

LAW "ON CREDIT INSTITUTIONS"

Passed on October 5, 1995.

In effect as of October 24, 1995.

With amendments and transitional provisions passed by the Saeima on May 30, 1996 (*), October 17, 1996 (**), October 30, 1997 (***), May 21, 1998 (****) and June 1, 2000 (*****).

SECTION I GENERAL PROVISIONS

Article 1

The following terms are used for the purposes of this Law:

- 1) **credit institution** - a business venture that has been established to accept deposits and other repayable funds, and to grant loans on its own behalf;
- 2) **branch of a credit institution** - a structural unit of a credit institution that has been territorially or otherwise separated, does not have the status of a legal person and operates on the credit institution's behalf; ****
- 3) **representative office** - a structural unit of a credit institution that is located in another country and represents the interests of the credit institution, but does not conduct entrepreneurial activity; ****
- 4) **** **financial services** are as follows:
 - a) accepting deposits and other repayable funds;
 - b) lending, also under the terms of financial leasing;
 - c) money transmission services;
 - d) issuing and servicing payment instruments other than cash;
 - e) trading money market instruments (cheques, bills of exchange, certificates of deposit, etc.), foreign currency, financial contracts and securities on its own and its customers' behalf;
 - f) trust operations;
 - g) safekeeping and administration of securities;
 - h) issuing guarantees (warranties) and other such statements of commitment that obligate the issuer to assume the responsibility for the debt of a third party;
 - i) keeping of valuables;
 - j) participation in the issue of shares and rendering related services;
 - k) providing consultations to customers with regard to financial issues;
 - l) intermediation in the market of money instruments;
 - m) providing information related to the settling of customer liabilities;
 - n) other transactions, similar by nature to the above-mentioned financial services;
- 5) **loan** - an indemnity transaction whereby on the basis of a written contract the credit institution lends to the customer money or other assets, entitling the customer to use them and binding him/her to repay the money or other assets within the specified period of time, pursuant to the agreed procedure; ****
- 6) **deposit** - keeping funds in an account with a credit institution for a fixed or an indefinite duration, with or without interest;
- 7) **own funds** - the capital of a credit institution that is comprised of the following:
 - a) the paid-up share capital and share premium, excluding cumulative preferred shares, reserve capital, retained profit (provided that their availability is verified by auditors) reduced by the amount of the previous years' losses, and other components pursuant to Financial and Capital

Market Commission regulations; *****

b) reduction in the amount of own shares held by the credit institution, its intangible assets and the current financial year's losses;

c) the subordinated capital as referred to in Article 36 hereof;

d) reduction in the amount of the credit institution's qualifying holding in the share capital of other credit and financial institutions plus the amount of investment in the subordinated capital of those credit and financial institutions where the credit institution has a qualifying holding and, pursuant to Financial and Capital Market Commission regulations, other financial instruments; *****

e) reduction in the amount of the portion of investment (in the share capital, subordinated capital and, pursuant to Financial and Capital Market Commission regulations, other financial instruments) made in other credit institutions and financial institutions exceeding 10 percent of the credit institution's own funds, calculated according to Subparagraphs a)-c) of this Paragraph. The total amount of investment is calculated only in those credit and financial institutions where the credit institution does not have a qualifying holding; *****

8) **subordinated capital** - funds borrowed by a credit institution for a period of at least seven years; the loan agreement shall provide that the debt becomes repayable ahead of the agreed repayment date only where the credit institution is liquidated, and the lender's claim ranks after the claims of other creditors, but prior to the shareholders' claims;

9) **customer** - a natural or a legal person that receives financial services of a credit institution; *****

10) **parent undertaking** - an undertaking (business venture) that holds more than 50 percent of the share capital or voting shares in another undertaking (business venture), or that is able to exercise a direct or an indirect control over the other venture;

11) **subsidiary undertaking** - an undertaking (business venture) in which the parent undertaking holds more than 50 percent of the share capital or voting shares, or which is directly or indirectly controlled by the parent undertaking;

12) **control** - relationship between the parent undertaking and a subsidiary undertaking or similar relations between an individual and an undertaking (business venture), or the power to determine the financial and operational policy of an undertaking (business venture) pursuant to its charter or to an agreement;

13) **significant influence** - the power to exercise an influence (not a control) in determining the financial and operational policy of an undertaking (business venture);

14) **trust operations** - transactions where the relations between a credit institution and a customer are based on mutual trust; the conditions of the transaction shall provide that the credit institution assumes an obligation to manage the assets of the customer who remains the beneficiary holder, and the credit institution manages the assets of the customer separately from its own assets;

15) **qualifying holding** - a direct or an indirect holding that represents 10 percent or more of the share capital or of the voting shares of an undertaking (business venture), or that makes it possible to exercise a significant influence over the undertaking's (business venture's) operations; *****

16) **exposures** - transactions with asset and off-balance sheet items for which an increased degree of risk has been determined;

17) **auditor** - for the purposes of this Law: a certified auditor licensed in Latvia or another person authorised by the Financial and Capital Market Commission to audit the financial statements of credit institutions; *****

18) **group of connected customers** - two or more persons who constitute a single risk for a credit institution as a result of the following:

a) one of them has a direct or an indirect control or exercises a significant influence over the other or others;

b) they are interconnected in such a way that if one of them were to experience financial problems, the other or all others would be likely to encounter repayment difficulties;

19) **persons related to a credit institution** - are as follows:

a) shareholders with a qualifying holding in the credit institution, and the spouses, parents and children of the shareholders, natural persons; ****

b) the subsidiary undertakings of a credit institution and undertakings (business ventures) where the credit institution exercises a significant influence; ****

c) the chairperson and members of the board, executive board, audit commission, or internal control department of the credit institution, other employees of the credit institution who are authorised to participate in and are responsible for planning, managing and controlling the credit institution's activity, as well as the spouses, children and parents of the above;

d) undertakings (business ventures) where persons referred to in Subparagraphs a) and c) hereinbefore have a qualifying holding; ****

20) **financial institution** - an undertaking (business venture) established to render one or several financial services, except accepting deposits and other repayable funds, to conduct insurance operations or to acquire holdings in the share capital of other undertakings (business ventures); ****

21) **financial holding company** - a financial institution whose subsidiary undertakings are only, or mainly, credit institutions or financial institutions of which at least one is a subsidiary undertaking to a credit institution; ****

22) **transit credit** - government loan for specific purposes extended through banks to persons engaged in business; it is not included in the assets that are liable to creditor claims in case of liquidation or bankruptcy of the bank; *

23) **tax administration** - institutions referred to in the Law "On Taxes and Dues"; ***

24) **voluntary liquidation** - discontinuance of a credit institution's activity upon the decision taken by the general meeting of shareholders (members); ****

25) **liquidation** - discontinuance of a credit institution's activity upon a court decision, in case of voluntary liquidation or in case of bankruptcy; ****

26) **insolvency** - a condition, acknowledged by a court verdict, whereby a credit institution is unable to meet its liabilities; ****

27) **actual insolvency** - a condition of a credit institution whereby it is unable to meet its liabilities prior to the initiation of the insolvency proceedings; ****

28) **insolvency process** - a process that proceeds in a credit institution from the day when the application for insolvency is filed with the court until the day when the court passes the ruling to repeal the application or dismiss the insolvency process; ****

29) **rehabilitation** - a resolution of a credit institution's insolvency condition in the form of implementation of a set of carefully planned legal measures, aimed at averting the potential bankruptcy, restoring solvency and satisfying the valid claims of creditors; ****

30) **bankruptcy** - a resolution of a credit institution's insolvency condition in the form of its liquidation whereby proceeds collected in the course of the insolvency process by means of disposing of the credit institution's property, pursuant to the procedure prescribed by this Law, are used to meet the valid claims of creditors; ****

31) **penal bankruptcy** - a deliberate or neglectful reduction of a credit institution to insolvency or bankruptcy that results in material infringement of the legally protected rights and interests of the state, a local government or any other natural or legal person wherever that has been affirmed by a court verdict; ****

32) **creditor** - the state, a local government, a natural or legal person or a group of natural or legal persons bound by an agreement and holding the right to a claim on a credit institution; ****

33) **secured creditor** - a creditor whose right to a claim on a credit institution has been secured with a pawn, commercial pledge or a mortgage registered with the land register or ship register; ****

34) **liquidator** - a person elected by a credit institution's general meeting of shareholders (members) (in case of voluntary liquidation) or a person appointed by the court upon the recommendation of the Financial and Capital Market Commission who exercises the powers and is held responsible pursuant to the procedure prescribed by this Law; *****

35) **administrator** - a person appointed by the court upon the recommendation of the Financial and Capital Market Commission who exercises the powers and is held responsible pursuant to the procedure prescribed by this Law; *****

36) ***** **interested parties in respect of a credit institution** are as follows:

a) the credit institution's shareholders (members), chairperson and members of the board, executive board, or other such governing institutions, chairperson or members of the audit commission, as well as their spouses, parents and children;

b) persons having a legal employment relationship with the credit institution;

c) persons that have been interested parties in respect of the credit institution under Subparagraphs a) and b) of this Paragraph within the last six months prior to the initiation of the insolvency proceedings;

37) **financial leasing** - lending pursuant to the fundamental principles set forth by the Unidroit Convention on International Financial Leasing. *****

38) ***** **mean of payment** – a mean (separately or together with other mean of payment) which permits its user to receive cash or other things, to receive or perform payments, to issue orders for the transfer of monetary assets or to approve a transfer of monetary assets and which as the means of payment is accepted also by those persons who which did not release this mean for the circulation. As the means of payment shall be deemed cash, cheques, payment cards (credit cards, debit cards and other similar cards), ATM cards, payment documents, electronic money, distanced banking operation (within a global network or by using a computer or a telephone) programming and other similar means;

39) ***** **electronic money** – monetary assets registered with electronic devices (wise card or memory of a computer) which are given to a user as a substitute for cash and which can be used for electronic transfers of money.

Article 2 *****

(1) This Law specifies the legal status of credit institutions and defines their activities and supervision.

(2) The rights and obligations of credit institutions with regard to the legalisation of proceeds derived from criminal activity are set out in the Law "On the Prevention of Laundering of Proceeds Derived from Criminal Activity".

Article 3

A credit institution in the Republic of Latvia shall operate as a bank or as a credit union, or a branch of a foreign bank.

Article 4

The procedure for the establishment, conduct of operations, reorganisation and liquidation of a bank is prescribed by this Law, the Law "On Joint-Stock Companies", the Law "On Securities" and other laws, observing the provisions of this Law. *****

Article 5

The procedure for the establishment, conduct of operations, reorganisation and liquidation of a credit union is prescribed by this Law, except Article 38, Subparagraph 2 of Paragraph 2 of Article 47, Article 50¹ and Article 76, the Law "On Co-operative (Joint Activity) Companies" and other laws. ****

Article 6

The procedure for the establishment, conduct of operations, reorganisation and liquidation of a branch of a foreign bank is prescribed by this Law, excluding Paragraph 5 of Article 27, Articles 35, 36, 39, 40, 42, 43, 47, 49, 50¹, 51, Paragraph 1 of Article 57, Articles 58, 59, 77-87, 89, 90, 94, Paragraphs 1, 2 and 4 of Article 102, Articles 109, 113-118, 121, 125, Subparagraphs 1 and 3 of Paragraph 1 of Article 126, Articles 127 and 128, Paragraph 2 of Article 129, Articles 137, 138, 140-145, 149, 152, 170, 172-177, 184, 185, 188-190, by the Law "On Foreign Investment in the Republic of Latvia" and other laws. ****

Article 7 *****

Article 7

(1) Regulatory instructions and orders of the Financial and Capital Market Commission issued in compliance with this Law and other laws on requirements governing activity of credit institutions and the procedure for the calculation of indices characterizing activity of credit institutions and submission of reports are binding upon credit institutions.

(2) Regulatory instructions and rules of the Bank of Latvia approved in compliance with this Law and the Law "On the Bank of Latvia" and which are issued to ensure the fulfilment of functions of the Bank of Latvia set forth in this Law and the Law "On the Bank of Latvia" are binding upon credit institutions.

Article 8 *****

The obligation of a credit institution is within the periods established by the Financial and Capital Market Commission and the Bank of Latvia to provide for them all inquired information which is necessary for the fulfilment of functions of the Financial and Capital Market Commission and the Bank of Latvia established by law.

Article 9 *****

(1) Only those credit institutions that have a credit institution operating licence issued by the Financial and Capital Market Commission shall be entitled to use the wording "credit institution", "bank", "credit union", and any combination of these either in their name or for marketing purposes. *****

(2) Only credit institutions shall be allowed to advertise the acceptance of deposits and other repayable funds and to receive them.

(3) A credit institution shall also be entitled to render other financial services.

Article 10

A credit institution shall be prohibited to distribute any advertising material containing false information on its action.

