

**Financial Statements
of the Financial and Capital Market
Commission for 2021**

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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 15 December 2020, by Decision No 237 the Board of the Commission approved the budget of the Financial and Capital Market Commission for 2021. In line with the budget for 2021, 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 2021 and for the Submission of Reports were approved by the Commission's Board on 15 December 2020, 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, the Fund for the Protection of the Insured, the national Resolution Fund 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 2021 in accordance with the Financial Accounting Policy of the Financial and Capital Market Commission approved by Decision No 8 of the Board of the Commission of 12 January 2021.

The Commission carried out procurements necessary for ensuring the Commission's activities in 2021 under the terms of the Law on Public Procurement.

Funds of the Commission

In 2021, the activities of the Commission were financed from the payments made by the financial and capital markets participants. In 2021, the revenues of the Commission totalled 11 364 thousand euro, or 0.6% less than specified in the Commission's 2021 budget (11 430 thousand euro)¹. Total expenses in 2021 amounted to 11 192 thousand euro. The expenditure plan was met at 97.9%, while the fulfilment of income plan was at 99.4%. The actual budgetary implementation in 2021 was in budget surplus of 172 thousand euro. Consequently, in 2021 the Commission's net assets increased by the above amount. At the end of 2021, the Commission's equity or net assets were 10 290 thousand euro, or up by 1.7% year-on-year. At the end of 2021, the funds for financing the activities of the Commission made up 11 129 thousand euro.

The Commission's actual funding for 2021 declined by 10.3% compared with 2020.

During 2021, the Commission paid particular attention to the quality of banking assets and credit risk management, development of financial technology and related risks, cyber security, sustainability issues, development of capital market, and continued an active dialogue with the financial sector.

In 2021, of the Commission's resources 70% were directed to the financial market supervisory function, while 12% were allotted for the protection of customers' interest and monitoring of prevention of money laundering and terrorist and proliferation financing, but 18% for the management and support functions.

In 2021, the Commission's funding was planned entirely from the payments made by market participants. 75.9% of all payments by market participants were expected to be provided by the monetary financial institutions, 8.7% – by financial instruments market participants together with private pension funds, but 15.4% – by insurance market participants. However, according to the actual implementation of the plan the funding of the monetary financial institutions provided for 106.4% of the planned, thus by providing contributions to the Commission's budget of 74.7% of total market participants in 2021.

The actual total expenditure for the implementation of the budget in 2021 were 11 192 thousand euro, or 2.1% less than planned (11 430 thousand euro). The implementation of budget expenditure was affected by a number of factors, major of which were changes in the Commission's posts in 2021, as well as measures taken to strengthen the use of internal resources and efficiency of processes, including investments in information technology solutions.

¹ For the plan implementation, see page 5; Budget Performance 2021.

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.

Integration of the Commission into *Latvijas Banka*

On 23 September 2021, the Parliament of the Republic of Latvia (*Saeima*) adopted the new Law on *Latvijas Banka*, governing the integration of *Latvijas Banka* and Commission into one institution from 2023. *Latvijas Banka* will be a successor of the Financial and Capital Market Commission's property, financial resources, rights and obligations in accordance with the plan approved by the Council of *Latvijas Banka* for the merger of the Financial and Capital Market Commission with *Latvijas Banka*.

Already in 2021, *Latvijas Banka* and the Commission (with conceptual support for an integration idea from *Saeima*) began to implement preparations to ensure that the integration process would be thoroughly considered, successful as well as consistent with public and financial sector interests. This process, in close cooperation between employees of *Latvijas Banka* and the Commission, will continue to be even more active in 2022 in order to complete all the preparations and the integrated institution would start operations on 1 January 2023, ensuring professional and effective performance of the functions of *Latvijas Banka* and the Commission.

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 2021.

Kristīne Černaja-Mežmale
Member of the Board

Acting as
Santa Purgaile
Chairwoman
Financial and Capital Market Commission

5 April 2022

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

Budget Performance 2021

By decision No 237 On the Approval of the Budget of the Financial and Capital Market Commission for 2021 of 15 December 2020 of the Board of the Commission, the Budget of the Financial and Capital Market Commission for 2021 was approved with the budget revenues in the amount of 11 430 334 euro and expenses in the amount of 11 430 334 euro.

