318 of 23 December 2011 financial and capital market participants who have opened a branch abroad and who make payments to the supervisors of the relevant country for their 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 for 2012 to the amount that does not exceed 25 percent of the payment due to the Commission.

⁴ As from 01.03.2011, the monthly salary of the Commission's officials and employees has 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 position (level of responsibility and complexity), qualification of individual official or employee and assessment of competence, as well as remuneration of persons employed in the financial sector. 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. 2010), to which the coefficient of 4.95 has been applied.

Financial and Capital Market Commission

Balance Sheet

			(Lats)		
ASSETS	Note	31.12.2012	31.12.2011		
LONG-TERM INVESTEMENTS	2	238 758	222 745		
Intangible investments		95 926	91 583		
Fixed assets		115 602	120 853		
Prepayments for long-term investments		11 976	-		
Investments in leasehold improvements		11 800	10 309		
Expenses for fixed assets in course of construction		3 454	-		
CURRENT ASSETS		3 487 274	3 367 371		
Inventories		85	45		
Accounts receivable		1 099 977	844 881		
Due from market participants to the Commission	3	1 043 629	813 436		
Other receivables	8	48 859	31 304		
Staff receivables		100	141		
Surplus of taxes	4	213	-		
Prepaid expenses	5	23 456	12 458		
Cash	9	2 370 932	2 509 987		
TOTAL ASSETS		3 726 032	3 590 116		

			(Lats)		
LIABILITIES	Note	31.12.2012	31.12.2011		
EQUITY	6	3 496 336	3 369 263		
Net assets of the Commission (performance result)		3 496 336	3 369 263		
PAYABLES		229 696	220 853		
Accounts payable to suppliers	7	97 414	92 883		
Accounts payable for staff remuneration		1 084	-		
Taxes payable	4	1 098	774		
Provisions for vacations		124 046	112 050		
Provisions for liabilities		6 054	15 146		
TOTAL LIABILITIES		3 726 032	3 590 116		

The accompanying notes on pages 10 to 16 form an integral part of these financial statements.

Financial statements presented on pages 6 to 16 have been approved by Decision No 88 (Min. No 17, item 2) of 30 April 2013 by the Board of the Financial and Capital Market Commission.

Financial and Capital Market Commission

Statement of Income and Expenses

		(Lats)	
	Note	2012	2011
REVENUES			
REVENUES RELATED TO SUPERVISION OF MONETARY FINANCIAL INSTITUTIONS		2 767 040	2 859 945
Payments by credit institutions		2 744 589	2 841 947
Payments by credit unions		17 809	15 983
Payments by monetary institutions		3 323	1 823
Payments by electronic money institutions		1 319	192
REVENUES RELATED TO SUPERVISION OF INSURANCE		1 102 646	930 940
Payments by life assurance companies		161 337	146 530
Payments by other insurance companies		941 309	784 410
REVENUES RELATED TO SUPERVISION OF THE FINANCIAL INSTRUMENTS MARKET AND PENSION FUNDS		338 831	268 620
Payments by financial instruments market participants		253 935	213 510
Payments by private pension funds		84 896	55 110
INTEREST INCOME ON THE CASH BALANCE		6 703	10 071
OTHER REVENUES FROM MARKET PARTICIPANTS ⁵		9 200	-
OTHER PAYMENTS ⁶		212	-
TOTAL REVENUES		4 224 632	4 069 576
EXPENSES			
Staff remuneration and other similar payments	10	(3 039 762)	(2 782 829)
Provisions for vacation		(11 996)	(93)
Staff insurance		(16 607) ⁷	- ⁸
Improvements of professional skills and business trips	11	(243 216)	(186 168)
Telecommunication and information	12	(126 419)	(115 722)
Public awareness campaigns and external and internal communications		(10 906)	(26 766)
Maintenance and general service expenses	13	(310 261)	(273 195)
Professional services	14	(86 436)	(55 842)
Participation in international organisations		(183 599) ⁹	(138 076)
Depreciation/amortisation/write-off of capital investments	2	(68 332)	(60 504)
TOTAL EXPENSES		(4 097 534)	(3 639 195)
EXCESS OF REVENUES OVER EXPENSES (RESULT)		127 098	430 381

The accompanying notes on pages 10 to 16 form an integral part of these financial statements.

⁵ Revenues from registration of investment funds and registrations of amendments thereof.

