

**Financial Statements
of the Financial and Capital Market
Commission for 2019**

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Management Report

Activities of the Financial and Capital Market Commission in the reporting year and legal basis thereof

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. From 11 February 2016 to 14 July 2019, Pēters Putniņš had been the Chairman of the Commission, but since 24 October 2019 Santa Purgaile has been the Chairwoman of the Commission.

On 20 December 2018, by Decision No 197 the Board of the Commission approved the Budget of the Financial and Capital Market Commission for 2019. In line with the budget for 2019, the Regulations 198 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 2019 were approved by the Commission's Board on 20 December 2018, under which the financial and capital markets participants made payments for financing the activities of the Commission.

Within the framework of the approved budget, the Commission performed all statutory functions pursuant to Section 6 of the Law on the Financial and Capital Market Commission, as well as managed the Deposit Guarantee Fund and the Fund for the Protection of the Insured, and dealt with administration of financial stability fee. The Commission prepared separate financial statements for the Deposit Guarantee Fund and the Fund for the Protection of the Insured. The Commission conducted accounting in accordance with the Law on Accounting and, as an independent autonomous public institution with the segregated State property, prepared financial statements for the year 2019 in accordance with the Financial Accounting Policy of the Financial and Capital Market Commission approved by Decision No 102 of the Board of the Commission of 28 April 2012.

The Commission carried out all procurements necessary for ensuring the Commission's activities in 2019 under the terms of the Law on Public Procurement.

Funds of the Commission

In 2019, the activities of the Commission were financed from the payments made by the financial and capital markets participants. In 2019, the revenues of the Commission totalled 12 760.67 thousand euro, or 5.6% more than specified in the Commission's 2019 budget (12 078.4 thousand euro)¹. Total expenses of the Commission in 2019 amounted to 10 780.53, excluding provisions for unused vacations and related changes in the provision of the compulsory State social insurance contributions by the employer and reinstatement of expenses of previous periods. The expenditure plan was met at 90.1%, but the fulfilment of income plan was at 105.6%, actually the implementation of the budget for 2019 was in budget surplus of 1 998.0 thousand euro (taking into account changes in the provisions for vacations); consequently, the Commission's net assets increased by the above amount in 2019. At the end of 2019, the Commission's equity or net assets were 8 233 thousand euro, or up by 32% year-on-year. By the end of 2019, the funds for financing the activities of the Commission made up 8 929.8 thousand euro.

Following the occurrence of unavailability of deposits at ABLV Bank, AS and AS "PNB Banka" and the imposition of strict conditions for refocusing the business models for the banking segment in 2018, the Commission monitored the banking segment in 2019 carefully assessing funding opportunities, as well as prioritized expenditures to ensure both the implementation of the monitoring functions and execution of the functions and tasks assigned to the Commission.

As regards the potential losses that the Commission may have incurred in relation to the decision of the Board of the Commission, which it had adopted when exercising its supervisory functions specified in the Law on the Financial and Capital Market Commission, the Commission points out that the above decision is contested through administrative proceedings and the application to the court includes a claim of financial type. Having regard to the fact that within the examination of administrative proceedings, in which the Commission is the defendant and the company "Euromin Holdings (Cyprus) LTD" contests the Commission's decision, requesting recovery of losses related to the execution of the decision in amount of 7 027.3 thousand euro, the ruling of the Court of First Instance was unfavourable to the Commission and the Administrative District Court specified that losses in amount of 3 618.1 thousand euro were to be recovered from the Commission, the Commission has appealed the Administrative District Court ruling and the Administrative Affairs Department of the Supreme Court has taken a decision on initiating the cassation proceedings. However, the Commission is of the opinion that by adopting the contested decision it has exercised the national function in accordance with the will of the legislator as laid down in the Law on the Financial Instruments Market. Since the court

¹ For the plan execution, see page 5; Budget Performance 2019.

judgement concludes that the legislator has not been aware of the negative effects of the application of the rule the Commission cannot be financially responsible for the errors committed by the legislator. Therefore the Commission started negotiations with the Ministry of Finance of the Republic of Latvia already in 2017 that in this situation compensation of losses from the State budget funds would be the most appropriate form of compensation for the losses caused to a private individual.