	Actual result	Reporting year budget	(euro) Reporting year budget result, %
REVENUES (+)	11 363 821	11 430 334	99.4
REVENUES FROM PAYMENTS BY FINANCIAL AND CAPITAL MARKETS PARTICIPANTS	11 334 869	10 491 024	108.0
REVENUES RELATED TO SUPERVISION OF MONETARY FINANCIAL INSTITUTIONS	8 469 266	7 960 624	106.4
Payments by credit institutions	8 218 281	7 658 064	
Payments by savings and loan associations	40 505	42 820	
Payments by payment institutions	151 912	193 600	
Payments by electronic money institutions	58 568	66 140	
REVENUES RELATED TO SUPERVISION OF THE FINANCIAL INSTRUMENTS MARKET AND PRIVATE PENSION FUNDS	1 117 282	908 460	123.0
Payments by financial instruments market participants	701 240	572 880	
Payments by private pension funds	416 042	335 580	
REVENUES RELATED TO INSURANCE SUPERVISION	1 748 321	1 621 940	107.8
Payments by life assurance companies	459 927	423 420	
Payments by other insurance companies	1 231 794	1 138 520	
Payments by insurance brokers	56 600	60 000	
OTHER REVENUES	28 952	15 000	193.0
COMMISSION'S RESOURCES		924 310	
EXPENSES (-)	11 192 221	11 430 334	97.9
Staff remuneration and other payments, compulsory State social insurance contributions	8 662 138	8 846 464	97.9
Employee insurance	37 476	41 830	89.6
Staff professional development and training missions	92 162	105 000	87.8
Telecommunication, communication and information	139 288	150 500	92.6
Public awareness campaigns and internal and external	52 524	52 300	100.4
Maintenance and general service expenses	950 191	867 224	109.6
Professional services	101 242	161 000	62.9
International cooperation	899 387	982 016	91.6
Depreciation/amortisation of capital investments	237 433	224 000	106.0
Changes in the provisions for vacations	4 776	-	-
Recoveries of the previous periods	(28 423)	-	-
Negative interest on the account balance	42 155	-	-
Account maintenance expenses	1 093	-	-
Duty	719	-	-
Losses	60	-	-
RESULT	171 600	0	

Financial Statements 2021

Balance Sheet as of 31 December 2021

(euro)

ASSETS	Notes No	31.12.2021	31.12.2020
NON-CURRENT ASSETS	2	600 947	678 219
Non-current assets		600 947	678 219
Intangible assets		257 544	304 776
Fixed assets		304 860	329 378
Investments in leasehold improvements	2	35 038	44 065
Prepayments for non-current assets and fixed assets		3 505	-
CURRENT ASSETS		10 527 937	10 017 953
Inventories		1 272	2 376
Accounts receivable		3 000 143	3 391 074
Due from market participants to the Commission	3	2 976 420	3 378 766
Other receivables	4	23 559	11 863
Staff receivables		164	445
Prepaid expenses	5	126 878	97 150
Cash	6	7 399 644	6 527 353
TOTAL ASSETS		11 128 884	10 696 172
LIABILITIES	Notes No	31.12.2021	31.12.2020
EQUITY	7	10 290 071	10 118 471
Net assets of the Commission (performance result)		10 290 071	10 118 471
PAYABLES		838 813	577 701
Prepayments by market participants		5 176	3 838
Due from the Commission		38 325	154 292
Taxes payable	8	2 058	1 104
Staff payables		250	-
Provisions for vacations	9	418 306	413 530
Provisions for premiums	9	314 792	-
Provisions for liabilities		59 906	4 937
TOTAL LIABILITIES		11 128 884	10 696 172

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 38 (Min. No 15, item 3) of 5 April 2022 by the Board of the Financial and Capital Market Commission.