⁶ Updated payments for previous periods by financial and capital market participants.

⁷ Item expenses include covering employee health insurance up to 150 lats in accordance with limitation set out in the Law on Remuneration of Officials and Employees of State and Local Government Authorities.

⁸ Covering of Item expenses suspended in accordance with the Law on Remuneration of Officials and Employees of State and Local Government Authorities.

⁹ 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	2012	2011
RECEIPTS			
RECEIPTS RELATED TO SUPERVISION OF MONETARY FINANCIAL INSTITUTIONS		2 762 206	2 603 345
Payments by credit institutions		2 740 603	2 588 122
Payments by credit unions		17 318	13 960
Payments by monetary institutions		3 012	1 145
Payments by electronic money institutions		1 273	118
RECEIPTS RELATED TO SUPERVISION OF INSURANCE		959 579	993 133
Payments by life assurance companies		145 244	130 024
Payments by other insurance companies		814 335	863 109
RECEIPTS RELATED TO SUPERVISION OF THE FINANCIAL INSTRUMENTS MARKET AND PENSION FUNDS		256 748	203 649
Payments by financial instruments market participants		203 229	143 263
Payments by private pension funds		53 519	60 386
OTHER RECEIPTS FROM MARKET PARTICIPANTS		9 200	-
INTEREST INCOME ON THE CASH BALANCE		6 850	10 056
OVERDUE PAYMENTS		3	-
TOTAL RECEIPTS		3 994 586	3 810 183
EXPENSES			
Staff remuneration and other payments		(3 039 294)	(2 783 193)
Staff insurance		(16 560)	-
Improvements of professional skills and business trips		(244 513)	(181 740)
Telecommunication and information		(125 057)	(99 540)
Public awareness campaigns and external and internal communications		(12 006)	(26 403)
Maintenance and general service expenses		(313 506)	(275 626)
Professional services		(92 013)	(57 721)
Participation in international organisations		(206 322)	(154 803)
TOTAL EXPENSES		(4 049 271)	(3 579 026)
INVESTĪCIJU DARBĪBA			
Capital investments		(84 370)	(80 882)
TOTAL INVESTMENT ACTIVITIES		(84 370)	(80 882)
Net change in cash during the reporting period		(139 055)	150 275
Cash balance at the beginning of the reporting period		2 509 987	2 359 712
Cash balance at the end of the reporting period	10	2 370 932	2 509 987

The accompanying notes on pages 10 to 16 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 31.12.2010	2 938 947
Fixed assets write-off in 2011 charged directly to the result	(65)
Result of the reporting period	430 381
Result 31.12.2011	3 369 263
Fixed assets write-off in 2012 charged directly to the result	2 (25)
Result of the reporting period	127 098
Result 31.12.2012	3 496 336

The accompanying notes on pages 10 to 16 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 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 also 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 laws and regulations, as well as regulatory requirements and resolutions 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 compensations 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 administer financial stability duty;
- to analyse regulatory requirements pertaining to the financial and capital market, develop proposals for their improvement and harmonisation with the laws and regulations 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.

Principles Applied in Preparing the Financial Statements

Notes to 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 their paid vacation days accrued up to 31 December of the respective calendar year.
- 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 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, and the Commission calculated depreciation of fixed assets until their residual value reached 5 lats according to regulatory requirements. Restructuring long-term investments acquired before 2006 their depreciation rates have been changed in accordance with the depreciation rates for long-term investments laid out in 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 residual value of excluded fixed assets were presented in 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

Notes to the Financial Statements

the Regulations No 96 of the Cabinet of Ministers of 6 March 2001 On Fixed Asset Depreciation Rates for Budgetary Institutions, as 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 2012, no depreciation for those fixed assets was developed. Fifteen items were excluded from above fixed assets in 2011, in 2012 – five 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 market 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

