

**Financial Statements
of the Financial and Capital Market
Commission for 2020**

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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. Since 24 October 2019, Santa Purgaile has been the Chairwoman of the Commission, and on 30 March 2020 the Board of the Commission was set up composed of three members.

On 9 December 2019, by Decision No 193 the Board of the Commission approved the budget of the Financial and Capital Market Commission for 2020. In line with the budget for 2020, the Regulations No 238 On Setting the Amount of Payments by Financial and Capital Market Participants for Financing the Financial and Capital Market Commission in 2020 and for the Submission of Reports were approved by the Commission's Board on 15 December 2019, 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 has 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 2020 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 procurements necessary for ensuring the Commission's activities in 2020 under the terms of the Law on Public Procurement.

Funds of the Commission

In 2020, the activities of the Commission were financed from the payments made by the financial and capital markets participants. In 2020, the revenues of the Commission totalled 12 668 thousand euro, or 5.8% more than specified in the Commission's 2020 budget (11 972 thousand euro)¹. Total expenses in 2020 amounted to 10 783 thousand euro. The expenditure plan was met at 90.5%, while the fulfilment of income plan was at 105.8%. Actually, the implementation of the budget for 2020 was in budget surplus of 1 885 thousand euro. Consequently, the Commission's net assets increased by the above amount in 2020. At the end of 2020, the Commission's equity or net assets were 10 118 thousand euro, or up by 22.9% year-on-year. At the end of 2020, the funds for financing the activities of the Commission made up 10 696 thousand euro.

In 2020, the Commission monitored the banking segment carefully assessing funding opportunities, as well as prioritized expenditures to ensure both the implementation of the monitoring functions and execution of other functions and tasks assigned to the Commission.

The Commission's actual funding for 2020 declined by 0.7% compared with 2019.

During 2020, in line with the Commission's Strategy for 2019-2023 the Commission's organisational structure was changed, thereby strengthening both the Commission's management and the process of providing operational functions as a whole, as well as paying equal attention to all areas of the financial sector and paying significant attention to development issues.

In 2020, of the Commission's resources 68% were directed to the financial market supervisory function, while 13% were allotted for the protection of customers' interest and monitoring of prevention of money laundering and terrorist and proliferation financing, but 19% for the management and support functions.

In 2020, the Commission's funding was planned entirely from the payments made by market participants. 76.2% of all payments by market participants were expected to be provided by the monetary financial institutions, 7.2% – by financial instruments market participants together with private pension funds, but 16.6% – by insurance market participants. However, according to the actual implementation of the plan the funding of the monetary financial institutions provided for 105.7% of the planned, thus by providing contributions to the Commission's budget of 76.1% of total market participants in 2020.

¹ For the plan execution, see page 5; Budget Performance 2020.

The actual total expenditure for the implementation of the budget in 2020 were 10 783 thousand euro, or 9.5% less than planned (11 911 thousand euro). The implementation of budget expenditure was affected by a number of factors, major of which were structural changes made in 2020, including changes to the allocation of the Commission's positions, as well as measures taken to strengthen the use of internal resources and efficiency of processes, including investments in information technology solutions.

In relation to the spread of the Covid-19 and setting restrictions, the number of business trips, training courses as well as total general service costs decreased. The Covid-19 pandemic did not have a negative impact on the Commission's operational continuity.

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 2020.

K. Černaja-Mežmale
Member of the Board

Acting as
S. Purgaile
Chairwoman
Financial and Capital Market Commission

22 June 2021

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

Budget Performance 2020

By decision No 193 On the Approval of the Budget of the Financial and Capital Market Commission for 2020 of 9 December 2019 of the Board of the Commission, the Budget of the Financial and Capital Market Commission for 2020 was approved with the budget revenues in the amount of 11 972 060 euro and expenses in the amount of 11 911 309 euro.