The Commission's actual funding for 2019 increased by 15.6% compared with 2018. During 2019, the provision of operational functions strengthened in line with the recommendations of the Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (Moneyval) and Organisation for Economic Cooperation and Development (OECD). In mid-2019, the number of employees of Compliance Control Department increased, in addition opening eight positions.

In 2019, of the Commission's resources 60% were directed to the financial market supervisory function, while for the protection of customers' interest and monitoring of prevention of money laundering and terrorist and proliferation financing – 16%, but for the management and support function – 24%. During 2019, improvements in compliance control and resolution and guarantees system areas were implemented, where an increased funding was already allocated in 2017 and was maintained equivalent both in 2018 and 2019 at 14%–15%.

In 2019, the Commission's funding was planned entirely from the payments made by market participants. 76.4% of all payments by market participants were expected to be provided by the monetary financial institutions, 7.6% by financial instruments market participants together with private pension funds, but 15.8% – by insurance market participants. However, according to the actual implementation of the plan the funding of the monetary financial institutions provided for 107% of the planned, thus by providing contributions to the Commission's budget of 77% of total market participants in 2019.

The actual total expenditure for the implementation of the budget in 2019 (without provisions for vacations and without costs for the recovery of the previous periods) were 10 780.5 thousand euro, or 10% less than planned (11 966.4 thousand euro). The implementation of budget expenditure was affected by a number of factors. In 2019, there were changes to the allocation of the Commission's positions, as well as work on reviewing the use of internal resources and ensuring development of efficient processes was continued, including investments in information technology solutions. Assessing the efficiency and economy of missions the overall business trip expenses were reduced.

Audit of the Commission's financial statements

In accordance with the agreement concluded between the Commission and SIA "Baltic Audit" on 29 November 2019, SIA "Baltic Audit" carried out the audit of the Commission's financial statements for 2019.

Santa Purgaile
Chairwoman
Financial and Capital Market Commission

7 July 2020

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

Budget Performance 2019

By decision No 197 "On the Approval of the Budget of the Financial and Capital Market Commission for 2019" of 20 December 2018 of the Board of the Commission, the Budget of the Financial and Capital Market Commission for 2019 was approved with the budget revenues in the amount 12 078 420 euro and expenses in the amount of 11 966 378 euro.

	(euro)		
	Actual result ²	Reporting year budget ²	Reporting year budget result, %
REVENUES (+)	12 760 668	12 078 420	105.6
REVENUES FROM PAYMENTS BY FINANCIAL AND CAPITAL MARKETS PARTICIPANTS	12 745 565	12 058 420	105.6
REVENUES RELATED TO SUPERVISION OF MONETARY FINANCIAL INSTITUTIONS	9 851 465	9 228 820	106.7
Payments by credit institutions	9 593 886	8 904 000	
Payments by credit unions	42 674	42 970	
Payments by payment institutions	129 944	100 610	
Payments by electronic money institutions	84 961	181 240	
REVENUES RELATED TO SUPERVISION OF THE FINANCIAL INSTRUMENTS MARKET AND PRIVATE PENSION FUNDS	962 365	916 360	105
Payments by financial instruments markets participants	628 348	649 290	
Payments by private pension funds	334 017	267 070	
REVENUES RELATED TO INSURANCE SUPERVISION	1 931 735	1 913 240	101
Payments by life as surance companies	356 941	338 460	
Payments by other insurance companies	1 519 573	1 504 780	
Payments by insurance brokers	55 221	70 000	
OTHER REVENUES	15 103	20 000	75.5
EXPENSES (-)³	10 780 526	11 966 378	90.1
Staff remuneration and other payments, compulsory	8 042 699	8 707 251	92.4
State social insurance contributions			
Employee insurance	37 168	53 485	69.5
Staff professional development and training missions	141 838	194 000	73.1
Telecommunication, communication and information	161 898	186 556	86.8
Public awareness campaigns and internal and external communications	81 031	107 500	75.4
Maintenance and general service expenses	887 015	851 061	104.2
Professional services	138 158	354 787	38.9
International cooperation	1 083 434	1 293 932	83.7
Depreciation/amortisation of capital investments	207 285	217 806	95.2
RESULT	1 980 142	112 042	

² In compliance with the principle of accrual-based accounting, except the provisions for vacations, which are not included in the budget planning and subject to control of budget implementation.