	Fixed assets			Prepayments for long-term investments	Investments in leasehold improvements	Expenses for fixed assets in course of construction	Total
	Intangible assets ¹⁰	Computers and office equipment	Other fixed assets				
Book value							
31.12.2010	75 954	75 576	45 439	5 463	-	-	202 432
Historical cost							
31.12.2010	335 978	313 291	210 457	5 463	89 444	-	954 633
Additions	40 453	27 568	7 078	-	11 246	-	86 345
Revaluated	-	-	-	-	-	-	-
Disposals, transfer	(6 847)	(64 454)	(599)	(5 463)	-	-	(77 363)
31.12.2011	369 584	276 405	216 936	-	100 690	-	963 615
Depreciation							
31.12.2010	260 024	237 715	165 018	-	89 444	-	752 201
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)
31.12.2011	278 001	202 596	169 892	-	90 381	-	740 870
Book value							
31.12.2011	91 583	73 809	47 044	-	10 309		222 745
Historical cost							
31.12.2011	369 584	276 405	216 936	-	100 690	-	963 615
Additions	34 710	25 339	5 038	11 976	3 853	3 454	84 370
Revaluated	-	-	-	-	-	-	-
Disposals, transfer	-	(14 705)	(2 824)	-	-	-	(17 529)
31.12.2012	404 294	287 039	219 150	11 976	104 543	3 454	1 030 456

¹⁰ Licences, software and other intangible assets.

Notes to the Financial Statements

Depreciation							
31.12.2011	278 001	202 596	169 892	-	90 381	-	740 870
Charge in the reporting period	30 367	29 283	5 529	-	2 362	-	67 541
Corrections, transfer	-	-	-	-	-	-	-
Reversal due to disposals	-	(13 961)	(2 752)	-	-	-	(16 713)
31.12.2012	308 368	217 918	172 669	-	92 743	-	791 698
Book value							
31.12.2012	95 926	69 121	46 481	11 976	11 800	3 454	238 758

Changes in long-term investments in 2012 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	67 541	791	68 332
Fixed asset write-off directly charged to the result, not included in the statement of income and expenses	-	25	25
	<u>67 541</u>	<u>816</u>	<u>68 357</u>

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:

	<u>31.12.2012</u>	<u>31.12.2011</u>
Due from the monetary financial institution sector	684 228	679 395
Due from credit institutions	678 578	674 592
Due from credit unions	4 540	4 050
Payments by payment institutions	1 023	679
Payments by electronic money institutions	87	74
Due from insurance sector	255 685	112 357
Due from other insurance companies	206 201	79 142
Due from life assurance companies	49 484	33 215
Due from the financial instruments market and private pension funds sector	103 716	21 684
Due from financial instruments market participants	67 887	17 181
Due from private pension funds	35 829	4 503
	<u>1 043 629</u>	<u>813 436</u>

A decrease or increase in liabilities of market participants to the Commission for financing its activities at the end of 2012 in comparison to the end of 2011 was due to the amount of financing set for market participants of each relevant sector in 2012 and 2011 pursuant to the Decision of the Commission's Board on the approval of the Budget of the Financial and Capital Market Commission for 2011, 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 by this amount for relevant year and upon executing the payment it has been included in the

Financial and Capital Market Commission

Notes to the Financial Statements

prepayments by the market participant for financing the activities of the Commission. In 2012, excess of all sectors totalled only 1.1% and it was listed neither as a decrease nor set as a prepayment.

4. Taxes

Type of tax	Balance on 31.12.2011	Calculated for the reporting period	Paid in the reporting period	Balance on 31.12.2012
Contributions to compulsory state social insurance (overcharge)	794	856 922	(856 618)	1 098
Personal income tax (overcharge)	(20)	511 456	(511 649)	(213)
	774	1 368 378	(1 368 267)	885

5. Prepaid Expenses

	31.12.2012	31.12.2011
Information system maintenance and security solution services	9 142	6 361
Data base subscription fees	1 470	1 443
Periodic literature	1 342	1 544
Insurance services	324	387
Membership fees for participation in the IOSCO ¹¹	7 176	-
Other prepaid expenses	4 002	2 723
	23 456	12 458

6. 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.

7. 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.

8. Other Receivables

	31.12.2012	31.12.2011
Claims on the inclusion of the Commission in the IOSCO	-	7 176
Due for recast membership fees for participation in the EU organizations (CESR, CEBS, CEIOPS) ¹² for the periods before restructuring of those organizations and redistribution of the European Union funding	45 914	19 672
Due for business travel expense reimbursement	305	3 834
Other receivables	2 640	622
	48 859	31 304

9 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 the end of 2012 time deposits made up 2 185 000 lats, at the end of 2011 they were 2 340 000 lats.

10. Staff Remuneration and Other Payments

This item contains remuneration of the Commission's staff of 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 made up 9.5% (compared to 10.7% in 2011). As from 01.03.2011, when the Law on

¹¹ IOSCO – International Organization of Securities Commissions. The Commission admitted into membership of IOSCO in March 2013.