SECTION II LICENSING OF CREDIT INSTITUTIONS

Article 11

Credit institutions, their branches and representative offices shall be entitled to start their activity only after they have received a licence (permit) issued by the Financial and Capital Market Commission and have been registered in due course of law. *****

Article 12

Banks registered in the Republic of Latvia shall receive the Financial and Capital Market Commission's permission to open a branch or a representative office outside Latvia. *****

Article 13

(1) The Financial and Capital Market Commission shall specify the procedure for granting licences (permits) to credit institutions and shall establish restrictions on banking activities. *****

(2) (Deleted in accordance with the amendments passed on May 21, 1998; in effect as of July 21, 1998.) *****

Article 14

The Financial and Capital Market Commission shall consider an application for licence within three months after the receipt of all necessary documents. The Financial and Capital Market Commission shall be entitled to refuse a licence to a credit institution if it has not been organised in a manner consistent with law and the intended activity of the credit institution does not correspond to the interests of the Latvian state. *****

Article 15 *****

To receive a credit institution operating licence from the Financial and Capital Market Commission, the founders of a credit institution shall meet the following requirements:

- 1) submit the founding documents, charter and other documents that specify the activity of the credit institution, give a clear idea as to its proposed activity and organisational structure corresponding thereto;
- 2) ensure that the minimum founding share capital is paid;
- 3) ensure that the candidates to the positions of chairperson and members of the board, executive board, audit commission of a bank or a credit union, and to the position of manager of a branch of a foreign bank meet the requirements of law. *****

Article 16

(1) A bank may be organised by:

- 1) natural persons legally of age and competency;
- 2) legal persons registered in the Republic of Latvia or another country who have been operating for at least three financial years;
- 3) a foreign bank that has been active in the business of banking for at least three financial years;
- 4) the Latvian state.

(2) Natural and legal persons referred to in Subparagraphs 1)-3) of Paragraph 1 of this Article shall be of good repute and financially sound.

Article 17

The Financial and Capital Market Commission shall be entitled to require any additional information on persons referred to in Articles 16 and 29 hereof so as to determine their financial standing and repute; for this purpose, the following categories shall be examined:

- 1) the adequacy of funds;
- 2) the credit institution's business and management plans;
- 3) the working record, competence and experience. *****

Article 18

A credit union may be organised by natural persons residing in one pagasts (a territorial unit) or one town, persons employed by undertakings (business ventures) and institutions located within an administrative territory of one local government, persons employed by one undertaking (business venture) or one institution, or members of one trade union, social or religious organisation that has been set up in accordance with the Republic of Latvia legislation and resolutions. ***

Article 19

The Financial and Capital Market Commission shall verify the identity of the credit institution's founders, and, where founders are legal persons, obtain information on the founders and shareholders of the legal person. *****

Article 20

A foreign bank may open a branch in Latvia provided that its minimum founding share capital meets the requirements of Article 21 hereof and the bank has been active in the business of banking for at least three financial years.

Article 21

The minimum founding share capital of a bank shall be the lats equivalent of five million ECU according to the exchange rate set by the Bank of Latvia.

Article 22

The minimum founding share capital of a credit union shall be two thousand lats. ***

Article 23

A foreign bank that has established a branch in Latvia shall invest in assets in Latvia not less than one million ECU during the year after the receipt of the licence, and shall maintain this level of investment throughout the period of its operation.

Article 24

The office of chairperson of the executive board, member of the executive board, executive director, chief accountant, chairperson of the audit commission, member of the audit commission of a bank or a credit union, or manager of a branch of a foreign bank shall be held by a person who:

- 1) is a domestic taxpayer (resident);
- 2) is competent in financial management;
- 3) has the relevant education and professional experience in banking;
- 4) is of good repute;
- 5) has not been deprived of the right to perform entrepreneurial activity.

Article 25

The office of chairperson of the executive board, member of the executive board, executive director, chief accountant, chairperson of the audit commission, member of the audit commission of a bank or a credit union, or manager of a branch of a foreign bank shall not be held by a person:

- 1) convicted in a criminal case for a deliberate criminal offence or a reckless bankruptcy;
- 2) convicted in a criminal case for a deliberate criminal offence, yet relieved of serving the full term of the punishment because of statute of limitation, pardon or amnesty;
- 3) against whom a criminal case for a deliberate criminal offence has been closed due to statute of limitation or amnesty.

Article 26

The office of chairperson of the board and member of the board of a bank may be held by persons who meet the requirements set out in Subparagraphs 2, 4 and 5 of Article 24, and Article 25 hereof.

Article 27

The Financial and Capital Market Commission shall be entitled to revoke the licence (permit) of a credit institution upon the following conditions: *****

- 1) the credit institution has failed to commence its activity within 12 months after the receipt of the licence (permit);
- 2) the credit institution is found to have submitted false information in order to receive the licence (permit);
- 3) the credit institution does not comply with the restrictions on its activity imposed by the Financial and Capital Market Commission pursuant to this Law; *****
- 4) the credit institution regularly fails to comply with the requirements of this Law and with Financial and Capital Market Commission regulations; *****
- 5) the court has approved the decision taken pursuant to the procedure prescribed by this Law with regard to the initiation of the bankruptcy procedure of a credit institution. *****

SECTION III QUALIFYING HOLDING

Article 28

Only such persons that comply with the requirements of Article 16 hereof and ensure that the requirements of Article 19 hereof are met shall be entitled to acquire a qualifying holding in a bank.

Article 29

(1) A natural or a legal person who wishes to directly or indirectly acquire a qualifying holding in a bank for the first time shall receive a permission from the Financial and Capital Market Commission prior to acquiring such holding. To determine the amount of the qualifying holding indirectly acquired by a natural person, the number of voting shares and the holding in the bank's share capital by the natural person's spouse, parents and children shall be taken into account. *****

(2) If a person having a qualifying holding in a bank wishes to increase it, thus reaching or exceeding 20, 33, 50 or more percent of the bank's share capital or of the voting shares, that person shall receive a permission from the Financial and Capital Market Commission prior to doing so. *****

(3) Within a month from the day when the statement on acquisition of a qualifying holding is received, the Financial and Capital Market Commission shall grant permission to acquire the ownership of shares or shall refuse it if the person does not comply with the requirements of this Law. *****

(4) The Financial and Capital Market Commission shall be entitled to require additional information on persons referred to in this Article in order to determine their repute and financial standing. *****

Article 30

(Deleted in accordance with the amendments adopted on May 21, 1998; in effect as of July 21, 1998.) *****

Article 31

A person with a qualifying holding in a bank shall notify the Financial and Capital Market Commission every time the holding decreases below 10, 20, 33 or 50 percent of the share capital or of the voting shares of the bank. *****

Article 32

A bank shall immediately notify the Financial and Capital Market Commission of any changes in the distribution of its share capital or voting shares, if this affects the qualifying holding in the bank. At least once a year the bank shall submit to the Financial and Capital Market Commission a list of persons with a qualifying holding, indicating the amount of each holding. *****

Article 33

(1) If persons have acquired shares of a bank under circumstances described in Article 29 hereof but without a permission issued by the Financial and Capital Market Commission, these persons shall not be entitled to exercise the voting rights attached to the acquired shares. *****

(2) Decisions of a general meeting of shareholders that have been passed by an unlawful exercise of the voting rights, attached to a definite number of shares referred to in Paragraph 1 of this Article, shall be void.

SECTION IV

REQUIREMENTS GOVERNING THE ACTIVITY OF CREDIT INSTITUTIONS

Article 34

A credit institution shall grant loans in accordance with its credit policy that specifies lending and repayment procedures, principles for monitoring loans outstanding and criteria for assessing the quality of a loan portfolio.

Article 35

- (1) The proportion of own funds to total risk-weighted assets and off-balance-sheet items (capital adequacy) shall not fall below 10 percent.
- (2) A credit institution's own funds shall not be less than the minimum founding share capital prescribed by law.

Article 36

When calculating a credit institution's own funds, the share of the subordinated capital shall not exceed 50 percent of the total of own funds' components referred to in Subparagraphs a) and b), Paragraph 7, Article 1 hereof. The share of the subordinated capital shall be reduced gradually, as a minimum during the last five years before the repayment of a loan.

Article 37

- (1) A credit institution shall place its assets so as to be able to meet the legally valid claims of its creditors at any time.
- (2) The standards (liquidity requirements) for meeting the above claims shall be specified by the Financial and Capital Market Commission. *****

Article 38

(Deleted in accordance with the amendments adopted on June 1, 2000; in effect as of July 1, 2001.) *****

Article 39

A credit institution's exposure shall be classified as large if it exceeds 10 percent of the credit institution's own funds.

Article 40

The total large exposures of a credit institution shall not exceed the credit institution's own funds by more than eight-fold.

Article 41

(Deleted in accordance with the amendments adopted on May 21, 1998; in effect as of July 21, 1998.) *****

Article 42

Exposure to any single customer (or any group of connected customers) shall not exceed 25 percent of the credit institution's own funds.

Article 43

Exposure to persons related to a credit institution shall not exceed 15 percent of the credit institution's own funds. Such restriction shall not apply to the credit institution's holding in the share capital of its subsidiary undertakings and in the share capital of those undertakings (business ventures) where the credit institution exercises a significant influence. ****

Article 44

The qualifying holding of a bank in the share capital of an undertaking (business venture) other than a credit or financial institution shall not exceed 15 percent of the bank's own funds. ****

Article 45

The total qualifying holdings of a bank in the share capital of undertakings (business ventures) other than a credit or financial institution shall not exceed 60 percent of the bank's own funds. ****

Article 46

- (1) A credit union shall not acquire a holding in the share capital of another undertaking (business venture).
- (2) A credit union may obtain loans from banks on condition that such loans do not exceed 50 percent of the total of its own funds and deposits.

Article 47

- (1) The total investment of a credit institution in the movable property and real estate or its total holding in the share capital of an undertaking (business venture) other than a credit or financial institution shall not exceed the credit institution's own funds. ****
- (2) The following shall be exempt from the provisions of Paragraph 1 of this Article:
 - 1) property and holdings taken over by a credit institution as collateral for an unpaid loan for a period of up to two years from the date the collateral has been taken over;
 - 2) the movables and real estate, as well as the holdings in undertakings (business ventures) necessary for a credit institution to render financial services. ****

Article 48

A bank shall not extend direct or indirect loans for the purchase of shares issued by itself or its subsidiary undertaking; it shall also not accept its own shares as collateral for a loan.

Article 49

- The open foreign exchange position of a credit institution shall not exceed:
- 1) 10 percent of own funds for any single foreign currency;
 - 2) 20 percent of own funds for the total of all foreign currencies.

Article 50

The Financial and Capital Market Commission shall be entitled to issue additional requirements governing the activity of credit institutions so as to reduce the operational risk of credit institutions and to protect the interests of creditors. *****

Article 50¹ *****

(1) A credit institution that is the parent undertaking of other credit or financial institutions, that is a direct or an indirect owner of 20 or more percent of the share capital or of the voting shares in other credit or financial institutions, or whose parent undertaking is registered in Latvia as a financial holding company shall comply with the requirements governing the activity of credit institutions set forth in Paragraph 1 of Article 35 and Articles 40, 42, 44, 45 and 47 on the basis of consolidated financial statements.

(2) The procedure for preparation of the consolidated financial statements and information necessary for the supervision of credit institutions, as well as the set of undertakings (business ventures) to be included in the consolidated financial statements, shall be prescribed by the Financial and Capital Market Commission. *****

(3) Should the Financial and Capital Market Commission require it, a credit institution whose supervision, pursuant to the provisions of Paragraph 1 of this Article, is performed by the Financial and Capital Market Commission on the basis of consolidated financial statements shall comply with the requirements governing the activity of credit institutions also on the basis of non-consolidated financial statements. *****

(4) A credit institution whose supervision is performed by the Financial and Capital Market Commission on the basis of consolidated financial statements shall ensure the presence of an effective internal control system in all undertakings (business ventures) whose financial statements are consolidated, thus ensuring that accurate information is prepared for the purposes of supervision. *****

(5) To assess the accuracy of information submitted for the purposes of supervision, the Financial and Capital Market Commission shall be entitled to carry out internal inspections in the undertakings (business ventures) whose financial statements are consolidated. *****

Article 51

Loans that individually or in total exceed 1 000 lats shall be granted to one person related to a credit institution only by a unanimous decision of the executive board of the credit institution.

Article 52

A credit institution shall examine the solvency of a borrower prior to and after granting a loan, by regularly requesting documents proving the financial stability of the borrower's business and his/her capacity to repay the loan with interest.

Article 53

(Deleted in accordance with the amendments adopted on May 21, 1998; in effect as of July 21, 1998.) *****

Article 54

When granting a loan, a credit institution shall sign an agreement that specifies the purpose and amount of the loan, its disbursement and repayment procedures; the interest rate and the procedure for its calculation, the collateral of the loan and other conditions.

