

The *Saeima*¹ has adopted and the President has proclaimed the following law:

Law on Development Finance Institution

Chapter I General Provisions

Section 1. Purpose of this Law

(1) The purpose of this Law is to ensure effective operation of the Development Finance Institution (hereinafter – the Finance Institution) in implementing aid and development programmes and also ensuring the performance of other delegated public administration tasks that are specified in laws and regulations, implementing the State policy in the field of national economy.

(2) Within the meaning of this Law, aid and development programme is a programme that is fully or partially implemented in the form of financial instruments or grants and is financed according to the provisions laid down in Section 13 of this Law (hereinafter – the programme). Financial instruments are loans, guarantees, export credits, export credit guarantees and financing of export insurance, holding in the capital of commercial companies, investments in funds, including in alternative investment funds and also other financial instruments specified in laws and regulations.

Section 2. Scope of Application of the Law

(1) This Law prescribes the organisational structure, administration and financial management of the Finance Institution, the procedures for the development, approval, implementation and monitoring of programmes thereof and also activities in the performance of other delegated public administration tasks specified in laws and regulations.

(2) The Finance Institution shall implement programmes in the following fields and for the following purposes:

- 1) development of small and medium-sized economic operators and also commencement of commercial activities;
- 2) micro-crediting;
- 3) construction, reconstruction and renovation of residential properties;
- 4) development of State and local government infrastructure;
- 5) environmental protection;
- 6) development of business infrastructure;
- 7) technological development and innovation;
- 8) formation of venture capital;
- 9) development of agriculture, processing of agricultural products, rural areas, fishery and forestry;
- 10) promotion of the employment of socially sensitive population groups and implementation of other social aid programmes;
- 11) promotion of co-operation;
- 12) aid to region requiring special support;
- 13) promotion of export;
- 14) implementation and co-funding of the European Union programmes and projects;

¹ The Parliament of the Republic of Latvia

15) implementation and co-funding of the programmes and projects of international finance institutions and also in other fields of aid specified in laws and regulations and for other purposes specified in laws and regulations.

Section 3. Legal Status and the Holder of Stocks of the Finance Institution

- (1) The Finance Institution is a capital company where all voting stocks belong to the State.
- (2) The Ministry of Finance holds 40 per cent, the Ministry of Economics – 30 per cent and the Ministry of Agriculture – 30 per cent of the stocks of the Finance Institution.

Section 4. Legal Framework for the Activity of the Finance Institution

- (1) The Law on Governance of Capital Shares of a Public Person and Capital Companies and also the Commercial Law shall be applied in matters not regulated by this Law.
- (2) The Law on Control of Aid for Commercial Activity shall also be applied to the aid programmes implemented by the Finance Institution which are perceived as an aid for commercial activity within the meaning of the Law on Control of Aid for Commercial Activity.
- (3) The articles of association of the Finance Institution shall be approved by the Cabinet.
- (4) The stocks of the Finance Institution may not be pledged or encumbered otherwise.

Chapter II

Organisational Structure of the Finance Institution

Section 5. Meeting of Stockholders

- (1) The meeting of stockholders has a quorum if all representatives of the holders of stocks are participating therein. One stock represents one vote.
- (2) In addition to the information provided in the Law on Governance of Capital Shares of a Public Person and Capital Companies, the meeting of stockholders shall decide on the following:
 - 1) the amount of reserve capital and policy for the establishment of provisions;
 - 2) the approval of the operational plan and budget;
 - 3) the appointment and dismissal of the head of the internal audit service;
 - 4) the determination of remuneration for the auditor and the head of the internal audit service;
 - 5) the approval of such transaction which is concluded by the Finance Institution with the head of the internal audit service;
 - 6) the approval of the operational plan, estimate of expenditure and list of personnel of the internal audit service;
 - 7) the approval of an internal control system;
 - 8) the coverage of losses from the funds of reserve capital in cases where the Finance Institution has incurred losses.
- (3) In the cases referred to in Paragraph two, Clause 8 of this Section, the meeting of stockholders shall be convened in accordance with the procedures laid down in the Commercial Law.
- (4) The meeting of stockholders shall be chaired by the representative of the holder of stocks – the Ministry of Finance.
- (5) Minutes of the meeting of stockholders shall be signed by all representatives of the holders of stocks who have participated in the meeting of stockholders and by the rapporteur of the meeting of stockholders.