	Actual result	Reporting year budget	(euro) Reporting year budget result, %
REVENUES (+)	12 668 470	11 972 060	105.8
REVENUES FROM PAYMENTS BY FINANCIAL AND CAPITAL MARKETS PARTICIPANTS	12 655 862	11 952 060	105.9
REVENUES RELATED TO SUPERVISION OF MONETARY FINANCIAL INSTITUTIONS	9 631 053	9 112 450	105.7
Payments by credit institutions	9 372 332	8 888 000	
Payments by savings and loan associations	42 098	44 880	
Payments by payment institutions	155 720	118 400	
Payments by electronic money institutions	60 903	61 170	
REVENUES RELATED TO SUPERVISION OF THE FINANCIAL INSTRUMENTS MARKET AND PRIVATE PENSION FUNDS	976 054	861 690	113.3
Payments by financial instruments markets participants	630 745	542 090	
Payments by private pension funds	345 309	319 600	
REVENUES RELATED TO INSURANCE SUPERVISION	2 048 755	1 977 920	103.6
Payments by life assurance companies	530 110	353 580	
Payments by other insurance companies	1 464 238	1 564 340	
Payments by insurance brokers	54 407	60 000	
OTHER REVENUES	12 608	20 000	63.0
EXPENSES (-)	10 783 332	11 911 309	90.5
Staff remuneration and other payments, compulsory State social insurance contributions	8 231 194	8 697 505	94.6
Employee insurance	37 362	39 698	94.1
Staff professional development and training missions	67 830	210 686	32.2
Telecommunication, communication and information	160 641	175 964	91.3
Public awareness campaigns and internal and external	113 719	96 225	118.2
Maintenance and general service expenses	945 564	973 834	97.1
Professional services	145 611	251 970	57.8
International cooperation	796 791	1 245 427	64.0
Depreciation/amortisation of capital investments	233 124	220 000	106.0
Changes in the provisions for vacations	36 444	-	-
Recoveries of the previous periods	(22 791)	-	-
Negative interest on the account balance	31 329	-	-
Losses	6 514	-	-
RESULT	1 885 138	60 751	

Financial Statements 2020

Balance Sheet as of 31 December 2020

		(euro)	
ASSETS	Notes No	31.12.2020	31.12.2019
NON-CURRENT ASSETS	2	678 219	688 746
Non-current assets		678 219	688 746
Intangible assets		304 776	371 362
Fixed assets		329 378	314 745
Investments in leasehold improvements	2	44 065	319
Prepayments for non-current assets and fixed assets		-	2 320
CURRENT ASSETS		10 017 953	8 241 049
Inventories		2 376	270
Accounts receivable		3 391 074	3 452 197
Due from market participants to the Commission	3	3 378 766	3 446 614
Other receivables	4	11 863	4 768
Staff receivables		445	815
Prepaid expenses	5	97 150	94 091
Cash	6	6 527 353	4 694 491
TOTAL ASSETS		10 696 172	8 929 795
		(euro)	
LIABILITIES	Notes No	31.12.2020	31.12.2019
EQUITY	7	10 118 471	8 233 333
Net assets of the Commission (performance result)		10 118 471	8 233 333
PAYABLES		577 701	696 462
Prepayments by market participants		3 838	5 561
Due from the Commission		154 292	300 906
Taxes payable	8	1 104	519
Staff payables		-	47
Provisions for vacations	9	413 530	377 086
Provisions for liabilities		4 937	12 343
TOTAL LIABILITIES		10 696 172	8 929 795

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 80 (Min. No 28, item 7) of 22 June 2021 by the Board of the Financial and Capital Market Commission.

Statement of Income and Expenses 2020

(euro)