³ In compliance with the principle of accrual-based accounting, excluding expenditure recovered in previous periods, which are not included in the budget planning and subject to control of budget implementation.

Financial Statements 2019

Balance Sheet as of 31 December 2019

		(euro)	
ASSETS	Notes No	31.12.2019	31.12.2018
NON-CURRENT ASSETS	2	688 746	595 023
Non-current assets		688 746	595 023
Intangible assets		371 362	245 469
Fixed assets		314 745	332 031
Investments in leasehold improvements	2	319	470
Prepayments for long-term investments and fixed assets		2 320	17 053
CURRENT ASSETS		8 241 049	6 340 999
Inventories		270	1 845
Accounts receivable		3 452 197	2 843 429
Due from market participants to the Commission	3	3 446 614	2 814 645
Other receivables	4	4 768	22 407
Staff receivables		815	6 377
Prepaid expenses	5	94 091	61 737
Cash	6	4 694 491	3 433 988
TOTAL ASSETS		8 929 795	6 936 022

		(euro)	
LIABILITIES	Notes No	31.12.2019	31.12.2018
EQUITY	7	8 233 333	6 235 261
Net assets of the Commission (performance result)		8 233 333	6 235 261
PAYABLES		696 462	700 761
Prepayments by market participants		5 561	
Due from the Commission		300 906	120 498
Taxes payable	8	519	301
Staff payables		47	32
Provisions for vacations	9	377 086	401 394
Provisions for liabilities		12 343	178 536
TOTAL LIABILITIES		8 929 795	6 936 022

The accompanying notes on pages 10 to 17 form an integral part of these financial statements.

Financial statements presented on pages 6 to 9 have been approved by Decision No 81 (Min. No 27, item 2) of 7 July 2019 by the Board of the Financial and Capital Market Commission.

Statement of income and expenses 2019

	Notes No	(euro)	
		2019	2018
REVENUES			
REVENUES RELATED TO SUPERVISION OF MONETARY FINANCIAL INSTITUTIONS		9 851 465	8 148 870
Payments by credit institutions		9 593 886	7 853 562
Payments by credit unions		42 674	39 929
Payments by payment institutions		129 944	80 507
Payments by electronic money institutions		84 961	174 872
REVENUES RELATED TO SUPERVISION OF THE FINANCIAL INSTRUMENTS MARKET AND PENSION FUNDS		962 365	963 222
Payments by financial instruments market participants		628 348	663 153
Payments by private pension funds		334 017	300 069
REVENUES RELATED TO SUPERVISION OF INSURANCE		1 931 735	1 888 733
Payments by life assurance companies		356 941	343 051
Payments by other insurance companies		1 519 573	1 489 768
Payments by insurance brokers		55 221	55 914
FOREGONE REVENUES			(5 222)
REVENUES FROM PREVIOUS PERIODS		63	1 227
OTHER REVENUES		15 103	38 025
TOTAL REVENUES		12 760 731	11 034 855
EXPENSES			
Staff remuneration and other payments	10	(8 042 699)	(7 843 178)
Changes in the provisions for vacations		24 308	(51 270)
Staff insurance		(37 168)	(44 390)
Staff professional training			
	11	(141 838)	(140 253)
Telecommunication and information	12	(161 898)	(152 880)
Public awareness campaigns, external and internal communications		(81 031)	(53 127)
Maintenance and general service expenses	13	(887 015)	(849 593)
Services for ensuring surveillance	14	(138 158)	(268 161)
Cooperation expenses	15	(1 083 434)	(1 104 230)
Depreciation/amortisation of capital investments, exclusion	2	(207 285)	(208 747)
Expenses of previous periods or reinstatement of expenses		(6 441)	1 519
TOTAL EXPENSES		(10 762 659)	(10 714 310)
NET RESULT		1 998 072	320 545

The accompanying notes on pages 10 to 17 form an integral part of these financial statements.