Article 55

A credit institution shall assess its assets and off-balance sheet liabilities pursuant to law and Financial and Capital Market Commission regulations. *****

Article 56

A credit institution shall register with the Financial and Capital Market Commission all guarantees (warranties) and other statements of commitment it has issued, excluding pledges that bind it to bear responsibility to a creditor for the debt of a third party. Guarantees (warranties) and other statements of commitment that bind the credit institution to bear responsibility to a creditor for the debt of a third party and that have not been registered with the Financial and Capital Market Commission shall be regarded as null and void. *****

Article 57

A credit institution shall obtain a permission from the Financial and Capital Market Commission in any of the following cases: *****

- 1) the credit institution seeks to increase or reduce its share capital;
- 2) the credit institution seeks to replace the chairperson or deputy chairperson of its executive board, manager or deputy manager of a branch of a foreign bank, or chief accountant;
- 3) the credit institution seeks to change its legal address;
- 4) the credit institutions seeks to change its name;
- 5) the credit institution is to be reorganised.

Article 58

Where a credit institution is divided into two or more credit institutions, the own funds of the newly established credit institutions shall not fall below the minimum founding share capital prescribed by law.

Article 59

The own funds of a credit institution established as a result of a merger of credit institutions shall not fall below the minimum founding share capital prescribed by law.

SECTION V

RELATIONSHIP BETWEEN A CREDIT INSTITUTION AND A CUSTOMER

Article 60

- (1) The relationship between a credit institution and a customer shall be regulated by law and the concluded agreements.
- (2) (Deleted in accordance with the amendments adopted on May 21, 1998.) *****
- (3) (Deleted in accordance with the amendments adopted on May 21, 1998.) *****
- (4) (Deleted in accordance with the amendments adopted on May 21, 1998.) *****

Article 61 *****

- (1) A credit institution shall guarantee the confidentiality of information about its customers, their accounts, deposits and transactions.
- (2) Pursuant to Bank of Latvia regulations, a credit institution shall submit to the Bank of Latvia, for the purposes of macroeconomic analysis, statistical information on payments between residents and non-residents.
- (3) The Bank of Latvia shall be entitled to submit the compiled information referred to in Paragraph 2 of this Article to the Central Statistical Bureau.
- (4) A credit institution shall be entitled to submit to its parent undertaking, a credit or a financial holding company, information that, pursuant to Financial and Capital Market Commission regulations or mutual agreements between the Financial and Capital Market Commission and the respective supervisory authority, is necessary for the supervision of credit institutions. *****

Article 62

- (1) Information on accounts and transactions of natural persons shall be disclosed to the natural persons themselves and their duly authorised representatives.
- (2) Information on accounts and transactions of legal persons shall be disclosed to their duly authorised representatives and to any superior institution upon a request from the head of such institution. *****
- (3) Information on accounts and transactions of institutions financed from the state budget shall be disclosed to the State Treasury upon its request. *; *****

Article 63

- (1) Information on accounts and transactions of natural and legal persons shall be disclosed to the extent necessary for the following state institutions to perform their functions in due course of law:
 - 1) the court and the prosecutor's office, if the information is required for:
 - a) a criminal or other case where property confiscation could be applied in due course of law;
 - b) a civil suit instigated to satisfy a civil claim arising from a criminal case;
 - c) a civil suit on levy of alimony if there is no salary or other property to encumber;
 - d) a civil suit on the division of a deposit constituting common property of spouses;
 - e) a case of insolvency and bankruptcy of a debtor;
 - f) a case of inheritance resulting from the death of a depositor;
 - 2) the State Auditors' Office, on legal persons charged with management of state property or financed from the budget, or engaged in procurement contracts with the government;
 - 3) the State Revenue Service where:
 - a) a taxpayer has failed to submit the income declarations and tax calculations specified by the effective tax laws to the tax administration;
 - b) violations of the regulations governing the accounting procedures or tax requirements have been uncovered during the tax audit of a taxpayer;
 - c) a taxpayer does not effect tax payments in compliance with the effective tax laws; *
 - 4) (Deleted in accordance with the amendments adopted on October 30, 1997; effective as of January 1, 1998.); ***
 - 5) the Office for the Prevention of Laundering of Proceeds Derived from Criminal Activity (Disclosures Office) in cases specified in and pursuant to the procedure prescribed by the Law "On the Prevention of Laundering of Proceeds Derived from Criminal Activity". *****
- (2) A credit institution shall disclose information upon a written request from a state institution, which specifies the person to be examined and, in compliance with the relevant law, motivates the need for information.

Article 64

(1) Criminal proceedings in due course of law shall be instigated against any person who has deliberately or inadvertently disclosed, to the public or to unauthorised persons, information on the accounts of and financial services rendered to customers which has been entrusted or has become known to such a person as a result of his/her holding shares or stocks of a credit institution, being a chairperson or member of the board, executive board, or audit commission or in the capacity of their proxy, an employee of a credit institution, the Bank of Latvia, Financial an Capital Market Commission or some other state institution, or a representative of external auditors. *****

(2) A person who has committed an offence as described in this Article shall also be subject to punitive measures where it has been committed after the termination of his/her employment or discharge of specific duties at a credit institution, the Bank of Latvia, Financial an Capital Market Commission, state institutions or as a representative of an audit service. *****

Article 65

(1) Funds and other valuables entrusted to a credit institution by legal persons may be sequestered only upon a court ruling or prosecutor's sanction; however, a partial or complete suspension of settlements from the respective accounts shall be applied upon request of the State Revenue Service. ***

(2) The recovery of claims from the funds and other valuables of legal persons may be executed only by virtue of the court's writ of execution or upon the tax administration's request in instances specified by tax laws, or of the State Revenue Service in other instances specified by law. ***

(3) The recovery of claims from the budgetary funds of local governments that have been placed with a credit institution, on a no-contest basis, may be executed upon request of the State Treasury in other instances specified by law. ***

Article 66

(1) Deposits and other valuables entrusted to a credit institution by natural persons may be sequestered only upon a court ruling or prosecutor's sanction.

(2) The recovery of claims from deposits and other valuables of natural persons can be executed only by virtue of the court's writ of execution.

Article 67

(1) Types of deposits shall be as follows:

1) demand deposits of indefinite maturity, to be paid out on demand;

2) time deposits:

a) deposits of agreed maturity;

b) deposits of indefinite maturity, requiring a prior notice of withdrawal.

(2) Time deposits placed with a credit institution for an indefinite term can be withdrawn not earlier than one month after the deposit was received. An application for withdrawal shall be submitted 10 days prior to the withdrawal date unless the agreement specifies otherwise.

Article 68

Time deposits which have reached their maturity and whose deposit agreement has not been extended or renewed shall be regarded as demand deposits unless the agreement specifies otherwise.

Article 69

The rate of interest and interest payment procedure shall be set out in the agreement between a customer and a credit institution.

Article 70

Unless the agreement specifies otherwise:

- 1) the time period for interest calculation shall be the number of calendar days of a loan or deposit. The basis of calculation is a year of 360 days;
- 2) interest is payable on December 31 each year or on the full repayment of the loan or deposit.

Article 71

(1) A customer forfeits his/her claim on a credit institution where no transactions have been performed with the deposit for a period of 60 years. ****

(2) The term for the statute of limitation shall begin:

- 1) on the last payment day of the deposit for time deposits of agreed maturity;
- 2) on the date the last transaction was performed on the customer's instruction with a demand deposit or time deposit of indefinite maturity. ****

Article 72

Deposits for which the statute of limitation has set in shall be credited to the profit of the credit institution.

Article 73

When applying for a loan or entering into any other contractual relationship with a credit institution, or when submitting a report on the progress of meeting the liabilities, the customer shall, upon request of a credit institution, provide complete and fair information on his/her financial standing and property, including any encumbrances on the property, as well as any other information required by the credit institution to ascertain whether the customer is related to the credit institution or belongs to a group of connected customers related to the credit institution.

Article 74

(Deleted in accordance with the amendments adopted on May 21, 1998; in effect as of June 1, 1998.) ****

SECTION VI ACCOUNTING AND THE ANNUAL FINANCIAL STATEMENTS

Article 75

A credit institution shall maintain its accounting records in accordance with the Law "On Bookkeeping" and Financial and Capital Market Commission regulations that must comply both with Republic of Latvia legislation and International Accounting Standards. *****

Article 76

The Financial and Capital Market Commission shall be entitled to require that the consolidated financial statements of a credit institution and associated undertakings (business ventures) are prepared and submitted by the procedure and at the dates specified by the Financial and Capital Market Commission. *****

Article 77

A credit institution shall prepare the annual report for each year of operation, including the balance sheet, profit and loss statement with disclosure notes, and the report.

Article 78

The reporting year shall correspond to the calendar year. The first reporting period may be shorter than the calendar year but not longer than 18 months. *****

Article 79

The annual financial statements shall be prepared in accordance with this Law and Financial and Capital Market Commission regulations based on this Law. The annual financial statements shall represent a true and fair view of a credit institution's assets and liabilities, its financial standing and profit or loss. *****

Article 80

Where it is not possible to obtain a true and fair view of a credit institution in accordance with the provisions of Article 79 hereof, the relevant additional information shall be included in the annual financial statements.

Article 81

Annual financial statement items shall be valued according to the following general principles:

- 1) it is assumed that the credit institution is a going concern;
- 2) the valuation methods shall be the same as applied in the previous annual financial statements;
- 3) valuation shall in all cases be prudent, and the following principles shall be observed:
 - a) the annual financial statements shall contain profit earned by the balance sheet date;
 - b) all possible loss shall be taken into account irrespective of the period in which the loss has occurred, including loss that has been uncovered in the period between the balance sheet date and the date the annual financial statements are finalised;
 - c) all reductions in value and depreciation are taken into account irrespective of whether the year has been concluded with profit or loss;
- 4) the annual financial statements shall reflect all income and expenses relating to the reporting year irrespective of the payment date;
- 5) asset and liability items shall be valued separately;
- 6) the opening balance sheet of each year shall correspond to the closing balance sheet of the previous year.

Article 82

In exceptional cases the valuation principles specified in Article 81 hereof may not be applied provided any such case is justified in the disclosure notes to the financial statements, indicating the impact on the credit institution's assets and liabilities, financial standing, and profit or loss.

Article 83

(1) The report shall outline in full the financial situation and development of the credit institution. Where the results of the activity during the reporting year have been influenced considerably by specific conditions or the annual financial statements cannot be considered complete, additional information shall be provided in a separate paragraph of the report.

(2) The report shall also contain information on significant events in the post balance sheet period, on future prospects for the credit institution and significant development projects.

Article 84

A report or statement prepared in relation to the profit and loss statement or balance sheet shall provide proposals for the distribution of profit, the amount of dividends, or for covering of loss.

Article 85

(1) The annual financial statements of a credit institution shall be audited by an auditor authorised by the Financial and Capital Market Commission. Where the annual financial statements have not been audited, the credit institution's general meeting of shareholders (members) shall not be entitled to approve them. *****

(2) Where the auditor's report is qualified, dividends shall be paid only after the receipt of approval from the Financial and Capital Market Commission. *****

Article 86

The annual financial statements of a credit institution shall be audited in accordance with this Law and International Standards on Auditing.

Article 87

When auditing the annual financial statements, the auditors shall have full access to the assets, accounting records and the underlying documents as well as to other information. The credit institution's executive board, executive director and employees shall provide the auditors with all requested information.

Article 88

(1) A credit institution shall inform the Financial and Capital Market Commission on all circumstances that could substantially influence its further activity. *****

(2) The auditor shall ascertain whether the credit institution complies with this requirement. The auditor shall report the credit institution's deficiencies identified in the course of the audit to the management in writing, filing a copy of the report with the Financial and Capital Market Commission. *****

Article 89

The Financial and Capital Market Commission shall specify items to be included in the balance sheet, off-balance sheet, and profit and loss statement, determine the content of the disclosure notes and the report, and set out the methodology for valuation of separate items. *****

Article 90

The annual financial statements shall be submitted to the Financial and Capital Market Commission within 10 days after they have been approved by the general meeting of shareholders of a credit institution but not later than three months after the end of the reporting year. *****

Article 91

A credit institution shall ensure that the complete annual financial statements with the disclosure notes and report are readily available at the credit institution not later than on April 1 of the year following the reporting year, so that the complete annual financial statements are available to any interested person for a fee that does not exceed the copying cost.

Article 92

After the annual financial statements have been submitted to the Financial and Capital Market Commission, a credit institution shall publish the balance sheet from the annual financial statements and the auditors' opinion in the official journal *Latvijas Vestnesis* not later than on May 1 of the year following the reporting year, indicating that these are the condensed annual financial statements and the complete annual financial statements are readily available at the credit institution. *****

Article 93

Banks that have been permitted to accept deposits from natural persons shall also publish the balance sheet and profit (loss) indicators as at the end of the first, second and third quarters in the official journal *Latvijas Vestnesis* not later than one month after the end of the quarter.

Article 94

If the complete annual financial statements are published, they shall be identical with the audited version, and appear together with the auditors' opinion about the annual financial statements. Where the auditor has declined to confirm the annual financial statements, a notice to that effect, indicating the reasons thereof, shall be published together with the annual financial statements.

Article 95

(1) A branch of a foreign bank shall submit to the Financial and Capital Market Commission the Latvian translation of the annual financial statements of the respective foreign bank together with the complete auditors' opinion not later than seven months after the close of the reporting year. *****

(2) The annual financial statements of a foreign bank shall be audited in accordance with International Standards on Auditing.