Statement of Income and Expenses 2021

(euro)

	Notes No	2021	2020
REVENUES			
REVENUES RELATED TO SUPERVISION OF MONETARY FINANCIAL INSTITUTIONS		8 469 266	9 631 053
Payments by credit institutions		8 218 281	9 372 332
Payments by savings and loan associations		40 505	42 098
Payments by payment institutions		151 912	155 720
Payments by electronic money institutions		58 568	60 903
REVENUES RELATED TO SUPERVISION OF THE FINANCIAL INSTRUMENTS MARKET AND PENSION FUNDS		1 117 282	976 054
Payments by financial instruments market participants		701 240	630 745
Payments by private pension funds		416 042	345 309
REVENUES RELATED TO SUPERVISION OF INSURANCE		1 748 321	2 048 755
Payments by life assurance companies		459 927	530 110
Payments by other insurance companies		1 231 794	1 464 238
Payments by insurance brokers		56 600	54 407
OTHER REVENUES		28 952	12 608
TOTAL REVENUES		11 363 821	12 668 470
EXPENSES			
Staff remuneration and other payments	10	(8 662 138)	(8 231 194)
Changes in the provisions for vacations		(4 776)	(36 444)
Staff insurance		(37 476)	(37 362)
Staff professional training	11	(92 162)	(67 830)
Telecommunication and information	12	(139 288)	(160 641)
Public awareness campaigns, external and internal communications		(52 524)	(113 719)
Maintenance and general service expenses	13	(950 191)	(945 564)
Services for ensuring surveillance	14	(101 242)	(145 611)
Cooperation expenses	15	(899 387)	(796 791)
Depreciation/amortisation of capital investments, exclusion	2	(237 433)	(233 124)
Negative interest on the account balance	16	(42 155)	(31 329)
Losses		(60)	(6 514)
Stamp duty		(719)	-
Account maintenance expenses		(1 093)	-
Expenses of previous periods or reinstatement of expenses		28 423	22 791
TOTAL EXPENSES		(11 192 221)	(10 783 332)
NET RESULT		171 600	1 885 138

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

Cash Flow Statement 2021

(euro)

Notes No	2021	2020
OPERATING CASH FLOW		
REVENUES		
REVENUES RELATED TO SUPERVISION OF MONETARY FINANCIAL INSTITUTIONS		
Payments by credit institutions	8 857 192	9 758 396
Payments by savings and loan associations	8 589 330	9 499 486
Payments by payment institutions	40 678	46 131
Payments by electronic money institutions	163 161	150 462
Payments by financial instruments market participants	64 023	62 317
REVENUES RELATED TO SUPERVISION OF THE FINANCIAL INSTRUMENTS MARKET AND PRIVATE PENSION FUNDS		
Payments by financial instruments market participants	1 099 267	930 238
Payments by private pension funds	688 088	597 495
REVENUES RELATED TO SUPERVISION OF INSURANCE		
Payments by life assurance companies	411 179	332 743
Payments by other insurance companies	1 784 939	2 036 754
Payments by insurance brokers	466 651	496 046
	1 264 524	1 484 686
	53 764	56 022
OTHER REVENUES		
	70 733	12 608
TOTAL REVENUES		
	11 812 131	12 737 996
EXPENSES		
Staff remuneration and other payments	(8 345 955)	(8 205 861)
Staff insurance	(38 244)	(37 554)
Staff professional training	(95 797)	(63 058)
Telecommunication and information	(140 402)	(162 438)
Public awareness campaigns and communications expenses	(65 021)	(126 003)
Maintenance and general service expenses	(983 915)	(936 984)
Services for ensuring surveillance	(144 846)	(273 779)
International cooperation	(905 950)	(813 309)
Exchange rate losses	-	(39)
Stamp duty, taxes (VAT)	(5 088)	-
Account maintenance	(653)	-
Losses	(10)	-
Expenses of previous periods	(31 753)	-
Negative interest on the account balance	(51 683)	(28 293)
TOTAL EXPENSES		
	(10 809 317)	(10 647 318)
OPERATING NET CASH FLOW		
	1 002 814	2 090 678
INVESTMENT ACTIVITIES		
Capital investments	(130 523)	(257 816)
TOTAL INVESTMENT ACTIVITIES		
	(130 523)	(257 816)
Changes in cash during the reporting period		
	872 291	1 832 862
Cash balance at the beginning of the reporting period		
	6 527 353	4 694 491
Cash balance at the end of the reporting period		
6	7 399 644	6 527 353

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

Statement of Changes in Equity 2021

(euro)

	Equity (net assets) of the Commission
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
Result of the reporting period	171 600
Commission's net assets 31.12.2021	10 290 071

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 consists of 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), 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 rules and regulations and make decisions on the regulatory 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 decisions 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 the 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 at 1 Kungu Street, 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 applied 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 payments 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 in line with 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 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 included in expenses at the date of acquisition and a corresponding fixed asset fund for this amount was credited to equity. In 2021, no depreciation for above fixed assets incurred, and in 2021 and 2020 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 and Premiums

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 days of unused vacation 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 salaries and compulsory State social insurance contributions.