Cash Flow Statement 2019

	Notes No	2019	2018
(euro)			
OPERATING CASH FLOW			
REVENUES			
REVENUES RELATED TO SUPERVISION OF MONETARY FINANCIAL INSTITUTIONS		9 225 435	7 993 965
Payments by credit institutions		9 036 380	7 683 619
Payments by credit unions		42 163	39 170
Payments by payment institutions		71 242	89 885
Payments by electronic money institutions		75 650	181 291
REVENUES RELATED TO SUPERVISION OF THE FINANCIAL INSTRUMENTS MARKET AND PRIVATE PENSION FUNDS		998 023	994 628
Payments by financial instruments market participants		659 560	674 237
Payments by private pension funds		338 463	320 391
REVENUES RELATED TO SUPERVISION OF INSURANCE		1 896 125	1 881 063
Payments by life assurance companies		343 962	361 410
Payments by other insurance companies		1 477 391	1 463 754
Payments by insurance brokers		74 772	55 899
OTHER REVENUES		14 677	577 458
TOTAL REVENUES		12 134 260	11 447 114
EXPENSES			
Staff remuneration and other payments		(8 029 484)	(7 838 514)
Staff insurance		(37 317)	(44 544)
Staff professional training		(150 297)	(132 610)
Telecommunication and information		(165 240)	(162 877)
Public awareness campaigns and communications expenses		(77 128)	(57 233)
Maintenance and general service expenses		(907 194)	(851 485)
Services for ensuring surveillance		(107 049)	(81 789)
International cooperation		(1 094 234)	(1 090 339)
TOTAL EXPENSES		(10 567 943)	(10 259 391)
OPERATING NET CASHFLOW		1 566 317	1 187 723
INVESTMENT ACTIVITIES			
Capital investments		(305 814)	(118 539)
TOTAL INVESTMENT ACTIVITIES		(305 814)	(118 539)
Net changes in cash during the reporting period		1 260 503	1 069 184
Cash balance at the beginning of the reporting period		3 433 988	2 364 804
Cash balance at the of the reporting period	6	4 694 491	3 433 988

The accompanying notes on pages 10 to 17 form an integral part of these financial statements.

Statement of Changes in Equity 2019

	(euro)
	Equity (net assets) of the Commission
Commission's net assets 31.12.2017	5 914 723
Balance value of fixed assets write-off in 2017 charged directly to the result	(7)
Result of the reporting period	320 545
Commission's net assets 31.12.2018	6 235 261
Result of the reporting period	1 998 072
Commission's net assets 31.12.2019	8 233 333

The accompanying notes on pages 10 to 17 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 since 2001. The Commission is an autonomous public authority that exercises regulatory supervision over the Latvian financial and capital markets composed of three sectors:

1. monetary financial institutions sector;
2. insurance sector;
3. financial instruments market and private pension funds sector.

The monetary financial institutions sector is comprised of credit institutions, credit unions, payment institutions and electronic money institutions.

The insurance sector includes insurance companies: life insurance and other insurance undertakings, reinsurance companies and insurance intermediaries: insurance brokers and insurance agents.

The financial instruments market and private pension funds sectors are comprised of financial instruments market participants: investment firms, investment management companies, managers of alternative investment funds, organizers of regulated market (stock exchange) and multilateral trading systems, as well as the Latvian Central Depository and private pension funds, either closed-end private pension funds or open-end private pension funds.

The purpose of the Commission is to promote the protection of interests of investors, depositors and the insured parties as well as the development and soundness of the financial and capital markets.