	Notes No	2020	2019
REVENUES			
REVENUES RELATED TO SUPERVISION OF MONETARY FINANCIAL INSTITUTIONS			
		9 631 053	9 851 465
Payments by credit institutions		9 372 332	9 593 886
Payments by savings and loan associations		42 098	42 674
Payments by payment institutions		155 720	129 944
Payments by electronic money institutions		60 903	84 961
REVENUES RELATED TO SUPERVISION OF THE FINANCIAL INSTRUMENTS MARKET AND PENSION FUNDS			
		976 054	962 365
Payments by financial instruments market participants		630 745	628 348
Payments by private pension funds		345 309	334 017
REVENUES RELATED TO SUPERVISION OF INSURANCE			
		2 048 755	1 931 735
Payments by life assurance companies		530 110	356 941
Payments by other insurance companies		1 464 238	1 519 573
Payments by insurance brokers		54 407	55 221
REVENUES FROM PREVIOUS PERIODS			
		-	63
OTHER REVENUES			
		12 608	15 103
TOTAL REVENUES		12 668 470	12 760 731
EXPENSES			
Staff remuneration and other payments	10	(8 231 194)	(8 042 699)
Changes in the provisions for vacations		(36 444)	24 308
Staff insurance		(37 362)	(37 168)
Staff professional training	11	(67 830)	(141 838)
Telecommunication and information	12	(160 641)	(161 898)
Public awareness campaigns, external and internal communications		(113 719)	(81 031)
Maintenance and general service expenses	13	(945 564)	(887 015)
Services for ensuring surveillance	14	(145 611)	(138 158)
Cooperation expenses	15	(796 791)	(1 083 434)
Depreciation/amortisation of capital investments, exclusion	2	(233 124)	(207 285)
Negative interest on the account balance	16	(31 329)	-
Losses		(6 514)	-
Expenses of previous periods or reinstatement of expenses		22 791	(6 441)
TOTAL EXPENSES		(10 783 332)	(10 762 659)
NET RESULT		1 885 138	1 998 072

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

Cash Flow Statement 2020

(euro)

	Notes No	2020	2019
OPERATING CASH FLOW			
REVENUES			
REVENUES RELATED TO SUPERVISION OF MONETARY FINANCIAL INSTITUTIONS			
		9 758 396	9 225 435
Payments by credit institutions		9 499 486	9 036 380
Payments by savings and loan associations		46 131	42 163
Payments by payment institutions		150 462	71 242
Payments by electronic money institutions		62 317	75 650
REVENUES RELATED TO SUPERVISION OF THE FINANCIAL INSTRUMENTS MARKET AND PRIVATE PENSION FUNDS			
		930 238	998 023
Payments by financial instruments market participants		597 495	659 560
Payments by private pension funds		332 743	338 463
REVENUES RELATED TO SUPERVISION OF INSURANCE			
		2 036 754	1 896 125
Payments by life assurance companies		496 046	343 962
Payments by other insurance companies		1 484 686	1 477 391
Payments by insurance brokers		56 022	74 772
OTHER REVENUES		12 608	14 677
TOTAL REVENUES		12 737 996	12 134 260
EXPENSES			
Staff remuneration and other payments		(8 205 861)	(8 029 484)
Staff insurance		(37 554)	(37 317)
Staff professional training		(63 058)	(150 297)
Telecommunication and information		(162 438)	(165 240)
Public awareness campaigns and communications expenses		(126 003)	(77 128)
Maintenance and general service expenses		(936 984)	(907 194)
Services for ensuring surveillance		(273 779)	(107 049)
International cooperation		(813 309)	(1 094 234)
Exchange rate losses		(39)	-
Negative interest on the account balance		(28 293)	-
TOTAL EXPENSES		(10 647 318)	(10 567 943)
OPERATING NET CASH FLOW		2 090 678	1 566 317
INVESTMENT ACTIVITIES			
Capital investments		(257 816)	(305 814)
TOTAL INVESTMENT ACTIVITIES		(257 816)	(305 814)
Net changes in cash during the reporting period		1 832 862	1 260 503
Cash balance at the beginning of the reporting period		4 694 491	3 433 988
Cash balance at the end of the reporting period	6	6 527 353	4 694 491

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

Statement of Changes in Equity 2020

(euro)

	Equity (net assets) of the Commission
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
Result of the reporting period	1 885 138
Commission's net assets 31.12.2020	10 118 471

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, savings and loan associations, 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 supervisory 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 in Riga, at 1 Kungu Street and at 2 Krāmu Street (the latter until 31 December 2020).

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 statement 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 pays proportionate to the time period the employees actually worked. Accrued vacation pays 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.