Article 96

The complete annual financial statements of the foreign bank together with the Latvian translation of the annual financial statements' balance sheet, profit and loss statement and auditors' opinion shall be readily available at the branch of the foreign bank in Latvia pursuant to the provisions of Article 91 hereof.

Article 97

The Latvian translation of the balance sheet and the auditors' opinion as included in the annual financial statements of a foreign bank shall be published pursuant to the provisions of Article 92 hereof.

Article 98

A credit institution shall prepare, file and maintain its office and other documents in accordance with the document standards of the Republic of Latvia, the Law "On Archives" and Financial and Capital Market Commission regulations. *****

SECTION VII SUPERVISION OF CREDIT INSTITUTIONS

Article 99

(Deleted in accordance with the amendments adopted on June 1, 2000; in effect as of July 1, 2001.) *****

Article 100

The Financial and Capital Market Commission shall perform supervision of credit institutions in accordance with this and other laws. *****

Article 101

The Financial and Capital Market Commission shall set out the supervisory procedure in accordance with this and other laws. *****

Article 102

The intensified supervisory procedure shall be applied upon the following circumstances:

- 1) the total paid-up share capital and retained profit or loss of a credit institution is below the paid-up share capital;
- 2) the capital adequacy of a credit institution is less than 10 percent;
- 3) a credit institution violates requirements governing the activities of credit institutions, and the executive board of a credit institution regularly fails to ensure that these requirements are met;
- 4) the Financial and Capital Market Commission has received an application for insolvency or itself makes a decision to file with the court an application for a credit institution's insolvency.

Article 103 *****

If the procedure of intensified supervision is applied the Financial and Capital Market Commission has the right to perform the following measures:

- 1) warn a credit institution;
- 2) request the Bank of Latvia to interrupt the issuance of its loans to a credit institution;
- 3) prohibit a credit institution to invest its funds into assets of insufficient liquidity;
- 4) limit the acceptance of deposits or to prohibit a credit institution to accept deposits;
- 5) limit the issuance of loans or to prohibit a credit institution to issue the loans;
- 6) request the Bank of Latvia to stop accounts of credit institution and no-cash payments within which the corresponding accounts of the Bank of Latvia are being used;
- 7) prohibit a credit institution to perform settlements and no-cash payments where the corresponding accounts in other credit institutions or finance institutions are being used;
- 8) partially or completely stop the providing of other financial services.

Article 104 *****

In order to control implementation of the intensified supervision procedures, the Financial and Capital Market Commission may appoint its authorized representative. An authorized representative of the Financial and Capital Market Commission shall act in accordance with Articles 119, 122-124 hereof.

Article 105

The Financial and Capital Market Commission shall be responsible for loss arising due to its proxy's fault. *****

Article 106 *****

- (1) A person authorized by the Financial and Capital Market Commission shall examine the activity of a credit institution no rarer as once per year.
- (2) A person authorized by the Financial and Capital Market Commission has the right to examine all of the documents of a credit institution, assets and liabilities and to receive from its responsible persons explanations and information about companies (entrepreneurial associations) within which a credit institution has investments.
- (3) A person authorized by the Bank of Latvia has the right to examine the fulfilment by a credit institution those regulatory instructions and rules approved by it and examine all the documents of a credit institution, assets and liabilities and to receive from its responsible persons all explanations and documents necessary for the performance of examination.
- (4) For the creation and operation of debtors register of credit institutions in accordance with the rules and regulatory instructions approved by the Bank of Latvia a credit institution shall provide to the bank of Latvia information about the debtors of a credit institution and the process for the fulfilment of their liabilities.
- (5) The Bank of Latvia has the right in the procedure anticipated in rules and regulatory instructions approved by the Bank of Latvia to provide that information mentioned in the fourth Part of this Article to the credit institutions.
- (6) Credit institutions have the right directly or through mediation of institution created specifically for that purpose to mutually exchange the information on debtors, process of the fulfilment of their liabilities and about all cases when a client completely or partially does not fulfil the requirements of Article 73 of this Law.

Article 107 *****

(1) Foreign supervisory authorities shall be entitled to inspect the branches and representative offices of banks of the respective countries as well as banks whose parent undertakings are banks of the respective country.

(2) Prior to commencing the inspection, foreign supervisory authorities shall have an obligation to inform the Financial and Capital Market Commission in writing. The Financial and Capital Market Commission shall be entitled to participate in such inspection. A foreign supervisory authority shall submit to the Financial and Capital Market Commission a copy and the Latvian translation of the results of the inspection.

(3) The Financial and Capital Market Commission shall be entitled to provide to foreign supervisory authorities, on terms of strict confidentiality and upon mutual agreement, information necessary for performing the supervision of the banks, their branches and representative offices referred to in Paragraph 1 of this Article where the legislation of the respective country provides for liability for unauthorised disclosure of confidential information.

Article 108

(1) The results of the inspection shall be submitted to the management of the credit institution in the form of a written report, indicating the irregularities and offering recommendations for further activity of the credit institution and its credit policy.

(2) If a credit institution does not agree to a conclusion of examination by the Financial and Capital Market Commission it has the right to submit a complaint to the Council of the Financial and Capital Market Commission which then has the right to appoint a new examination or to decide on making changes into examination conclusion or to reject a claim. *****

(3) If a credit institution is not satisfied with a decision of the Council of the Financial and Capital Market Commission it has the right to appeal this decision to the courts. *****

(4) If a credit institution does not agree to an examination conclusion of the Bank of Latvia it has the right to submit a complaint to the council of the Bank of Latvia which has the authority to appoint a new examination or to decide on making changes into examination conclusion or to reject a claim. *****

(5) If a credit institution is not satisfied with a decision of the Council of the Bank of Latvia it has the right to appeal this decision to the courts. *****

Article 109

The Financial and Capital Market Commission may request that either a general meeting of shareholders (members) or a meeting of the credit institution's board be convened, as well as specify their agenda. The authorised representatives of the Financial and Capital Market Commission shall be entitled to participate in the meetings. *****

Article 110

(Deleted in accordance with the amendments adopted on June 1, 2000; in effect as of July 1, 2001.) *****

Article 111 *****

(1) Employees of the Bank of Latvia, the Financial and Capital Market Commission, attorneys of the Financial and Capital Market Commission, auditors, authorized persons of the Bank of Latvia and the Financial and Capital Market Commission or other persons who have acted under the assignment of attorneys or auditors of the Financial and Capital Market Commission shall be

deemed officials and shall be fined for divulging confidential information if their directly or indirectly have disclosed the information about a credit institution to other persons. *****

(2) The provisions of the first Part of this Article do not apply to the information which the employees of the Bank of Latvia and the Financial and Capital Market Commission are providing in that procedure stipulated in Articles 61 and 107 of this Law or cases and procedure established by other laws. *****

(3) Information on a credit institution may be disclosed to the court and the prosecutor's office in the event of a criminal case or to the court where liquidation or insolvency proceedings have been initiated.

(4) Where the Bank of Latvia discovers legal infringements in the performance of a credit institution, it shall be entitled to provide information about such infringements to the State Revenue Service, the prosecutor's office, the state police and other state institutions that are entitled to launch an inquest and a pre-trial investigation.

Article 112

A credit institution shall ensure that an effective internal control system is established and maintained for the purposes of managing the bank's exposure to risk, safeguarding its assets, providing accurate and timely information to the management and ensuring compliance with Bank of Latvia regulations, the regulatory instructions and orders of the Financial and Capital Market Commission, as well as the credit institution's policies and procedures. *****

SECTION VIII

RESTRICTIONS ON MEETING THE LIABILITIES OF A CREDIT INSTITUTION

Article 113

A credit institution experiencing an excessive outflow of deposits may request the Financial and Capital Market Commission to establish restrictions on meeting its liabilities. *****

Article 114

A decision to set restrictions shall be passed jointly by the Financial and Capital Market Commission and the Cabinet of Ministers, specifying a period of restrictions that shall not exceed 12 months. When such restrictions are applied for a bank servicing a transit credit, the Ministry of Finance and the Financial and Capital Market Commission shall jointly decide whether the credit is to be further serviced by that bank or transferred to another credit institution. *****

Article 115

Liability restrictions shall be set only for a credit institution that is capable of meeting the legally valid claims of its creditors.

Article 116

Restrictions shall be applied in full or in part to all types of liabilities or specific liabilities of a credit institution.

Article 117

No restrictions shall be applied to interest payable on deposits.

Article 118

If liability restrictions are established for a credit institution, the Financial and Capital Market Commission shall appoint its proxy within three days; such proxy may also be a legal person.

Article 119

The Financial and Capital Market Commission's proxy shall assess the situation of the credit institution, inform the Financial and Capital Market Commission and undertake the necessary measures to stabilise the activity of the credit institution. *****

Article 120

A credit institution shall be entitled to lodge a complaint against the proxy's activity or appeal it in court, and the Financial and Capital Market Commission may replace its proxy if such a measure is justified. *****

Article 121

During the period when liability restrictions are effective, a credit institution shall pursue its operations under the supervision of a proxy.

Article 122

A credit institution shall make payments to its creditors only in accordance with the restrictions applied and with the proxy's permission. The proxy shall check the validity of such payment, its amount and whether the appropriate sequence of payments is followed.

Article 123

Taking into account the financial situation of a credit institution, the Financial and Capital Market Commission shall be entitled to extend the authorisation of the proxy by issuing an instruction that any new transaction, disposal of property, issue and acceptance of collateral, guarantees and warranties be approved by the proxy. *****

Article 124

Where a proxy ascertains or concludes that the credit institution is not or will not be able to meet the liabilities to its creditors, the proxy shall notify the Financial and Capital Market Commission immediately. *****

Article 125

Where the situation of a credit institution is stabilising, the Financial and Capital Market Commission and the Cabinet of Ministers shall be jointly entitled to withdraw the restrictions ahead of term. *****

SECTION IX *****
LIQUIDATION OF A CREDIT INSTITUTION

Article 126

- (1) The liquidation of a credit institution shall be performed:
- 1) in accordance with a decision taken by a general meeting of shareholders (members) of the credit institution (voluntary liquidation);
 - 2) in accordance with a court decision;
 - 3) in case of bankruptcy.
- (2) It shall be proscribed to liquidate a credit institution for the purpose of performing its reorganisation.
- (3) It shall be proscribed to reorganise a credit institution by means of reregistering it as an undertaking (business venture) other than a credit institution without a written permission by the Financial and Capital Market Commission issued when a credit institution has met all liabilities to depositors as registered in the accounting registers. *****

Article 127

- (1) A credit institution's general meeting of shareholders (members) shall be entitled to decide on voluntary liquidation only after the credit institution has met all liabilities to its creditors as registered in the accounting registers.
- (2) The voluntary liquidation process initiated by a decision of the credit institution's general meeting of shareholders (members) shall not be ceased or halted.

Article 128

- (1) A credit institution that has reached the decision to initiate voluntary liquidation shall file with the Financial and Capital Market Commission an application on voluntary liquidation within five days of reaching such decision. It shall add to the application the latest balance sheet prepared in accordance with Financial and Capital Market Commission regulations for preparing annual financial statements of credit institutions and information on the elected liquidator. *****
- (2) Within five days after the receipt of the application, the Financial and Capital Market Commission shall ascertain whether the credit institution has met all liabilities to its creditors registered in the accounting registers, and then take a decision as to the acceptance of the application and revocation of the operational licence. *****
- (3) The voluntary liquidation of a credit institution shall be conducted by a liquidator elected by a general meeting of shareholders (members). The credit institution in voluntary liquidation shall prepare the deed of conveyance (concerning documents, property, etc.) that shall be approved and signed by the liquidator upon commencing his/her duties.

Article 129

- (1) Where the Financial and Capital Market Commission revokes a credit institution's operating licence in accordance with the provisions set forth in Paragraphs 1-4 of Article 27 hereof, it shall apply the intensified supervision procedure, appoint a proxy and file with the court an application for the credit institution's liquidation and appointment of a liquidator, simultaneously nominating a candidate to the office of liquidator. *****
- (2) After the licence has been revoked, a general meeting of shareholders (members) shall not be entitled to make any decision with regard to the initiation of voluntary liquidation and appointment of a liquidator.

(3) If a credit institution's operating licence has been revoked, the Financial and Capital Market Commission shall so immediately inform the Bank of Latvia in writing. *****

Article 130

In case of bankruptcy, a credit institution's liquidation shall be conducted by the administrator, pursuant to the requirements of Section XIV hereof.

Article 131

(1) The liquidator of a credit institution, once the court has issued a decision on the credit institution's liquidation, shall be:

- 1) a certified attorney;
- 2) a certified auditor;
- 3) a business venture specialising in audit services.

(2) Where a legal person is appointed liquidator, it shall authorise in writing the natural person that is to represent the liquidator in the liquidation process and that is to be subject to the requirements of Paragraph 1 of this Article and restrictions prescribed by Article 132 hereof.