In accordance with the Law on the Financial and Capital Market Commission, the key tasks of the Commission are as follows:

- to issue binding rules and regulations and make decisions on the requirements for the functioning of financial and capital markets participants, and procedures for calculating and reporting their performance indicators;
- to govern the financial and capital markets and activities of their 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 compliance requirements for the financial and capital markets participants and their officials;
- to establish the procedure for licensing and registration of financial and capital markets participants as well as to licence and register the financial and capital market participants in accordance with set procedures;
- to collect and analyse information (data) relating to the financial and capital markets and to publish it, as well as to engage in systemic studies, analysis and projections for the development of financial and capital markets;
- to ensure accumulation of the funds with the Deposit Guarantee Fund and the Fund for the Protection of the Insured, their management and payment of compensations from the Funds in accordance with the Deposit Guarantee Law and the Insurance and Reinsurance Law;
- to ensure payment of compensations to investors in accordance with the Investor Protection Law;
- to analyse regulatory requirements pertaining to the financial and capital markets, develop proposals for their improvement and harmonisation with the laws and regulations of European Community;
- to cooperate with foreign financial and capital markets supervisory authorities and participate in the work of international financial and capital markets supervision institutions;
- to manage the resolution process in Latvia;
- to administer the financial stability fee.

The Commission makes independent decisions within the limits of its authority, executes functions assigned to it by law, and holds responsibility for their enforcement. No one is eligible 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 possesses a segregated State property 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 1 Kungu Street and at 2 Krāmu Street in Riga.

1. Accounting Policies

Basis for Preparation of the Financial Statements

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

The accounting principles applied in 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

- 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 markets participants, which are subject to reporting on due payments and they are recognised accordingly during the period in which they occurred. Expenses are recognised at the date of their occurrence, including accrued vacation expenses proportionate to the time period the employees 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 the acquisition of assets.
- Transactions and other events are reflected by taking account of 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 Policy, according to which those are intangible and fixed-type investments with the period of useful life over one year and they would be used for the provision of services, maintenance of other fixed assets and the needs of the Commission's administration. In accordance with the Commission's Financial Accounting Policy, depreciation and amortisation rates for the Commission's long-term investments (annual interest) are as follows:

- software, licences, information systems and other intangible assets rights, 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 are harmonized with depreciation rates for fixed assets set for budgetary institutions in the Republic of Latvia.

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 stipulated in 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 2019, no depreciation for those fixed assets incurred, and in 2019 no item was excluded from fixed assets. One item was excluded from above fixed assets in 2018.

Accounts Receivable

The Commission steadily follows that the financial and markets participants make their 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 has been removed from the balance sheet item Accounts Receivable, thereby decreasing revenues of the Commission in that reporting period, when the debtor is excluded.

Cash

In the cash flow statement, cash and its equivalents include demand deposits in the euro.

Provisions for Vacations and Bonuses

The Commission shall, at the end of the current reporting year, make an estimate of the vacation days not used in the in the reporting year on the reporting date. According to the estimated data of the unused vacation days and the average earnings of each employee for the last six months the amount of accrued vacation obligations and related compulsory State social insurance contributions shall be calculated. According to the calculation data, the amount of accrued liabilities (in the balance sheet liabilities) is adjusted, thereby increasing or decreasing expenses of the reporting period for wages and compulsory State social insurance contributions.

In view of the remuneration system established by the Commission, an annual assessment of the performance of the employees is carried out and bonuses for the results of the annual performance may be paid out according to the assessment. Depending on the date of payment, bonuses are either accrued if above date is after the reporting date or calculated and paid and included in the annual expenses of reporting year.

Prepaid Expenses

Prepaid expenses are recognised as expenses consisting of payments for services which have been paid during the reporting period but which relate to the following reporting period.

Provisions for Expected Commitments Arising from Legal Proceedings

Provisions for expected liabilities are created in accordance with the risk assessment of the adverse outcome of the proceedings, the ratio of expected loss to the Commission's budget (whether the loss amount does not endanger the continuity of the Commission's activities) and in line with the provision of the Law of the Recovery of Damages Caused by the State Administrative Institutions. Each particular situation shall be assessed individually and the situation to be examined in the context of the financial statements for 2019 is described in Notes No 16.