Non-current Assets

Non-current assets were recognised by taking as guidelines the Commission's Financial Accounting Policy, according to which those are intangible and fixed-type assets 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 non-current assets (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 leased 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 2020, no depreciation for above fixed assets incurred, and in 2020 and 2019 no item was excluded from fixed assets.

Accounts Receivable

The Commission steadily follows that the financial and markets participants meet their obligations to the Commission regarding financing its activities 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

At the end of the current reporting year, the Commission makes 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.

Prepaid Expenses

Prepaid expenses are recognised as expenses comprising payments for services which have been paid during the reporting period but which relate to the subsequent 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 provisions of the Law of the Recovery of Damages Caused by the State Administrative Institutions. Each particular situation is assessed individually and the situation to be examined in the context of the financial statements for 2020 is described in Notes No 16.

2. Non-current assets

	Intangible assets ²	Fixed assets		Prepayments for non-current assets	Investment in leasehold improvements	Total
		Computers and office equipment	Other fixed assets			
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
Cost value						
31.12.2019	1 252 878	661 376	359 243	2 320	198 866	2 474 683
Additions	40 430	131 121	5 512		47 855	224 918
Disposals, transfer	(88 836)	(184 064)	(32 869)	(2 320)	(11 248)	(319 337)
31.12.2020	1 204 472	608 433	331 886	-	235 473	2 380 264
Depreciation						
31.12.2019	881 516	451 499	254 375	-	198 547	1 785 937
Charge in the reporting period	106 753	93 460	17 192		4 108	221 513
Reversal due to disposals	(88 573)	(173 134)	(32 451)		(11 247)	(305 405)
31.12.2020	899 696	371 825	239 116	-	191 408	1 702 045
Book value						
31.12.2020	304 776	236 608	92 770	-	44 065	678 219

² 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:

	2020	2019
Due from the monetary financial institution sector	2 558 766	2 684 210
Due from credit institutions	2 453 643	2 580 797
Due from savings and loan associations	10 207	10 843
Due from monetary institutions	73 800	71 791
Due from electronic money institutions	21 116	20 779
Due from the insurance sector	525 194	513 119
Due from life assurance companies	152 843	118 779
Due from other insurance companies	367 524	387 972
Due from insurance brokers	4 827	6 368
Due from the financial instruments market and private pension funds sector	294 806	249 285
Due from financial instruments market participants	179 551	146 596
Due from private pension funds	115 255	102 689
Short-term receivables	3 378 766	3 446 614

4. Other Receivables

	2020	2019
Claims on the European Union's organizations*	5 369	4 571
Other receivables	6 494	197
	11 863	4 768

* For recalculated membership fees for the previous period.

5. Prepaid Expenses

	2020	2019
Information system maintenance and security solution services	75 426	73 734
Data base subscription fees	10 553	10 152
Periodic literature	646	1 188
Insurance services	3 979	3 970
Other prepaid expenses	6 546	5 047
	97 150	94 091

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 2020 and notes thereto.

8. Taxes payable

Type of tax	Balance on 31.12.2019	Calculated for the rep. period	Paid in the reporting period	Balance on 31.12.2020
Contributions to compulsory State social insurance (Social tax)	519	2 314 709	2 314 124	1 104
Personal income tax	0	1 207 363	1 207 363	0
TOTAL	519	3 522 072	3 521 487	1 104

9. Provisions for Vacations

	2020	2019
Provisions for vacations	333 310	304 265
Social tax for the provisions for vacations	80 220	72 821
	413 530	377 086

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 4.9% of total in 2020 (compared to – 8.8% in 2019). On 31 December 2020, there were 179 employees having employment relationships with the Commission, of which seven to the positions of employees who were temporarily absent (on 31.12.2019, there were 179 employees, of which seven to the positions of employees who were temporarily absent). At the end of 2020, there were 190 positions at the Commission (compared to 186 in 2019).