Article 132

(1) The liquidator shall not be a person:

- 1) that is an interested party in respect of the credit institution in liquidation or is related to it;
- 2) that is subject to a claim by the credit institution in liquidation;
- 3) that is a debtor subject to another insolvency proceeding or regarded as the representative of a debtor in other insolvency proceedings under way;
- 4) that has been convicted of a property, economic or business crime, malfeasance, legal crime or crime against administrative procedure irrespective of the removal or cancellation of penalty;
- 5) that is subject to prosecution or is a suspect in a criminal case.

(2) A natural person or a natural person authorised by a legal person shall be entitled to simultaneously perform the duties of a liquidator or administrator only in one insolvency and liquidation process.

(3) The Financial and Capital Market Commission shall be entitled to control the activity of a liquidator. For such purposes a person authorised by the Financial and Capital Market Commission shall be entitled to inspect all documents of the credit institution, the liquidator's documents related to the credit institution and to seek explanations from the liquidator and any other necessary information. *****

Article 133

(1) Not later than within three days after the Financial and Capital Market Commission has accepted the decision of the general meeting of shareholders (members) or the court has issued a decision on liquidation, the liquidator of the credit institution shall submit for publication in the official journal *Latvijas Vestnesis* and at least two other newspapers an announcement on the liquidation of the credit institution, indicating the following: *****

- 1) the date when the ruling on the voluntary liquidation was given or the court decision issued, as well as the date on which the credit institution came under liquidation;
- 2) the deadline for submitting claims and other complaints by creditors and other persons;
- 3) the name and last name (the company name and the name and last name of the authorised representative in cases where the liquidator is a legal person), place of business and phone number of the liquidator.

(2) The term for the deadline referred to in Subparagraph 2 of Paragraph 1 of this Article shall be three months. The term shall expire within three months from the day the announcement is published in the official journal *Latvijas Vestnesis*.

(3) The liquidator of a credit institution shall ensure that the wording "in liquidation" is used in the corporate address and other information of the credit institution.

(4) A court appointed liquidator shall have the rights and obligations, as well as the full scope of powers of an administrator prescribed by Section XI hereof, except those under Article 160, Paragraph 3 of Article 161 and Article 166.

(5) A liquidator elected by the general meeting of shareholders (members) shall have all the rights and obligations as well as the full scope of powers of an administrator prescribed by Section XI hereof, except those under Article 155, Paragraph 2 of Article 156, Paragraphs 2 and 3 of Article 157, Article 160, Paragraph 3 of Article 161 and Articles 166-169.

Article 134

(1) Expenses incurred during liquidation shall be covered by the credit institution in liquidation.

(2) Liquidation expenses comprise the following:

1) remuneration to the liquidator and his/her assistant in accordance with the amount established under Article 135 hereof;

2) salaries to the staff from the day when the decision on liquidation is reached and lay-off benefits;

3) expense incurred from the maintenance of the property of the credit institution in liquidation and the premises to be used during the course of liquidation;

4) court expenses;

5) expense incurred from publications in newspapers;

6) expense incurred from organising auctions.

Article 135

(1) In case of voluntary liquidation, the amount of the liquidator's remuneration shall be set by a decision of the general meeting of shareholders (members); however, the amount of the remuneration shall not exceed 15 minimum monthly salaries per month.

(2) Where the liquidation is initiated by a court decision, the total remuneration to the liquidator and his/her assistant shall be equal to 15 percent of the recovered assets (property). The recovered assets shall not include the credit institution's vault cash, funds raised from the sale of securities quoted on the stock exchange and funds acquired by exercising the right to a claim on the Bank of Latvia, Latvian and foreign credit institutions whose activity is not suspended or discontinued, the Latvian state or a foreign state.

(3) Where no assets (property) are recovered, the total average monthly remuneration to a liquidator and his/her assistant shall not exceed 30 minimum monthly salaries.

Article 136

(1) Where the liquidation is initiated upon a court decision, the liquidator, upon completing the liquidation, shall submit to the court and to the Financial and Capital Market Commission a report covering the entire period of liquidation. The court shall resolve whether to approve the report and shall decide on completing the liquidation. *****

(2) In case of voluntary liquidation, the liquidator shall submit, within five days after receiving a written request from the Financial and Capital Market Commission, a report on the course of the credit institution's liquidation. Upon completing voluntary liquidation, the liquidator shall submit to the Financial and Capital Market Commission a report covering the entire period of voluntary

liquidation. *****

(3) The liquidator's report shall present a fair and true view of the course of liquidation and the action of the liquidator.

(4) Within the first 10 days of each month, the liquidator shall submit for publication in the official journal *Latvijas Vestnesis* the balance sheet of the credit institution in liquidation as on the last day of the previous month, as well a report on recovered assets (property) and liquidation expenses in the previous month.

Article 137

(1) Where the liquidator discovers that the credit institution's shareholders (members), chairpersons or members of the board or executive board, executive directors, chairperson or members of the audit commission, controllers or auditors have exceeded their powers or have failed to comply with law, the regulations of the Cabinet of Ministers, regulatory instructions and rules of the Bank of Latvia, the regulatory instructions and orders of the Financial and Capital Market Commission, the statutes of the credit institution or decisions of a general meeting of shareholders (members), or that they have acted negligently or with deliberate malice, the duty of the liquidator is to inform the respective law enforcement authorities. *****

(2) Where the action referred to in Paragraph 1 of this Article has resulted in loss to creditors or shareholders (members), the liquidator shall lodge a claim with the court against the guilty parties to receive compensation for the incurred loss.

Article 138

(1) Where during the course of liquidation, the liquidator discovers that the total value of the property (assets) of a credit institution in liquidation is insufficient to fully meet creditors' claims, he/she shall have an obligation to initiate a bankruptcy procedure and to file with the court an application on insolvency, requesting the court on the credit institution's behalf to declare the credit institution insolvent and to initiate the bankruptcy procedure.

(2) Where a credit institution is declared insolvent after considering the application referred to in Paragraph 1 of this Article, a simultaneous decision must be taken on the initiation of the bankruptcy procedure.

(3) In such a case the liquidator shall be appointed by the decision of the court as an administrator, provided the requirements of Article 131 hereof have been met and the restrictions prescribed under Article 132 do not apply.

Article 139

The procedure for covering expenses and paying debts shall be determined by the liquidator, pursuant to the provisions of Articles 191-195 hereof.

SECTION X *****

INSOLVENCY OF CREDIT INSTITUTION

Article 140

(1) A credit institution shall be entitled to file an application on insolvency where it is not, or due to demonstrable circumstances will not be able to meet adequately its debt liabilities.

(2) A credit institution shall have an obligation to file an application on insolvency where at least one of the following circumstances applies:

1) the credit institution is not capable of meeting its debt liabilities within eight days after the set

deadline, and a written agreement with creditors about settlement of such debt has not been concluded;

2) the credit institution's debt liabilities exceed its assets.

Article 141

All the provisions of Article 138 and Paragraph 1 of Article 140 hereof relate to an application on insolvency, submitted by the liquidator of a credit institution.

Article 142

(1) The administrator of another insolvency process shall be entitled to file an application for insolvency against a credit institution that debt liabilities to the debtor represented by such administrator.

(2) In that event all provisions of Article 143 hereof shall relate to the application of an administrator.

Article 143

A creditor or a group of creditors shall be entitled to file an application for insolvency provided that at least one of the following conditions is present:

1) within five days after the creditor has submitted a claim to a credit institution, the claim has neither been satisfied nor protested, and after the expiration of said term, the creditor has informed the credit institution in writing of his/her intention to file an application for insolvency three days in advance; however, the credit institution has failed to settle the debt even in this period;

2) a credit institution has informed the creditor in writing about its actual insolvency.

Article 144

(1) An application for insolvency shall not be filed by the secured creditors. Until the initiation of the insolvency proceedings, the claims of the secured creditors on the credit institution with regard to the collection of debts shall be considered pursuant to the general procedure.

(2) An application for insolvency may be filed by those secured creditors whose claims on the credit institution are not secured in full.

Article 145

The Financial and Capital Market Commission shall be entitled to submit to the court an application for insolvency provided that at least one of the following conditions is present: *****

1) the credit institution is not able to adequately meet its debt liabilities;

2) the credit institution's debt liabilities exceed its assets.

Article 146 *****

(1) A credit institution, the liquidator of a credit institution, a creditor or a group of creditors, the administrator of another insolvency process shall first file the application for insolvency with the Financial and Capital Market Commission.

(2) Within five days after receiving the application, the Financial and Capital Market Commission shall review it and, in case actual insolvency or a high probability of insolvency is discovered, shall decide on filing the application with the court in due course of law. The

Financial and Capital Market Commission shall file the application for insolvency within three days after reaching such decision.

(3) The Financial and Capital Market Commission shall be entitled to decide to suspend the application for a certain period of time, not longer than a month, if it has evidence that the actual insolvency of a credit institution is temporal and related to short-term liquidity problems. If after the period of suspension the solvency of a credit institution has not been restored, within three days after the end of the period of suspension the Financial and Capital Market Commission shall file with the court an application for insolvency in due course of law.

(4) Where the Financial and Capital Market Commission has not discovered the actual insolvency of a credit institution or a high probability of such insolvency, it shall reach a motivated decision to reject the application and within three days after reaching such decision shall inform in writing the applicant about the motives for such decision. Rejection of the application by the Financial and Capital Market Commission shall not be an obstacle for filing it with the court. However, in this case the funds to secure claims, which may hamper rendering of financial services, shall not be utilised to secure the claims of creditors.

(5) The Financial and Capital Market Commission shall immediately and in writing to inform the Bank of Latvia about the submission to the courts the insolvency application.

Article 147 *****

(1) Upon receiving an application for insolvency, the Financial and Capital Market Commission shall decide on applying the intensified supervision procedure and appointing a proxy. Where the Financial and Capital Market Commission itself decides to file with the court the application for a credit institution's insolvency, it shall apply the intensified supervision procedure and appoint the proxy.

(2) Where the proxy has been appointed in cases referred to in Paragraph 1 of this Article, the credit institution's management shall be entitled to conduct any action with the credit institution's property, as well as with the property of third parties managed or held by the credit institution, only with written permission of the proxy. If such actions are conducted without written permission of the proxy and bring about significant loss, the responsible persons shall be subject to criminal prosecution.

(3) Where, for any reason, the proxy for a credit institution has already been appointed, the scope of the proxy's powers, pursuant to the provisions of Paragraph 2 of this Article, shall be extended beginning with the day when the application for insolvency is received or the day when the Financial and Capital Market Commission makes a decision to file the application for insolvency.

(4) The proxy appointed by the Financial and Capital Market Commission shall carry out his/her duties until the day when the court issues a decision rejecting the application for insolvency or declares the credit institution insolvent.

(5) The Financial and Capital Market Commission shall immediately and in writing to inform the Bank of Latvia about the appointment of an attorney if that was done in compliance with the provisions of this Article.

Article 148

(1) The initiation of insolvency proceedings shall restrict the creditor from conducting any transactions that might bring loss to other creditors or third parties.

(2) Property rights acquired by a creditor or a third party as a result of actions referred to in Paragraph 1 of this Article, on the basis of an application filed by a creditor or an administrator, shall be regarded as void in due course of law.

Article 149

From the moment a credit institution is declared insolvent:

- 1) it loses the rights to deal with its own property as well as the property of third parties managed or held by it and these rights shall be conferred to the administrator;
- 2) the activity of its management shall be suspended and managerial duties shall be assumed by the administrator;
- 3) an increase in overdue fees and interest related to claims of creditors shall be terminated, with the exception of tax arrears for which calculation of an increase in principal and overdue fees shall be terminated in accordance with the Law "On Taxes and Dues".

Article 150

- (1) The decision on terminating the insolvency process shall be issued by the court.
- (2) An administrator shall be entitled to submit to the court an application for terminating the insolvency process, supplemented with written evidence that one of the following conditions obtains:
 - 1) the credit institution has met all of its liabilities (debts, debt obligations) that were due and subsequently its assets exceed the debt still outstanding, and the requirements of this Law, the regulatory instructions and rules of the Bank of Latvia and the regulatory instructions and orders of the Financial and Capital Market Commission have been followed; *****
 - 2) the bankruptcy procedure has been completed.
- (2) The insolvency process shall be terminated if the court rejects the application for insolvency or terminates the insolvency process.

Article 151

- (1) If the insolvency process is terminated because the solvency of a credit institution is restored, the powers of the administrator in the respective insolvency process shall expire, the credit institution shall regain its right to manage its property, and the management shall resume its activity. The deed of conveyance shall be prepared and signed within 30 days after the court decision to terminate the insolvency process. The administrator shall continue his/her duties and maintain responsibility pursuant to this Law until the deed of conveyance is signed.
- (2) If the insolvency process is terminated because the bankruptcy procedure is completed, the powers of the administrator shall expire along with the adoption of the court decision on terminating the insolvency process. The administrator shall hand over documents to the archive in accordance with the Law "On Archives".
- (3) As the powers of the administrator expire, the administrator's certificate and seal referred to in Article 156 hereof shall be handed over to the court.

Article 152

- (1) The insolvency process shall be financed from the funds of the credit institution.
- (2) In case of a penal bankruptcy, the court shall be entitled to collect the expenses of the insolvency process jointly from the chairpersons and members of the board and the executive board.