2. Non-current assets

	Fixed assets					Total
	Intangible assets ⁴	Computers and office equipment	Other fixed assets	Prepayments for non-current assets	Investment in leasehold improvements	
Book value						
31.12.2017	241 006	241 116	122 573	53	20 622	625 370
Cost value						
31.12.2017	965 240	572 154	353 491	53	207 837	2 098 775
Additions	98 060	59 256	4 091	19 124	-	180 531
Disposals, transfer	(13 400)	(43 397)	(127)	(2 124)	-	(59 048)
31.12.2018	1 049 900	588 013	357 455	17 053	207 837	2 220 258
Depreciation						
31.12.2017	724 234	331 038	230 918	-	187 215	1 473 405
Charge in the reporting period	93 583	79 020	15 957	-	20 152	208 712
Reversal due to disposals	(13 386)	(43 369)	(127)	-	-	(56 882)
31.12.2018	804 431	366 689	246 748	-	207 367	1 625 235
Book value						
31.12.2018	245 469	221 324	110 707	17 053	470	595 023
Cost value						
31.12.2018	1 049 900	588 013	357 455	17 053	207 837	2 220 258
Additions	227 676	77 082	10 630	2 320	-	317 708
Disposals, transfer	(24 698)	(3 719)	(8 842)	(17 053)	(8 971)	(63 283)
31.12.2019	1 252 878	661 376	359 243	2 320	198 866	2 474 683
Depreciation						
31.12.2018	804 431	366 689	246 748	-	207 367	1 625 235
Charge in the reporting period	99 291	88 137	16 134	-	505	204 067
Reversal due to disposals	(22 206)	(3 327)	(8 507)	-	(9 325)	(43 365)
31.12.2019	881 516	451 499	254 375	-	198 547	1 785 937
Book value						
31.12.2019	371 362	209 877	104 868	2 320	319	688 746

⁴ Licences, software and other intangible assets.

3. Due from the Market Participants to the Commission

This item contains the amounts due from the financial and capital markets participants to the Commission on the date specified in the statement:

	2019	2018
Due from the monetary financial institution sector	2 684 210	2 056 676
Due from credit institutions*	2 580 797	2 023 291
Due from credit unions	10 843	10 327
Due from monetary institutions	71 791	11 590
Due from electronic money institutions	20 779	11 468
Due from the insurance sector	513 119	476 481
Due from life assurance companies	118 779	105 800
Due from other insurance companies	387 972	365 735
Due from insurance brokers	6 368	4 946
Due from the financial instruments market and private pension funds sector	249 285	281 488
Due from financial instruments market participants	146 596	174 353
Due from private pension funds	102 689	107 135
Short term receivables	3 446 614	2 814 645

* including liabilities of ABLV Bank, AS (in liquidation) in amount of 197 281 euro, settlement of which is not expected within the next 12 months in relation to the classification of the Commission's claim on the list of other creditors.

4. Other Receivables

	2019	2018
Claims for reimbursement of workshop costs		2 340
Claims on the European Union's organizations*	4 571	14 021
Other receivables	197	6 046
	4 768	22 407

* For recalculated membership fees for the previous period.

5. Prepaid Expenses

	2019	2018
Information system maintenance and security solution services	73 734	47 880
Data base subscription fees	10 152	6 316
Periodic literature	1 188	1 462
Insurance services	3 970	3 560
Other prepaid expenses	5 047	2 519
	94 091	61 737

6. Cash

This item reflects the funds that are available on demand.

7. Equity

This item represents net assets of the Commission (total result). Changes thereof are disclosed in the Statement of Changes in Equity 2019 and notes thereto.