Section 6. Composition and Period of Operation of the Council

- (1) The Finance Institution shall establish a council composed of three members. Each holder of stocks has the right to nominate one candidate for the position of a council member.
- (2) Chairperson of the council shall be a member of the council nominated by the Ministry of Finance.
- (3) The term of office for the members of the council shall be three years.

Section 7. Requirements for the Members of the Council and the Board

The members of the council and of the board of the Finance Institution shall be subject to the same requirements as are provided in the Credit Institution Law for the members of the council and of the board of a credit institution.

Section 8. Tasks of the Council

In addition to the provisions laid down in the Law on Governance of Capital Shares of a Public Person and Capital Companies, the council shall have the following tasks:

- 1) to ensure the development and approval of the operational plan of the Finance Institution and to supervise its implementation;
- 2) to constantly supervise the operation of the internal control system of the Finance Institution;
- 3) to assess and coordinate or reject the acquisition, alienation and encumbering with property rights of an immovable property if transactions with this property include recovery;
- 4) to perform the activities referred to in Section 14, Paragraph four of this Law for the management of the financial resources and risks of the Finance Institution.

Section 9. Council Meeting and Procedures for Convening the Meeting

- (1) In addition to that provided for in the Law on Governance of Capital Shares of a Public Person and Capital Companies and the Commercial Law, the representative of the holders of stocks shall have the right to convene council meetings, indicating the necessity and purpose for the convening of the meeting.
- (2) If the council does not have the quorum, the meeting of stockholders is entitled to examine the matters to be discussed at the council meeting.

Section 10. Composition and Period of Operation of the Board

- (1) The board may not have more than five members.
- (2) A member of the board shall be elected for three years.
- (3) Members of the board represent the Finance Institution jointly.
- (4) The council shall appoint the chairperson of the board from among the members of the board.

Section 11. Consent of a Meeting of Stockholders to the Actions of the Board

The board requires a prior consent of the meeting of stockholders to obtain or terminate, increase or decrease holding or decisive influence in another capital company, to acquire or alienate an enterprise and also to make investments in funds, including in alternative investment funds. The activities referred to in the first sentence of this Section shall be implemented within the scope of programmes or delegated public administration tasks.

Chapter III

Operation of the Finance Institution

Section 12. Development, Approval, Implementation and Monitoring of Programmes

- (1) The sectoral ministry or the authority specified in laws and regulations shall ensure the development of programmes and monitoring of their implementation. A ministry or the authority specified in laws and regulations shall develop programmes in order to eliminate the identified market failures.
- (2) The Cabinet shall establish the advisory council (hereinafter – the advisory council) of the Finance Institution for the development of programmes and monitoring of their implementation and shall determine the agenda of the advisory council, the activities to be performed for ensuring the development of programmes and monitoring of their implementation and also the authorities represented in the advisory council. Representatives of associations, foundations and organisations of economic operators are entitled to participate in the advisory council as advisors.
- (3) Before the approval of a programme by the Cabinet, the Finance Institution shall assess the impact, risks and expected losses, financial results and implementation costs of the programme.
- (4) The Cabinet shall approve programmes and determine procedures for their implementation, funding, activity to be supported and conditions for the eligibility of costs, including funding for the coverage of the expenditures of the Finance Institution.
- (5) The Finance Institution shall implement the approved programmes in the fields specified in Section 2, Paragraph two of this Law, including the provision of consultations for the implementation of the approved programmes and provision of effective communication and informative measures to the corresponding target groups.
- (6) The Finance Institution is entitled to attract other legal subjects to co-operate in the implementation of the approved programmes if the conditions of programmes so provide.
- (7) The Finance Institution shall develop proposals for the development and improvement of programmes.
- (8) In accordance with the procedures laid down in laws and regulations, the Finance Institution is entitled to participate in the programmes financed by the European Union authorities and the programmes financed within the framework of other foreign financial aid.

Chapter IV

Financial Management

Section 13. Financing of the Approved Programmes and the Delegated Public Administration Tasks

- (1) The implementation of the approved programmes and the delegated public administration tasks shall be financed from the State budget funds, including State-loans, the resources of the European Union funds and other foreign financial aid, and also other sources of funding in accordance with the procedures laid down in laws and regulations.
- (2) To finance the approved programme, the Finance Institution is entitled to attract financial resources from the financial and capital markets and other sources.
- (3) To finance the approved programme, the Finance Institution is entitled to use its own funds.
- (4) Implementation costs of the approved programme may be covered from the revenue from the approved programmes, revenue from the management of the assets of the Finance Institution, from the State budget or the resources of the European Union funds and of other foreign financial aid in compliance with conditions of the approved programme.