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

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 2021 is described in Notes No 17.

2. Non-current assets

	Intangible assets ²	Fixed assets		Prepayments for non-current assets	Prepayments for non-current assets	Total
		Computers and office equipment	Other fixed assets			
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
Cost value						
31.12.2020	1 204 472	608 433	331 886	-	235 473	2 380 264
Additions	180 813	76 798	15 836	3 505	2 766	279 718
Disposals, transfer	(43 831)	(50 519)	(58 350)	-	-	(152 700)
31.12.2021	1 341 454	634 712	289 372	3 505	238 239	2 507 282
Depreciation						
31.12.2020	899 696	371 825	239 116	-	191 408	1 702 045
Charge in the reporting period	228 045	93 194	14 862	-	11 793	347 894
Reversal due to disposals	(43 831)	(49 524)	(50 249)	-	-	(143 604)
31.12.2021	1 083 910	415 495	203 729	-	203 201	1 906 335
Book value						
31.12.2021	257 544	219 217	85 643	3 505	35 038	600 947

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:

	2021	2020
Due from the monetary financial institution sector	2 170 847	2 558 766
Due from credit institutions	2 082 594	2 453 643
Due from savings and loan associations	10 041	10 207
Due from monetary institutions	63 875	73 800
Due from electronic money institutions	14 337	21 116
Due from the insurance sector	487 773	525 194
Due from life assurance companies	146 119	152 843
Due from other insurance companies	334 795	367 524
Due from insurance brokers	6 859	4 827
Due from the financial instruments market and private pension funds sector	317 800	294 806
Due from financial instruments market participants	197 682	179 551
Due from private pension funds	120 118	115 255
Short-term receivables	2 976 420	3 378 766

4. Other Receivables

	2021	2020
Claims on the European Union's organizations*	14 564	5 369
Other receivables	8 995	6 494
	23 559	11 863

* For recalculated membership fees for the previous period.

5. Prepaid Expenses

	2021	2020
Information system maintenance and security solution services	90 690	75 426
Data base subscription fees	10 841	10 553
Periodic literature	630	646
Insurance services	8 827	3 979
Other prepaid expenses	15 890	6 546
	126 878	97 150

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 2021 and notes thereto.

8. Taxes payable

Type of taxes	Balance on 31.12.2020	Calculated for the rep. period	Paid in the reporting period	Balance on 31.12.2021
Compulsory contributions to the State social insurance (VSAOI)	1 104	2 285 594	2 285 116	1 582
Personal income tax	-	1 222 000	1 222 000	-
Value added tax obligations	-	103 901	103 425	476
TOTAL	1 104	3 611 495	3 610 541	2 058

9. Provisions for Vacations and premiums

	2021	2020
Provisions for vacations	338 482	333 310
VSAOI for the provisions for vacations	79 824	80 220
Provisions for premiums for annual performance	254 730	-
VSAOI for the provisions for premiums	60 062	-
	733 098	413 530

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 4.4% of total in 2021 (compared to 4.9% in 2020). On 31 December 2021, there were 174 employees having employment relationships with the Commission, of which one to the position of employee who was temporarily absent (compared to 179 employees, of which seven to the positions of employees who were temporarily absent on 31 December 2020). At the end of 2021, there were 185 positions at the Commission (compared to 190 in 2020).