Article 153

The expenses of the insolvency process shall comprise the following:

- 1) remuneration to the administrator and his/her assistant in the amount prescribed by Article 166

hereof;

- 2) salaries to the staff for the period starting on the day the decision on declaring the credit institution's insolvency is reached, as well as lay-off benefits;
- 3) expenses incurred from the maintenance of the credit institution's property and the premises to be used during the course of the insolvency process;
- 4) court expenses;
- 5) expenses incurred from publications in the press;
- 6) expenses incurred from organising auctions.

SECTION XI ****

ADMINISTRATOR IN THE INSOLVENCY PROCESS

Article 154

- (1) The duties of an administrator may be assumed by persons referred to in Article 131 hereof.
- (2) The administrator shall be subject to all restrictions referred to in Article 132.
- (3) If the duties of an administrator are assumed by a legal person, it shall authorise in writing a natural person who will represent the administrator in the insolvency process and be subject to the requirements referred to in Paragraph 1 of Article 131 hereof and the restrictions referred to in Article 132 hereof.
- (4) The Financial and Capital Market Commission shall be entitled to control the activity of the administrator. For these purposes the person authorised by the Financial and Capital Market Commission shall be entitled to inspect all documents of a credit institution, all documents of the administrator related to the credit institution as well as to seek explanations of the administrator and any other necessary information. *****

Article 155

- (1) The administrator shall be made secure against the risk of causing loss to creditors or other persons.
- (2) The security shall take the form of the civil liability insurance for the administrator's activity.
- (3) The regulations regarding the insurance of the civil liability for the administrator's activity shall be issued by the Cabinet of Ministers.

Article 156

- (1) The administrator shall have a personal seal with an inscription "Administrator of the Insolvency Process of the (the name of the credit institution)" and his/her name and the last name or name of a legal person, if the legal person has been appointed administrator.
- (2) The administrator shall have a certificate with a photo, his/her name and last name or the photo, name and last name and the inscription "Administrator of the Insolvency Process of the (the name of the credit institution)" of the natural person authorised by the legal person appointed as an administrator. The certificate shall be approved by the chairperson of the court with his/her signature and the court's seal.

Article 157

- (1) After appointment, until the hearing of the case in court, the administrator shall perform the following functions:
 - 1) prepare and submit to the court the list of the credit institution's staff, shareholders (members) and other persons whose participation in the insolvency proceedings is necessary;

- 2) prepare and submit to the court a review of the credit institution's assets (property) in accordance with their market value;
- 3) assess the property of third parties managed or held by the credit institution;
- 4) prepare the list of creditors in accordance with the data registered in the credit institution's accounting registers, detailing the information on creditors, on the amount of debt liabilities and the due terms of that debt.

(2) Within three days after the initiation of the insolvency proceedings and appointment of an administrator, the administrator together with the chairperson of the executive board shall commence the inventory of the documents and property of the credit institution. Where the chairperson of the executive board is on a temporary leave or his/her whereabouts are not known, the inventory shall be performed by the administrator together with the members of the executive board. Upon completing the inventory, an inventory statement and a deed of conveyance (of documents, property, etc.) shall be prepared and signed.

(3) Where all members of the executive board are on a temporary leave or their whereabouts are not known, the administrator shall inform the Financial and Capital Market Commission in writing and perform the inventory by himself/herself. Upon completing inventory the administrator shall prepare and sign an inventory statement also to be regarded as a deed of conveyance (of documents, property, etc.). *****

Article 158

From the day of the initiation of the insolvency proceedings neither full nor partial redemption of claims or debts shall be allowed, except the situations where it has been envisaged in the rehabilitation plan approved by the Financial and Capital Market Commission. *****

Article 159

(1) Within three days after a credit institution is declared insolvent, the administrator shall send a notice and a copy of the court verdict to the Bank of Latvia, the Enterprise Register and the relevant department of the Land Register according to the place of location of the real estate, specifying his/her name, last name (the name of the legal person, as well as the name and last name of the authorised representative if the administrator is a legal person), place of business and phone number in the cover letter. *****

(2) The Enterprise Register shall have an obligation to register the submitted information, pursuant to the procedure set forth by the Law "On the Republic of Latvia Enterprise Register".

(3) Pursuant to the Law "On the Land Register", the Department of the Land Register shall have an obligation to register the ruling on the owner's insolvency in the respective section of the land register.

(4) Where the insolvency process is terminated because the solvency of the credit institution is restored, the administrator shall forward the court decision to the Enterprise Register and the respective department of the Land Register for deletion of the previous entry.

(5) If the insolvency process is terminated because the bankruptcy procedure is completed, the administrator shall forward to the Enterprise Register the court decision thereon to exclude the credit institution from the Enterprise Register.

Article 160

(1) Within three days after the credit institution is declared insolvent, the administrator shall submit an announcement of the insolvency of the credit institution for publication in the official journal *Latvijas Vestnesis* and at least two other newspapers.

(2) The announcement shall contain the following information:

- 1) the date when the court verdict was issued, as well as the date when the credit institution was declared insolvent;
- 2) the administrator's name, last name (the name of the legal person, as well as the name and last name of the authorised representative if the administrator is a legal person), place of business and phone number.

Article 161

- (1) After a credit institution has been declared insolvent, the administrator shall assume all rights, obligations and powers of management stipulated by law and the credit institution's charter.
- (2) The obligations of an administrator shall be as follows:
 - 1) to ensure legal and effective course of the insolvency process;
 - 2) to take over the property, documents and seal of the credit institution, as well as the property of third parties managed or held by the credit institution;
 - 3) to manage the property of the credit institution;
 - 4) to evaluate the financial standing of the credit institution, to reach a decision with regard to the resolution of insolvency (rehabilitation, bankruptcy) and the terms for such resolution within one month after insolvency has been declared and to submit such resolution to the Bank of Latvia for approval in accordance with the provisions of this Law;
 - 5) to prepare a list of the credit institution's property subject to claims of the secured creditors and other creditors;
 - 6) to complete the inventory of the credit institution's documents and property which was initiated pursuant to the procedure of Paragraph 2 of Article 157 hereof;
 - 7) to transfer the servicing of transit credits to the Ministry of Finance or the designated bank not later than within a month after receiving a request from the Ministry of Finance;
 - 8) to inform the court on applying rehabilitation procedures, to forward to the court the decision on applying rehabilitation procedures, and to file with the court, in due course of law, an application for initiating the bankruptcy procedure;
 - 9) to provide to the Financial and Capital Market Commission and to the Bank of Latvia the information about insolvency process and within the established periods to submit all the information inquired which is necessary for them to accomplish their functions; *****
 - 10) within the first 10 days of each month, to submit for publication in the official journal *Latvijas Vestnesis* the credit institution's balance sheet as on the last day of the previous month, and a report on the recovered assets (property) and the expenses of the insolvency process incurred during the previous month;
 - 11) to maintain the accounting records in accordance with the requirements of Article 75 hereof;
 - 12) to submit to the Enterprise Register and the respective departments of the Land Register information required by this Law, the Law "On the Republic of Latvia Enterprise Register" and the Law "On the Land Register";
 - 13) to submit, in due course of law, to competent authorities reports and other information on facts discovered in the course of the insolvency process that may form a basis for instigating criminal proceedings;
 - 14) to report to the respective law enforcement authorities where the administrator discovers that the credit institution's shareholders (members), chairperson or members of the board or executive board, executive directors, chairperson or members of the audit commission, controllers or auditors have exceeded their powers or have failed to comply with the requirements of law, the regulations of the Cabinet of Ministers, the Bank of Latvia regulatory instructions and rules, the Financial and Capital Market Commission regulatory rules and orders, the charter of the credit institution or decisions of a general meeting of shareholders (members), or that the above persons have acted negligently or with deliberate malice, as well as to lodge a claim with the court against the guilty persons in order to receive compensation for the incurred loss, if the

action of these persons has resulted in loss to creditors or shareholders (members). *****

(3) Other obligations of an administrator in particular stages of the insolvency process are prescribed by Articles 178, 180, 182-184, 187 and 190 hereof.

(4) An administrator's rights and scope of powers shall be as follows:

- 1) to dispose of the property of the credit institution pursuant to the procedure prescribed by this Law;
- 2) to close down the credit institution's branches and representative offices;
- 3) to lodge a claim with the court, requesting it to declare void transactions that the credit institution has conducted with third parties or for the benefit of third parties during the period of five years before the day the credit institution was declared insolvent and that have generated or are likely to generate loss to creditors, as well as transactions that the credit institution has conducted with any of the creditors and that have generated or are likely to generate loss to other creditors;
- 4) to file with the court any claim of the credit institution against a third party;
- 5) to represent the credit institution in the court and to speak on behalf of the credit institution in relations with natural and legal persons;
- 6) to insure the transactions and the property of the credit institution;
- 7) to prepare and to sign any documents on behalf of the credit institution;
- 8) to hire and dismiss from his/her duties the assistant to the administrator;
- 9) to hire and dismiss employees, including those hired prior to the initiation of insolvency proceedings;
- 10) to cover the expenses of the insolvency process with the funds of the credit institution;
- 11) to lease any property of the credit institution to other persons and to lease any property from other persons provided that it is in the interest of all creditors;
- 12) to waive any claims against third parties or to conclude any amicable settlement on behalf of the credit institution with regard to the credit institution's claims against third parties provided such actions increase its capacity to meet the claims of creditors or accelerate settlement of debt without significantly reducing the amount of compensation payable to creditors;
- 13) to demand that the shareholders (members) of the credit institution meet the liabilities specified by the respective decision of the general meeting of shareholders (members) regarding the credit institution's share capital or other property, or to lodge a claim with the court for compulsory settlement of such liabilities;
- 14) to file with the court an application to declare the insolvency of any such third party that has debt liabilities to the credit institution, and to represent the claims of the credit institution if the insolvency proceedings of that third party are initiated on the basis of the application;
- 15) to change the registered legal address of the credit institution;
- 16) where needed during the insolvency process, to request and to receive from natural persons, state institutions and local government institutions, and undertakings (business ventures) information about the credit institution and its representatives;
- 17) to represent the credit institution in criminal proceedings and to request security measures for the respective representatives of the credit institution if criminal proceedings have been instigated with regard to the particular insolvency case.

(5) Where the administrator terminates employment contracts with the credit institution's employees after the credit institution has been declared insolvent, the legally valid motivation for this action shall be the provisions of Paragraphs 1 and 1.² of Article 33 of the Latvian Labour Code where there is no other legitimate motivation. Where an employment contract is terminated, the dismissed employee shall be treated as the credit institution's creditor:

- 1) in the amount of the unpaid wage and related payments;
- 2) in the amount of compensation for any detriment resulting from a job accident or a work-related disease, payable for the whole unpaid period and in the amount of payments to the social

security budget to be made for three years in advance where the accident has happened or the professional disease has been discovered by January 1, 1997.

Article 162

(1) Persons shall have an obligation to provide the administrator with information relevant to the insolvency process.

(2) The credit institution's representatives and persons whose participation in the insolvency process or liquidation procedure is mandatory shall have an obligation to provide the administrator with the requested information within 15 days after the date of the request. The credit institution's representatives or persons whose participation in the insolvency process or liquidation procedure is mandatory shall receive the request personally or by a registered letter.

(3) The credit institution's representatives and persons whose participation in the insolvency process or liquidation procedure is mandatory shall submit the requested information in writing and confirm it with their signature.

Article 163

(1) An administrator shall be responsible for loss incurred by creditors as a result of his/her fault.

(2) In case several administrators have been appointed, each administrator shall be held responsible only for his/her own actions and in proportion to loss incurred by creditors due to his/her fault. The court shall establish each administrator's liability.

(3) The administrator shall not be held responsible for loss incurred by creditors before the administrator commenced his/her duties.

Article 164

(1) Creditors shall be entitled, in due course of law, to lodge a claim with the court for recovery of loss caused by the administrator.

(2) Claims against the administrator may be submitted not later than three years after the insolvency process has been closed.

(3) Where the administrator's actions have caused loss to creditors or other interested parties and the court has established that these actions possess features of a penal offence, claims on the administrator shall be subject to the common statute of limitation.

(4) All administrators who have been involved in the particular insolvency process, irrespective of the time or duration of their involvement, shall be subject to the requirements of this Article, and each administrator shall be held responsible solely for his/her own actions.

Article 165

An administrator shall be empowered to authorise in writing his/her assistant or any employee of the credit institution to perform particular actions that, pursuant to this Law, fall within the administrator's scope of powers. The administrator shall be held responsible for loss resulting from the actions of his/her assistant or of the said employee where they have acted upon such authorisation.

Article 166

(1) Total remuneration to the liquidator and his/her assistant shall be equal to 15 percent of the recovered assets (property). The recovered assets shall not include the credit institution's vault cash, funds raised from the sale of securities quoted on the stock exchange and funds acquired by

exercising the right to a claim on the Bank of Latvia, Latvian and foreign credit institutions whose operations are not suspended or discontinued, the Latvian state or a foreign state.