Section 14. Management of Financial Resources and Risk Management

- (1) The Finance Institution shall manage financial resources in accordance with a resource management strategy and a risk management policy.
- (2) The Finance Institution shall assess the quality of its assets and issued guarantees and establish provisions according to the International Financial Reporting Standards, the introduction of which is prescribed in Regulation (EC) No 1606/2002 of the European Parliament and the Council of 19 July 2002 on the application of international accounting standards.
- (3) The Finance Institution shall place its free assets in financial instruments according to the resource management strategy and risk management policy.
- (4) In order to ensure appropriate financial resource management and risk management, the council of the Finance Institution shall:
 - 1) ensure the development and approval of a risk management policy and shall monitor its implementation;
 - 2) approve the risk management methods;
 - 3) monitor the operation of a credit portfolio and other credit risk assets and also the operation of a quality management system for the issued guarantees;
 - 4) approve the methodology for the establishment of provisions;
 - 5) approve the procedures and methodology for risk assessment.
- (5) The funds of the Finance Institution deposited in a credit institution shall be considered as the property held by a credit institution and belonging to a third party.

Section 15. Reserve Capital

- (1) The Finance Institution shall build a reserve capital to ensure financial stability and sustainable operation and also to reduce the impact of risks of the approved programmes.
- (2) The reserve capital shall include:
 - 1) part of the amount (full or partial) of the expected losses of the public funding received within the scope of the programme which has been determined, taking into account the risk management policy (hereinafter – the expected losses);
 - 2) eligible expenses of the approved programmes reflected in the liabilities of the Finance Institution;
 - 3) the provisions referred to in Paragraph three, Clause 1 of this Section and reversed for the financial reporting year;
 - 4) the reduction referred to in Paragraph three, Clause 2 of this Section if it is being allocated for mitigating the impact of the risks of another aid programme according to the conditions of the approved programme;
 - 5) profit of the Finance Institution.
- (3) Reserve capital shall be reduced by:
 - 1) the provisions established in the financial reporting year for a credit portfolio, assets of other credit risks or the issued guarantees if the risk coverage for the public funding of the programme has been completely or partially determined according to the conditions of the approved programme, taking into account the methodology of the Finance Institution for the establishment of provisions;
 - 2) excess of the expected losses over actual losses from the established provisions and written-off credit portfolio or from assets of other credit risks, or the guarantee compensations paid after implementation of the approved programme;
 - 3) the remaining part of the reserve capital attributed to cover the expected losses of the approved programme if the implementation of the approved programme is suspended;
 - 4) the amount of increase in the equity capital of the Finance Institution which has been allocated from the reserve capital.

(4) Within the meaning of this Law, public funding is the funding from the State budget, European Union funds, or other foreign financial aid which is provided for the implementation of the approved programme.

Section 16. Profit and Payment for the Use of the State Capital

The profit of the Finance Institution shall be used in accordance with Section 15, Paragraph two of this Law. The Finance Institution shall not make any payments for the use of the State capital.

Section 17. Liability for the Guarantees Issued

(1) The State shall be liable for the guarantees issued by the Finance Institution in the amount specified in the law on the State budget for the current year.

(2) The Cabinet shall determine the procedures by which the State commitments for the guarantees issued by the Finance Institution and also the scope of the commitments and granting criteria shall be provided when developing a draft law on the State budget for the current year.

Section 18. Preparation of the Annual Financial Statement

(1) The Finance Institution shall prepare the annual financial statement according to the requirements of the International Financial Reporting Standards, the introduction of which is prescribed in Regulation (EC) No 1606/2002 of the European Parliament and the Council of 19 July 2002 on the application of international accounting standards.

(2) Within a month after approval of the annual financial statement, the Finance Institution shall publish on its website the annual financial statement approved at the meeting of stockholders or an abridged annual financial statement.

Transitional Provision

The Cabinet shall issue the regulations referred to in Section 12, Paragraph two and Section 17, Paragraph two of this Law by 1 October 2015.

The Law shall come into force on 1 March 2015.

The Law has been adopted by the *Saeima* on 30 October 2014.

President

A. Bērziņš

Riga, 15 November 2014