	2021	2020
Staff remuneration and other similar payments, including remuneration to the members of the Commission's Board	7 020 429	6 642 041
State social insurance compulsory contributions including VSAOI for the Commission's Board remuneration	294 985	326 867
	1 641 709	1 589 153
	69 455	78 742
Staff remuneration and other similar payments, including VSAOI	8 662 138	8 231 194
Full time equivalent including the members of the Commission's Board	168	166
	3	3

11. Staff Professional Training

	2021	2020
Professional training abroad	-	4 034
Professional training in Latvia	92 162	63 796
	92 162	67 830

12. Telecommunication and Information

	2021	2020
Data base information	106 382	124 175
Electronic communication and correspondence services	16 187	19 674
Information inquiry services	16 719	16 792
	139 288	160 641

13. Maintenance and General Service Expenses

	2021	2020
Leasehold expenses incurred by the Commission*	393 405	475 270
Maintenance of office premises and public utility service fees	257 759	258 834
Expenses on the maintenance of the Commission's online web resources, information systems and security solutions	227 218	139 523
Other maintenance and general service expenses	71 809	71 937
	950 191	945 564

* A leasehold contract for renting premises in the real estate at 1 Kungu Street, Riga, the total area of 1 1912.4 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

	2021	2020
Monitoring missions (duty travel and business trips in the territory of Latvia)	-	118

The Commission's financial statements, functional audits and information systems security audits	12 342	7 405
Expert opinion and legal services	88 900	138 088
	101 242	145 611

15. Cooperation expenses

	2021	2020
Participation fee in the European Union institutions	806 390	688 295
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	5 175	51 861
Participation fee in international organisations	52 384	51 430
Cooperation expenses in Latvia	320	541
Co-financing in the European Union projects	35 118	4 664
	899 387	796 791

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 -0.48% (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* withheld 42.2 thousand euro in 2021 for the Commission account balances 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 12 administrative proceedings active, the examination of which had not yet been completed by the date of signature of this statement. Two of them have jurisdiction over the potential claims and liabilities of the Deposit Guarantee Fund, but one claim is likely to have an impact on the Commission's budget as it is requested to compensate for the financial loss of 392 000 euro.

In 2021, an administrative case, in which the Commission was the defendant and in which the company "Euromin Holdings (Cyprus) LTD" contested the Commission's decision, requesting recovery of losses related to the execution of the decision in amount of 7 027.3 thousand euro, was closed. The applicant withdrew the application and on 2 November 2021 the Supreme Court of the Republic of Latvia decided to terminate the proceedings.

18. integration of the Commission into *Latvijas Banka*

On 23 September 2021, *Saeima* adopted the new Law on *Latvijas Banka*, governing the integration of *Latvijas Banka* and Commission into one institution from 2023. *Latvijas Banka* will be a successor of the Financial and Capital Market Commission's property, financial resources, rights and obligations in accordance with the plan approved by the Council of *Latvijas Banka* for the merger of the Financial and Capital Market Commission with *Latvijas Banka*.

Already in 2021, *Latvijas Banka* and the Commission (with conceptual support for an integration idea from *Saeima*) began preparations to ensure that the integration process would be thoroughly considered, successful as well as consistent with public and financial sector interests. This process, in close cooperation between employees of *Latvijas Banka* and the Commission, will continue to be even more active in 2022 in order to complete all the preparations and the integrated institution would start operations on 1 January 2023, ensuring professional and effective performance of the functions of *Latvijas Banka* and the Commission.

19. Events after the Balance Sheet Date

The impact of the Russian-Ukrainian conflict on Latvia's economy is related to high uncertainty, taking into account the ongoing developments. The effect is predicted as adverse, while maintaining Latvia's economic growth. The Commission's management carefully assesses developments and believes that the Commission is in a position to take the necessary measures to ensure continuity of activities and to fulfil its obligations. 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 future performance of the Commission 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.

Kristīne Černaja-Mežmale
Member of the Board

Acting as
Santa Purgaile
Chairwoman
Financial and Capital Market Commission

5 April 2022

**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 2021, 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, the accompanying financial statements give a true and fair view of the financial position of Financial And Capital Market Commission as of 31 December 2021, 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 Opinion

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 opinion.

Emphasis of Matter

We draw attention to Note 18 to the financial statements "Integration of the Commission into *Latvijas Banka*", which states that on 23 September 2021 *Saeima* adopted the new Law on *Latvijas Banka*, governing the integration of *Latvijas Banka* and Commission into one institution from 2023. *Latvijas Banka* will be a successor of the Financial and Capital Market Commission's property, financial resources, rights and obligations in accordance with the plan approved by the Council of *Latvijas Banka* for the merger of the Financial and Capital Market Commission with *Latvijas Banka*. Our opinion is not modified in respect of this matter.

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 2021, 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. We have not noticed any 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