¹² CESR – Committee of European Securities Regulators; CEIOPS – Committee of European Insurance and Occupational Pensions Supervisors; CEBS – Committee of European Banking Supervisors.

Financial and Capital Market Commission

Notes to the Financial Statements

Remuneration of Officials and Employees of State and Local Government Authorities became 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%. In 2012, remuneration of the Board members was not changed. At the end of 2012, the Commission employed 127 staff members (compared to 118 at the end of 2011), and there were 125 positions at the Commission by the end of 2012 (compared to 121 at the end of 2011).

	<u>2012</u>	<u>2011</u>
Staff remuneration and other payments	2 451 469	2 243 487
State social insurance compulsory contributions	588 293	539 342
including remuneration to the members of the Commission's Board	232 941	239 958
including State social insurance compulsory contributions for the benefit of the Commission's Board	55 873	57 806
including remuneration to members of the Consultative Council of the Financial and Capital Market	3 150	3 465
including State social insurance compulsory contributions for the benefit of the Consultative Council of the Financial and Capital Market	758	818
Average number of employees to whom remuneration/compensation was paid (per year)	125	112
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 ¹³	3	2

11. Improvements of professional skills and business trips

	<u>2012</u>	<u>2011</u>
Training and business trips abroad*	224 670	156 967
Business trips in Latvia	-	100
Professional training in Latvia	18 513	29 101
Working trips**	33	-
	243 216	186 168

* Includes business travel expense reimbursement related to participation in the institutions of the European Union and other international organizations, reducing above expenses by 20 052 lats in 2012, and by 14 159 lats in 2011.

** Includes SIA "Rīgas satiksme" e-ticket expenses for using public transport to pay visits to the participants of the financial and capital market and business partners in Riga. Possibility to use e-ticket was introduced as from 01.09.2012.

12. Telecommunication and information

	<u>2012</u>	<u>2011</u>
Data base information	101 060	90 143
Telecommunication and correspondence	11 736	13 184
Information inquiry services	13 623	12 395
	126 419	115 722

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

13. Maintenance and General Service Expenses

	<u>2012</u>	<u>2011</u>
Rent of premises and archive shelves	157 999	124 882
Maintenance of office premises and public utility fees	56 738	51 870
Expenses on the maintenance of the Commission's Internet resources, information systems and	32 923	23 371

¹³ 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 2012 and 2011.

Notes to the Financial Statements

security solutions

Other maintenance and general service expenses	62 601	73 072
	310 261	273 195

A leasehold contract between the Commission and *SIA Drave* was concluded for renting premises 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. Until 4 July 2011, the Commission rented premises of 1 433.2 m². In 2011, the monthly rent of the Commission's premises was 9.76 euro per square metre (including VAT of 22%). 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). As from 1 January 2012 the monthly rent was set at 10 euro per square metre exclusive of VAT (VAT at 22% until 01.07.2012, 21% - from 01.07.2012) (in total 222 519.96 euro in 2012). The contract prescribes that in future 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.

14. Professional Services

	2012	2011
Expert opinions	64 945	23 910
The Commission's financial statements, quality management system ¹⁴ , functional audits and information systems security audits	8 433	5 490
Legal services	4 659	14 744
Expenses related to termination of operations of financial and capital market participants under liquidation	-	2 462
Other professional services	8 399	9 236
	86 436	55 842

Expenses related to termination of operations of the financial and capital market participants under liquidation in 2011 covered bailiff services. Other professional services covered expenses for translation, consultations regarding personnel management issues, assessment of workplace environment and provision of other specific professional services.

15. 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 the risks that could provide material damages to the Commission.

16. 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 the financial statement.

¹⁴ Covering expenses for the quality management system audit was discontinued in 2012.

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 6 to 16 of the accompanying annual report, which comprise the balance sheet as of 31 December 2012, a budget performance, a statement of income and expenses for the year 2012, statement of changes in equity and cash flow statement for the year 2012, 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 2012 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 2012 set out on pages 3 - 4 of the accompanying annual report for 2012 and have not identified any material inconsistencies between the financial information contained in the management report and the financial statements for 2012.

Deloitte Audits Latvia SIA
License No. 43

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

Roberts Stūģis
Member of the Board

Rīga, Latvia
30 April 2013

Inguna Staša
Certified auditor of Latvia
Certificate No. 145