8. Taxes payable

Type of tax	Balance on 31.12.2018	Calculated for the rep. period	Paid in the reporting period	Balance on 31.12.2019
Contributions to compulsory State social insurance (VSAOI)	301	2 261 792	2 261 574	519
Personal income tax	-	1 180 377	1 180 377	-
TOTAL	301	3 442 169	3 441 951	519

9. Provisions for Vacations

	2019	2018
Provisions for vacations	304 265	323 707
VSAOI for the provisions for vacations	72 821	77 687
	377 086	401 394

10. Staff Remuneration and Other Payments

This item contains remuneration of the Commission's staff and remuneration paid for specific work done for the Commission. Expenses related to the remuneration of the Board of the Commission made up 8.82% of total in 2019 (compared to 6.75% in 2018). On 31.12.2019, there were 179 employees in employment relationships with the Commission, of which seven to the positions of employees who were temporarily absent (on 31.12.2018, there were 172 employees, of which four to the positions of employees who were temporarily absent). By the end of 2019, there were 186 positions at the Commission (compared to 177 in 2018).

	2019	2018
Staff remuneration and other similar payments	6 489 620	6 332 788
including remuneration to the members of the Commission's Board	572 075	427 576
State social insurance compulsory contributions	1 553 079	1 510 390
including VSAOI for the Commission's Board remuneration	138 536	102 942
Staff remuneration and other similar payments, including VSAOI	8 042 699	7 843 178
Average number of employees to whom remuneration was paid (per year)	170	173
including the number of members of the Commission's Board	5	5

11. Staff Professional Training

	2019	2018
Professional training abroad	90 200	93 770
Professional training in Latvia	51 638	46 483
	141 838	140 253

12. Telecommunication and Information

	2019	2018
Data base information	127 438	117 859
Electronic communication and correspondence services	18 015	19 988
Information inquiry services	16 445	15 033
	161 898	152 880

13. Maintenance and General Service Expenses

	2019	2018
Rental expenses incurred by the Commission*	466 318	454 794
Maintenance of office premises and public utility service fees	234 590	117 381
Expenses on the maintenance of the Commission's online web resources, information systems and security solutions	110 654	111 306
Other maintenance and general service expenses	75 453	166 112
	887 015	849 593

* A leasehold contract for renting premises in the real estate at 1 Kungu Street, Riga, the total area of 1 912.4 square meters, is effective until 31 December 2026. From 1 May 2016 and 1 October 2017 the Commission has been also renting premises at 2 Krāmu Street, the area of 393.7 square meters, totalling 2 306.1 square meters. A leasehold contract for renting premises in the real estate at 2 Krāmu Street, Riga is effective until 31 December 2020.

14. Services for Ensuring Surveillance

	2019	2018
Monitoring missions (duty travel and business trips in the territory of Latvia)	74	218
The Commission's financial statements, functional audits and information systems security audits	12 342	26 852
Expert opinion and legal services	125 742	241 091
	138 158	268 161

15. Cooperation expenses

	2019	2018
Participation fee in the European Union institutions	641 786	595 688
Missions intended for participation in working groups of the European Union and cooperation missions within the framework of international organisations and other supervisory authorities work or projects	383 803	426 143
Participation fee in international organisations	57 280	52 885
Cooperation expenses in Latvia	565	4 160
Co-financing in the European Union projects		25 354
	1 083 434	1 104 230

16. Court Proceedings and Claims

When performing supervisory functions specified by the Law on the Financial and Capital Market Commission, the Commission may have become involved in court proceedings, because appeals may be lodged against its decisions in accordance with the administrative proceedings procedures. In the reporting period, there were six administrative proceedings active, the examination of which had not yet been completed by the date of signature of this statement, two of which have jurisdiction over the potential claims and liabilities of the Deposit Guarantee Fund.

In one administrative case in which the Commission is the defendant and in which the company "Euromin Holdings (Cyprus) LTD" contests the Commission's decision, requesting recovery of losses related to the execution of the decision in amount of 7 027.3 thousand euro, the ruling of the Court of First Instance was adverse to the Commission and the Administrative District Court specified that losses in amount of 3 618.1 thousand euro were to be recovered from the Commission. The Commission appealed the Administrative District Court ruling and the Administrative Affairs Department of the Supreme Court has taken a decision on initiating the cassation proceedings. The Supreme Court has applied to the European Court of Justice for a preliminary ruling on the interpretation of European Union law. The Supreme Court will restore the proceedings after the preliminary ruling by the European Court of Justice comes into effect.