(2) Where no assets (property) are recovered, the total remuneration to the administrator and his/her assistant shall not exceed 30 minimum salaries per month.

(3) Where the credit institution's funds are insufficient to provide the remuneration in accordance with the provisions of Paragraph 2 of this Article, the administrator shall be entitled to take the following measures after receiving the Financial and Capital Market Commission's approval:

1) decide to initiate the bankruptcy procedure;

2) file applications with the court, requesting approval for the procedure for covering the administrative expenses and settling debts, establishing a deadline for the above, completing the bankruptcy procedure and closing the insolvency proceedings.

(4) In the case referred to in Paragraph 3 of this Article, remuneration to the administrator and his/her assistant shall be paid by the Financial and Capital Market Commission. The administrator and the Financial and Capital Market Commission shall agree on the procedure for covering and compensation of expenses. *****

Article 167

(1) The administrator's responsibilities shall expire upon the following conditions:

1) the administrator is dismissed in accordance with the provisions of Article 168 hereof;

2) the administrator resigns in accordance with the provisions of Article 169 hereof;

3) the insolvency process is terminated in accordance with the provisions of Article 150 hereof;

4) the administrator dies or, where the administrator is a legal person, a decision to liquidate it has been taken and registered with the Enterprise Register.

(2) Where the administrator is replaced in accordance with the provisions of Paragraphs 1 or 2 of this Article, the newly appointed administrator shall commence his/her duties after signing the deed of conveyance (regarding documents, property, etc.). A report on the previous administrator's performance shall be provided along with the deed. The previous administrator shall proceed with his/her duties and be held responsible in due course of law until the deed of conveyance is signed.

(3) As soon as the administrator's powers expire, the court shall declare void the administrator's certificate and seal referred to in Article 156 hereof.

(4) The court shall publish an announcement in the official journal *Latvijas Vestnesis* that the powers of the administrator have expired and that the administrator's certificate and seal have been declared void.

Article 168 *****

(1) Where the Financial and Capital Market Commission has expressed distrust in an administrator, it shall request that the court dismiss that administrator and appoint another one; the Financial and Capital Market Commission shall propose a candidate.

(2) The dismissed administrator, within 15 days after dismissal, shall be obliged to submit a report fairly representing his/her activity to the Financial and Capital Market Commission and the court.

Article 169

(1) An administrator shall be entitled to resign, informing the Financial and Capital Market Commission thereof and submitting a written application and a true and clear report on his/her activities to the court. The application shall indicate the reasons why he/she cannot or will not

proceed with the administrator's duties. *****

(2) Where the court has approved the administrator's resignation, the administrator shall receive remuneration in accordance with the provisions of Article 166 hereof.

SECTION XII *****

CREDIT INSTITUTIONS' PROPERTY DURING THE INSOLVENCY PROCESS

Article 170

A credit institution's property (assets) during the insolvency process shall include the following:

- 1) assets (property) as on the date the application on insolvency is filed with the court;
- 2) yield on assets (property) during the insolvency process;
- 3) other assets (property) legally acquired during the insolvency process.

Article 171

(1) After a credit institution has been declared insolvent, only the administrator shall have the right to manage its property.

(2) The administrator shall manage the credit institution's property within the scope of powers granted to him/her by this Law.

(3) Funds acquired during the insolvency process by recovering property or by selling the credit institution's assets shall be transferred to its account with the Bank of Latvia. The administrator shall be entitled to keep cash in the credit institution's vaults in the amount sufficient to cover current expenses during the insolvency process.

Article 172

(1) Deposits and related interest shall be included in the list of a credit institution's property, while the property of third parties held by the credit institution shall not be there included.

(2) The administrator shall ensure that the property of third parties is maintained until it is transferred back to the owners. The administrator shall be entitled to require that third parties cover expenses resulting from the maintenance of their property.

(3) Where the property of a third party has been disposed of and the owner has submitted his/her claims by the specified deadline, the full value of this property shall be paid to the owner prior to settling other claims. The payable amount shall be collected from the person responsible for the disposal of a third party's property.

(4) Where the property of a third party managed or held by the credit institution has not been taken over by the owner before the credit institution's property is beginning to be auctioned off, the administrator shall transfer this property to a notary's custody. The property held in custody by the notary may include cash, documents and securities.

(5) The property of a third party managed or held by the credit institution referred to in Paragraph 4 of this Article, other than cash, documents and securities, shall be sold by the administrator at a public auction; the funds thereby raised, and the documents on the organisation and course of the auction shall be transferred to a notary's custody.

Article 173

(1) Where the administrator so requires, the following transactions conducted by the credit institution shall be considered null and void irrespective of their type:

- 1) those that it has conducted after becoming insolvent and that have generated loss to creditors;
- 2) those that it has conducted during the period of five years before becoming insolvent, so as to

deliberately cause loss to creditors, provided the party to the transaction or the party for whose benefit the transaction was conducted was informed about loss incurred;

3) those that it has conducted during the period of five years before becoming insolvent, provided that the court has established that the insolvency was caused by a penal offence, and the party to that transaction or the party for whose benefit it was conducted was informed thereof.

(2) Where transactions resulting in loss to creditors have been conducted with or for the benefit of interested parties in respect of the credit institution, it shall be assumed that these parties have been informed about the incurred loss or penal offence where they cannot prove otherwise.

(3) A secured creditor shall be entitled to lodge a claim with the court requiring to declare null and void a transaction conducted by the administrator where the transaction involves property pledged as collateral to a claim and the rights of the secured creditor have been infringed.

Article 174

(1) An agreement on a donation involving a credit institution's property may be recognised as null and void pursuant to the provisions of Article 1927 of the Civil Law.

(2) Transactions that the credit institution has conducted during the period of five years before becoming insolvent or after this date shall be considered null and void where the inequality of mutual liabilities indicates that the transaction has in fact been a donation.

(3) Charitable contributions to social organisations engaging in promoting culture, research, education, sport, health protection or social assistance shall not be considered null and void. A charitable contribution to such an organisation shall be considered null and void where there is evidence that the charitable contribution has been fictitious or is used for purposes other than those for which it was intended.

Article 175

(1) Where the administrator so requires, an agreement on a pledge may be recognised as null and void where the following conditions apply:

1) the right to a pledge held by the credit institution's creditor has been established after the credit institution became insolvent or within six months before the credit institution became insolvent, and it refers to a previously unsecured creditor's claim on the credit institution;

2) the agreement has been concluded after the credit institution became insolvent or within one year before the credit institution became insolvent, and the pledger is an interested party in respect of the credit institution;

3) the pledge has been disposed of to meet the claim of a secured creditor after the credit institution became insolvent or within six months before insolvency; the pledge has not been disposed of at a public auction contrary to the provisions of the law or agreement.

(2) Where the agreement on a pledge is recognised as null and void, the respective secured creditor shall be further regarded as an unsecured creditor.

SECTION XIII ****

REHABILITATION OF A CREDIT INSTITUTION

Article 176

To rehabilitate a credit institution means to launch a set of planned legitimate measures aimed at averting its possible bankruptcy, restoring its solvency and meeting the valid claims of its creditors. A credit institution shall be rehabilitated according to a plan adopted in conformity with the procedure stipulated by this Law.

Article 177

(1) The following persons shall be entitled to submit a rehabilitation plan:

- 1) the administrator;
- 2) a creditor or a group of creditors;
- 3) the credit institution's shareholders representing not less than one tenth of the holdings in the paid-up share capital of the joint-stock company.

(2) The rehabilitation plan shall include the following:

- 1) specific measures to restore the credit institution's solvency;
- 2) deadlines for effecting these measures;
- 3) funds needed and their sources;
- 4) intended schedule for measures aimed at improving and developing the credit institution's solvency;
- 5) deadlines for the credit institution to comply with all the requirements of law and Financial and Capital Market Commission regulations; *****
- 6) the procedure for effecting payments to the creditors and the repayment schedule.

Article 178

The administrator shall set the deadline for developing the rehabilitation plan; the time period shall not exceed one month starting from the day the credit institution is declared insolvent.

Article 179 *****

(1) The administrator shall make the decision to start the rehabilitation process. The decision on starting the rehabilitation process and implementing the rehabilitation plan shall take effect after they have been approved by the Financial and Capital Market Commission.

(2) The court shall be entitled to cancel the decision to start the rehabilitation process proposed by the administrator or the Financial and Capital Market Commission where either one of the latter has been misled, compelled or deceived into making that decision.

Article 180

(1) The rehabilitation process shall be guided by the administrator in accordance with the rehabilitation plan.

(2) In addition to the administrator's rights and scope of powers set out in Paragraph 4 of Article 161 hereof, the administrator shall also be entitled to acquire or borrow funds on behalf of the credit institution and pledge the credit institution's property during the rehabilitation process.

(3) In case circumstances that materially affect or are likely to affect the implementation of the rehabilitation plan have changed, the administrator shall obtain the Financial and Capital Market Commission's consent to amend the rehabilitation plan or make a decision to cancel that plan or suspend the rehabilitation process, submitting the amended plan for Financial and Capital Market Commission approval. *****

Article 181 *****

(1) The Financial and Capital Market Commission shall issue its approval for the decision to start the rehabilitation process, for the rehabilitation plan and further decisions on amendments to the plan within 15 days after their receipt.

(2) Where the Financial and Capital Market Commission does not issue its approval for the rehabilitation plan, or the rehabilitation process is terminated or suspended, the administrator

shall decide to initiate the bankruptcy procedure.

(3) Where the Financial and Capital Market Commission does not issue its approval for amendments to the rehabilitation plan, the rehabilitation process shall be continued in accordance with the plan approved by the Financial and Capital Market Commission.

Article 182

(1) The period of rehabilitation shall usually not exceed three months starting the day the Financial and Capital Market Commission issues its approval both for the decision to start the rehabilitation process and for the rehabilitation plan. After the initial period of rehabilitation has expired, the administrator shall obtain Financial and Capital Market Commission approval to extend the period of rehabilitation for three months; the next rehabilitation period shall commence on the day the Financial and Capital Market Commission issues its approval for extending the rehabilitation period and amending the rehabilitation plan. *****

(2) The total period of rehabilitation shall not exceed two years.

Article 183

(1) The administrator may request that the Financial and Capital Market Commission terminate the rehabilitation process upon the following conditions: *****

- 1) the rehabilitation process has not been conducted in accordance with the rehabilitation plan;
- 2) the credit institution has failed to improve its solvency to the amount and within the deadlines prescribed under the rehabilitation plan;
- 3) the administrator establishes that it will not be possible to implement the rehabilitation plan.

(2) Where the rehabilitation process is discontinued, the administrator shall decide to file an application on initiating the bankruptcy procedure with the court.

SECTION XIV *****

BANKRUPTCY PROCEDURE OF A CREDIT INSTITUTION

Article 184

(1) The court shall decide to initiate the bankruptcy procedure after receiving the relevant application.

(2) The administrator's decision to file an application with the court shall be approved by the Financial and Capital Market Commission. *****

(3) After the court has issued a ruling to initiate the bankruptcy procedure, the administrator shall provide that the wording "in liquidation" is used in reference to the credit institution.

Article 185

(1) The bankruptcy procedure shall be initiated principally to sell the credit institution's assets (property) at the highest possible price, seeking thereby to meet the claims of creditors in full.

(2) The credit institution's assets (property) shall be sold at public auctions where law does not prescribe other methods for disposing of the particular asset. Auctions shall be organised by the administrator who shall also set the regulations governing auctions.

Article 186

(1) Within three days after the court has ruled to initiate the bankruptcy procedure, the administrator shall submit an announcement on commencing the bankruptcy procedure for

publication in the official journal *Latvijas Vestnesis* and at least two other newspapers.

(2) The announcement shall include the following information:

- 1) the date when the court reached the decision to initiate the bankruptcy procedure;
- 2) the deadline for submitting claims by creditors and other persons;
- 3) the name and last name of the administrator (the name of a legal person, as well as the name and last name of the authorised representative if the administrator is a legal person), place of business and phone number.

(3) The time period referred to in Subparagraph 2 of Paragraph 2 of this Article shall be three months. It shall start on the day the announcement is published in the official journal *Latvijas Vestnesis*.

(4) The claims of creditors, including those of state and local government institutions in charge of tax accounting and control, that are submitted after the expiry of the time period referred to in Paragraph 3 of this Article shall be treated as claims of creditors referred to in Paragraph 3 of Article 193 hereof.

Article 187

The administrator shall set the date when the auction of the credit institution's property is to commence and advertise it in the official journal *Latvijas Vestnesis* and at least two other newspapers. Where it is not possible to commence the auction on that day, the administrator shall make a decision to hold it at a later date.

Article 188

The property of a credit institution referred to in Article 170 hereof shall be sold at auctions, except for funds and the property that, in accordance with the valid agreements concluded by the credit institution, are collateral for the secured creditors.

Article 189

(1) Auctions of a credit institution's assets shall be held in accordance with the Civil Law, the Latvian Lawsuit Code and other legislative requirements, observing the restrictions set out in this Article.

(2) The duties of bailiff, as prescribed by the Latvian Lawsuit Code, shall be carried out by the administrator.