	2020	2019
Staff remuneration and other similar payments, including remuneration to the members of the Commission's Board	6 642 041	6 489 620
State social insurance compulsory contributions including Social tax for the Commission's Board remuneration	326 867	572 075
	1 589 153	1 553 079
	78 742	138 536
Staff remuneration and other similar payments, including Social tax	8 231 194	8 042 699
Full time equivalent including the members of the Commission's Board	166	163
	3	5

11. Staff Professional Training

	2020	2019
Professional training abroad	4 034	90 200
Professional training in Latvia	63 796	51 638
	67 830	141 838

12. Telecommunication and Information

	2020	2019
Data base information	124 175	127 438
Electronic communication and correspondence services	19 674	18 015
Information inquiry services	16 792	16 445
	160 641	161 898

13. Maintenance and General Service Expenses

	2020	2019
Leasehold expenses incurred by the Commission*	475 270	466 318
Maintenance of office premises and public utility service fees	258 834	234 590
Expenses on the maintenance of the Commission's online web resources, information systems and security solutions	139 523	110 654
Other maintenance and general service expenses	71 937	75 453
	945 564	887 015

* 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 rented 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 was effective until 31 December 2020.

14. Services for Ensuring Surveillance

	2020	2019
Monitoring missions (duty travel and business trips in the territory of Latvia)	118	74
The Commission's financial statements, functional audits and IT security audits	7 405	12 342
Expert opinion and legal services	138 088	125 742
	145 611	138 158

15. Cooperation expenses

	2020	2019
Participation fee in the European Union institutions	688 295	641 786
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	51 861	383 803
Participation fee in international organisations	51 430	57 280
Cooperation expenses in Latvia	541	565
Co-financing in the European Union projects	4 664	
	796 791	1 083 434

16. Negative interest on the account balance

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

- 1) euro overnight index average rate for the Euro zone (EONIA), calculated on the amount of balances of the Commission's current accounts, which does not exceed the difference between the total amount of the State Treasury's current accounts and 200 million euro if the total balance of the State Treasury's current accounts is less than 200 million euro. The EONIA rate was negative throughout the reporting year and ranged on average -0.46% (annual rate);
- 2) negative deposit facility rate, determined by the European Central Bank, applicable to the difference of the balances of the Commission's accounts, for which the EONIA rate was not applied. Since mid-September 2019, the Eurosystem's deposit facility interest rate has been -0.50% (annual rate).

In general, *Latvijas Banka* deposited 31.3 thousand euro in 2020, applying the interest rate of the EONIA and the Eurosystem's deposit facility.

17. 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.

18. Events after the Balance Sheet Date

It is difficult to forecast development of the future economic situation in relation to the unpredictable spread of the Covid-19 infection and the duration of the restrictions, which will have a significant impact on future economic development. The Commission's management is constantly assessing the situation and believes that the Commission will be able to overcome the state of emergency. However, this conclusion is based on the information available at the time of the signing of these financial statements and the impact of future developments on the Commission's future 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 *Latvijas Banka* and the Commission. The analysis of benefits and risks confirmed that the merger of the Commission with *Latvijas Banka* is meaningful, as it results in a public benefit. Synergies between information and competences will help to more comprehensively assess the risks of financial institutions by enabling the adoption of more operational, informed and problem-specific decisions. At the same time, identified risks are manageable through appropriate hedging measures, including an appropriate sharing of tasks, rights and responsibilities, which would lead to more efficient ways of promoting financial stability and mitigating systemic risks, provide a more comprehensive view of developments in the financial and capital markets and contribute more targeted to the development of the financial sector. The merger is expected to result in the staff, financial and logistical savings.

A positive opinion was also received from the European Central Bank on 26 February 2021. Besides, on 11 March 2021, the Cabinet supported draft laws relating to the planned integration of *Latvijas Banka* and the Commission as from 1 January 2023.

K. Černaja-Mežmale
Member of the Board

Acting as
S. Purgaile
Chairwoman
Financial and Capital Market Commission

22 June 2021

**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 2020, and the statement of income and expenses, cash flow statement, statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, 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 2020, and of its financial performance and its cash flows for the year then ended in accordance with the Financial Accounting Policy of the Financial and Capital Market Commission approved by the Commission's Board.

Basis for Qualified Opinion

As stated in Note 17 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 2020. Consequently, we were unable to determine whether and to what extent the amount of provisions as at 31 December 2020 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.

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 2020, 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