In the view of the lawyers, there is a medium possibility (50%) that the adverse ruling of the Court of First Instance against the Commission could enter into force. The Commission is of the opinion that even assuming the possibility that if the adverse decision would take effect and the Commission would have to cover losses to the applicant of 3 618.1 thousand euro, no provisions for covering losses should be made for reasons as follows:

- 1) the amount of potential damage to be paid exceeds more than one third of the annual budget of the Commission, therefore the pay-out of such amount would paralyze the Commission's operation, and it would be unacceptable from the perspective of continuity of public administration functions,
- 2) with reference to paragraph one, for covering losses, the provisions of Section 28 (1) of the Law of the Recovery of Damages Caused by the State Administrative Institutions would be applicable, specifying that if a derived legal person under law cannot comply with the decision by the institution or the court ruling because of a lack of funds, compensation shall be paid from the general budget.

17. Events after the Balance Sheet Date

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

No other events have occurred in the period between the end of the reporting year and the date when the financial statements were signed that would require any adjustments or should be clarified in these financial statements.

On 26 May 2020, the Government of the Republic of Latvia supported the decision to merge the Bank of Latvia (*Latvijas Banka*) and the Commission, which would lead to more efficient ways of promoting financial stability and mitigating systemic risks, provide a more comprehensive view of changes in the financial and capital markets, and more targeted development of the financial sector. The merger is expected to result in the staff, financial and logistical savings. The merged Bank of Latvia could start operations in 2022 or 2023.

Santa Purgaile
Chairwoman
Financial and Capital Market Commission

7 July 2020

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

Translation form Latvian

INDEPENDENT AUDITORS' REPORT

To the Parliament of the Republic of Latvia (Saeima)

Our opinion on the Financial Statements

We have audited the accompanying financial statements of Financial And Capital Market Commission (the Commission), set out on pages 6 to 17 of the accompanying annual report, which comprise the balance sheet as at 31 December 2019, and the statement of income and expenses, cash flow statement, statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements give a true and fair view of the financial position of Financial And Capital Market Commission as of 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with the Financial Accounting Policy of the Financial and Capital Market Commission approved by the Commission's Board.

Basis for Qualified Opinion

As stated in Note 16 to the accompanying financial statements, Commission is involved in court case as defendant in which the company "Euromin Holdings (Cyprus) LTD" contests the Commission's decision, requesting recovery of losses related to the execution of the decision in amount of 7 027.3 thousand euro. Administrative District Court specified that losses in amount of 3 618.1 thousand euro were to be recovered from the Commission. The Commission appealed the Administrative District Court ruling and the Administrative Affairs Department of the Supreme Court has taken a decision on initiating the cassation proceedings. The Supreme Court has applied to the European Court of Justice for a preliminary ruling on the interpretation of European Union law. The Supreme Court will restore the proceedings after the preliminary ruling by the European Court of Justice comes into effect. Taking into consideration the legal assessment of the possible outcome of the court, the Commission had not recognized any provision in relation to these proceedings as of 31 December 2019. Consequently, we were unable to determine whether and to what extent the amount of provisions as at 31 December 2019 has been properly reflected.

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

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

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

Other matter

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

Reporting on Other Information

The Commission management is responsible for the other information. The other information is the Management Report, as set out on pages 3 to 4 of the accompanying Annual Report, and Budget Performance 2019, as set out on page 5 of the accompanying Annual Report.

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

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

If, based on the work we have performed and in light of the knowledge and understanding of the entity and its environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. Apart from the possible effects of the matter described in the Basis for Qualified Opinion section on Management Report and Budget Performance, we have not noticed any other circumstances that should be reported in this regard.

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

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

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

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

Auditor's Responsibility for the Audit of the Financial Statement

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

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

- Identify and assess the risks of material misstatement of the financial statement, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not

detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Commission's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statement or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Commission to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statement, including the disclosures, and whether the financial statement represent the underlying transactions and events in a manner that achieves a fair presentation.

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

Baltic Audit SIA
Company of Certified Auditors
Licence No 176

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

Riga, Latvia
The date of the document is the date of its electronic signature

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