(3) During the first auction, property shall be auctioned off at an ascending offer price. Where an item is not sold, at further auctions it shall be auctioned at a descending offer price.

(4) After the bidder has paid the specified price for the real estate, the administrator shall prepare and sign a purchase agreement that shall serve as the basis for making an entry in the land register.

Article 190

(1) A secured creditor shall obtain the administrator's approval for the regulations governing a voluntary auction of the credit institution's pledged property and the initial price. The administrator shall act in the credit institution's interests and be entitled to require that the auction organiser submit an auction deed (a document on auction proceedings, an auction report).

(2) Where the credit institution's pledged property (assets) is sold at a free price in accordance with Article 1321 of the Civil Law, a written agreement on the disposal of property shall be concluded and approved by the administrator.

(3) Where the provisions of Paragraphs 1 and 2 of this Article have been violated, this shall serve as a basis for contesting the agreement on disposal of the credit institution's pledged property.

(4) Where the amount of money received for the credit institution's pledged property exceeds the value of the secured claim and auction expenses, the administrator shall ensure that the surplus is transferred to the credit institution's account with the Bank of Latvia.

Article 191

(1) A credit institution's funds acquired from mortgages and replacement collateral that, in accordance with the provisions of the law on mortgage bonds, is recorded in the register of mortgage bond collateral shall be utilised to meet liabilities arising from issuing mortgage bonds. Funds remaining after meeting these liabilities shall be used to cover other expenses and repay other debts. The administrator shall set out the procedure for covering other expenses and repaying other debts in accordance with the provisions of Articles 192-195 hereof.

(2) A credit institution's funds not included in the register of mortgage bond collateral shall be first used to fully cover the expenses arising during the insolvency process or liquidation.

Article 192

Funds remaining after covering the expenses incurred during the insolvency process or liquidation shall be distributed to repay the principal of creditors' claims (without interest), ranking the claims in groups as follows:

1) claims up to and including 500 lats by depositors that are natural persons. Payments to depositors that are natural persons and to whom the provisions of the Law "On Natural Person Deposit Guarantees" apply shall be established in the amount of the guaranteed consideration set out in that Law. Where a natural person has opened several accounts, all of his/her deposits shall be treated as one deposit and the above amount shall equal the total of all his/her deposits. Where the depositor that is a natural person has received the guaranteed consideration, he/she loses the right to a claim regarding the amount received and claims of the Deposit Guarantee Fund on the credit institution shall be treated as belonging to this group;

2) claims by employees regarding the salary for the first three months following the day the salary payments were terminated; payments for holidays and social benefits for the year before the date on which the insolvency proceedings were instigated or the date on which the court reached the decision on commencing liquidation; compensation for any detriment resulting from a job accident or work-related disease, payable for the whole unpaid period in respect of payments to the social security budget to be made for three years in advance, where the accident has happened or the work-related disease has been discovered by January 1, 1997, and compulsory instalments under the state social security scheme and payments of personal income tax relating to expenses referred to in this Article and the compulsory instalments under the state social security scheme that ensure the receipt of unemployment benefits;

3) taxes and other payments (payables) to the state budget and local government budgets, and also those transit credits and related interest payments that the credit institution had recovered by the day it was declared insolvent or the day the court reached a decision on commencing liquidation;

4) payables to creditors resulting from the credit institution's failure to effect the accepted customers' payment orders for transferring funds to the state and local government budgets;

5) claims by the Latvian state for repayment of state guaranteed loans.

Article 193

Funds remaining after satisfying claims of creditors referred to in Article 192 hereof shall be distributed to meet claims of creditors ranked into groups as follows:

- 1) other valid claims by creditors (principal without interest), including claims of those creditors who have acquired creditor status after the instigation of insolvency proceedings or the court decision on liquidation of the credit institution, where in reference to this Law they are not treated as claims of creditors referred to in Article 192 hereof. Deferred tax payments after the repayment of claims referred to in Article 192 hereof, outstanding natural person deposits and payables in respect of salaries and other payments prescribed by the employment contract shall be treated as claims of this group. Where a creditor's deposit has been insured and the creditor has received insurance compensation, claims of the insurance company (fund) involved shall be treated as claims of this group;
- 2) claims in respect of interest payments to creditors;
- 3) claims by those creditors who have submitted their claims after the specified deadline;
- 4) claims in respect of funds lent to the credit institution by creditors for a specific period upon condition that their repayment may be required ahead of term only upon liquidation of the credit institution.

Article 194

Claims ranking in each subordinated category shall be met only after claims of the prior category have been met in full. Where the credit institution's funds are insufficient to meet all claims of one category, they shall be met in proportion to the amount payable to each creditor in that group.

Article 195

Funds remaining after repaying claims referred to in Articles 192 and 193 hereof shall be distributed to the credit institution's shareholders (members) in proportion to each investment.

SECTION XV *** RESPONSIBILITY**

Article 196 *****

Where deposits and other repayable funds have been accepted without a licence (permit) issued by the Financial and Capital Market Commission, the following measures shall be taken:

- 1) the Financial and Capital Market Commission shall impose a fine of up to 5 000 lats on a legal person;
- 2) administrative or criminal proceedings shall be instigated against a natural person.

Article 197

Administrative or criminal proceedings shall be instigated against a natural person who:

- 1) has deliberately rendered false or incomplete information or has concealed information required by the provisions of this Law;
- 2) has obstructed the activities of a person authorised by the Bank of Latvia and Financial and Capital Market Commission during inspections, has not submitted information within the specified term, or has rendered false or incomplete information, documents or explanations.

Article 198 *****

(1) If a credit institution does not fulfil the requirements of Article 8 of this Law the Finance and Capital Market Commission and the Bank of Latvia have the right to impose a fine up to 1,000 lats to a credit institution.

(2) If a credit institution does not fulfil the requirements of Articles 32, 90, 91, 95 and 96 or the fourth Part of Article 106 of this Law, the Finance and Capital Market Commission has the right to a fine up to 1,000 lats to a credit institution.

Article 199

Where other actions have resulted in violation of the provisions of this Law or the relevant regulatory requirements:

- 1) the Financial and Capital Market commission and the Bank of Latvia can impose fine up to 5,000 lats to a legal person; *****
- 2) administrative or criminal proceedings shall be instigated against a natural person.

Article 200

If the chairperson or members of the board or executive board, executive director or employees of the credit institution have deliberately granted priority to any creditor or agreed that such priority be granted, administrative or criminal proceedings shall be instigated against the party responsible.

Article 201 *****

Fines collected for violations under Articles 196, 198 and 199 hereof shall be transferred to the state budget.

Article 202

Persons who deliberately or out of negligence have brought a credit institution to an insolvency resolved through wrongful bankruptcy shall be subject to criminal prosecution.

Article 203

Where, in cases referred to in Article 138 and Paragraph 2 of Article 140 hereof, the chairperson or members of the board or executive board or the liquidators of the credit institution have not applied for its insolvency, they shall be subject to criminal prosecution for a failure to file an insolvency application in cases provided for by law.

Article 204

- (1) Where the application on insolvency is found to be deliberately false, the applicant shall cover court expenses and those related to the insolvency process.
- (2) An application shall be considered deliberately false where it contains deliberately false information or where information has not been disclosed and whereby the credit institution has been or may be declared insolvent.
- (3) A creditor's application on insolvency shall not be treated as deliberately false where the credit institution, while solvent, has failed to meet its liabilities.

Article 205

- (1) Where a debtor or a creditor has submitted a deliberately false insolvency application, the applicant shall be subject to criminal prosecution.
- (2) The person submitting a deliberately false insolvency application shall be held responsible for any detriment thereby caused to the credit institution.

Article 206

Criminal proceedings may be instigated against a creditor or another interested party in respect of the credit institution's insolvency process for a deliberate violation thereof in the form of non-disclosure or concealment of information required by the court or the administrator and provided for by law, submission of false information, avoidance of participation in the legal proceedings, unlawful disposal of property during the insolvency process, concealment, destruction or forgery of property, transactions or documents or other deliberate actions whereby the course of the insolvency process is hindered.

Article 207

Criminal proceedings may be instigated against an administrator where he/she has deliberately concealed information from the court, misled it or effected transactions not provided for by this Law for the benefit of one creditor or a group of creditors at other creditors' expense.

TRANSITIONAL PROVISIONS

1. With this Law taking effect, the Law "On Banks" (see the official journal *Latvijas Republikas Augstakas Padomes un Valdibas Zinotajs* No. 22/23, 44/45, 1992; the official journal *Latvijas Republikas Saeimas un Ministru Kabineta Zinotajs* No. 11, 1994), Regulation No. 212 "Provisions for Commercial Banks" (*Latvijas Vestnesis* No. 109, 1995) issued by the Cabinet of Ministers in accordance with the provisions of Article 81 of the Constitution, Regulation No. 213 "Provisions for Compensating Natural Person Deposits" (*Latvijas Vestnesis* No. 109, 1995) issued by the Cabinet of Ministers and Regulation No. 211 "Provisions for Rehabilitation and Bankruptcy Procedures of Commercial Banks" issued by the Cabinet of Ministers (*Latvijas Vestnesis* No. 109, 1995) shall become null and void.
2. Articles 42, 43 and 49 hereof shall take effect on January 1, 1996.
3. *** In applying the provisions of Paragraph 2 of Article 35 and Article 59:
 - 1) the registered banks shall take into account that the minimum founding capital of a bank shall be:
 - not less than 100 000 lats from the date this Law takes effect until March 31, 1996;
 - not less than 1 000 000 lats from April 1, 1996 until March 31, 1998;
 - not less than 2 000 000 lats from April 1, 1998 until December 31, 1999.
4. The provisions of Article 38 hereof shall not be applicable to the domestic debt recognised by Republic of Latvia Council of Ministers Resolution No. 411 of October 1, 1992 (the official journal *Latvijas Republikas Augstakas Padomes un Valdibas Zinotajs* No. 49/50, 1992) with this Resolution taking effect.
5. *** Registered banks shall meet the requirements of Article 21 hereof by December 31, 1999.
6. With this Law taking effect, pawnshops shall pursue their activity in accordance with the Law "On Joint-Stock Companies" and other laws, but their licences granted by the Bank of Latvia shall be null and void and shall be returned to the Bank of Latvia by December 1, 1995.
7. Payments of compensation to natural persons whose deposits have been placed with a commercial bank that has gone bankrupt or has been recognised as insolvent prior to this Law

taking effect shall be continued in accordance with the procedure set out by the Cabinet of Ministers.

8. Pursuant to Article 7 of the Transitional Provisions hereof, the right to a claim, in the amount of compensation guaranteed by the state, on a commercial bank that has gone bankrupt or has been recognised as insolvent shall be assigned from the depositor, a natural person, to the Ministry of Finance.

On behalf of the President of the State, Chairman of the Saeima A. Gorbunovs.

TRANSITIONAL PROVISIONS OF THE LAW "ON AMENDMENTS TO THE LAW 'ON CREDIT INSTITUTIONS' "; *****

1. The Cabinet of Ministers shall develop and issue provisions governing the civil liability insurance for the administrator's activity referred to in Article 155 hereof.

2. The provisions of the Law "On Credit Institutions" pertaining to the administrator's warranty in cases where his/her actions cause detriment to creditors or other parties (the civil liability insurance of the administrator's activity) shall not be applicable before Cabinet of Ministers provisions for the civil liability insurance for the administrator's activity have taken effect.

3. Insolvency (bankruptcy) or liquidation processes initiated prior to this Law taking effect shall be conducted in accordance with the procedure hitherto set out in Section IX "Liquidation and Bankruptcy of a Credit Institution" of the Law "On Credit Institutions", except for cases to which the provisions of Articles 4 and 5 of the Transitional Provisions apply.

4. The provisions of Article 164 hereof shall also apply to those liquidators (administrators) who performed the functions of liquidator (administrator) prior to, or are performing them at the time of this Law taking effect.

5. The provisions of Articles 135 and 166 hereof shall also apply to those liquidators (administrators) who are carrying out the functions of liquidator (administrator) at the time the present Law takes effect; remuneration they have received for their prior activity, however, shall not be re-calculated.

The Law "Amendments to the Law 'On Credit Institutions' ", adopted on May 21, 1998 shall take effect simultaneously with corresponding amendments to the Latvian Lawsuit Code (July 21, 1998). The amendments to Article 2, Paragraphs 2, 3 and 4 of Article 60, Subparagraph 5 of Paragraph 1 of Article 63 and to Article 74 of the Law "On Credit Institutions" shall take effect on June 1, 1998. The amendments to Subparagraphs d) and e) of Paragraph 7 of Article 1, Subparagraph b) of Paragraph 19 of Article 1, Articles 43, 44, and 45, Subparagraph 2 of Paragraph 2 of Article 47, and Article 50¹ shall take effect on January 1, 1999.

TRANSITIONAL PROVISIONS OF THE LAW "ON AMENDMENTS TO THE LAW 'ON CREDIT INSTITUTIONS' "; *****

The Law "Amendments to the Law 'On Credit Institutions' ", adopted on June 1, 2000 shall take effect on July 1, 2001.