


LATVIJAS BANKA
EIROSISTĒMA

Latvijas Banka: Annual Report 2022



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Another year has come and gone, bringing with it a series of changes and challenges. It is now the third year in a row that our lives have been marked by upheaval rather than stability. Throughout 2020 and 2021, the world battled a pandemic, and 24 February 2022 brought more tragic news – Russia launched an attack on Ukraine, sparking a bloody and senseless war. It has taken a heavy toll on the global economy, but no economic damage can compare to the lives lost and the suffering caused to people.

The war started by Russia directly affected global resource prices. Even before the outbreak of hostilities, inflation was on the rise due to the pandemic's impact on supply chains and the recovery in demand. However, the war in Ukraine pushed inflation to unprecedented heights. The euro area saw its highest inflation levels in the history of the single currency.

Fighting inflation and preventing it from taking root became a primary concern for the world's leading central banks, including the Eurosystem, of which Latvia is a member. Having sharply raised interest rates, we expect inflation to ease substantially this year and gradually return to the euro area's medium-term inflation target of 2% over 2024. However, these necessary measures have caused the cost of money to rise, leading to higher payments for borrowers and an increase in the cost of servicing government debt. Borrowing has become more expensive, forcing governments that actively supported people and businesses during the pandemic to reassess their economic policies.

Alongside day-to-day work, 2022 was marked by a significant project and a crucial event for Latvijas Banka – the final preparations were completed to integrate the FCMC into Latvijas Banka. As of 2023, the project has come to fruition and we are now operating as a single institution with an even stronger team of professionals.

The main event of 2022, however, was Latvijas Banka's 100th anniversary. This remarkable milestone was celebrated with a range of activities, including a scientific publication on the first 18 years of the central bank's history, a coin art exhibition at the Latvian National Museum of Art, a travelling history exhibition

in Latvian cities where Latvijas Banka had branches during the interwar period, and a world-class economic conference, among a slew of other activities.

As an institution, we face numerous challenges in 2023 – both domestically and internationally. One of our top priorities is facilitating the necessary impetus for Latvia's economic growth. We plan to work on multiple fronts, including addressing weak lending practices, setting and implementing ambitious capital market development targets, as well as developing modern services and opportunities that will help the Latvian economy perform better.

This year, too, there will be obstacles to overcome and hurdles to face. But I am ready to forge ahead with optimism and determination, knowing that we at Latvijas Banka have the strength and expertise to navigate any challenges that may arise, thanks to an unshakeable foundation of skilled, ambitious, and motivated professionals.

We all have achieved so much. But we cannot stop there. I wish us all to continue growing and always be thinking about the next step!



Mārtiņš Kazāks

Governor of Latvijas Banka
Riga, 5 April 2023

Latvijas Banka – 100



A country cannot be imagined without a central bank that takes care of monetary policy. In Latvia, we celebrated the 100th anniversary of the central bank in 2022. Latvijas Banka was established and became operational on 1 November 1922. It carried the idea of an economically strong and independent country through the periods of freedom and occupation.

The year 2022 brought upheavals and tragedies to the world. Therefore, we can appreciate even more how thoughtfully and far-sighted Latvia followed its path after regaining independence, joining and fully integrating into the family of European countries. Now our folk maiden decorates euro coins and tells other euro area countries about Latvia.

Simultaneously with the founding of the state of Latvia, the need for its own money and central bank arose. At that time – at the beginning of the 20th century, after World War I and the years of the Independence War – it was a very difficult task. The war had destroyed the country, we were poor and a large part of the population had emigrated. However, there were people who believed and did their job, and Latvijas Banka and Latvian money were created. Even today, Latvijas Banka continues its mission – to ensure that our money is safe and reliable.

At the time of the establishment of Latvijas Banka, there was a clear idea – the national bank, in carrying out its tasks, should only be guided by the interests of the national economy. This principle was followed for 18 years until the occupation of Latvia; it was used as a basis for the operation of the central bank even after regaining independence in the 1990s, and it is still respected today.

It was already in the 1920s and 1930s that Latvijas Banka actively participated in public work, contributing to economic science and statistics. Our competence is also an important resource for the state of Latvia today to make forward-looking economic development decisions. We will continue to strengthen our research and analysis capacity. Moreover, as of 2023, Latvijas Banka is also entrusted with the functions of supervision and financial and capital market development.

We not only received congratulations on the occasion of Latvijas Banka's centenary but also held events, giving society knowledge, historical evidence, cultural values, the joy of celebration and discovery. An exhibition of coin art brought together spectators at the Latvian National Museum of Art, a scientific publication on the central bank's activities in 1922–1940 was published electronically and an exhibition of historical materials toured the cities of Latvia where branches of Latvijas Banka were located in the interwar period.

The culmination of the anniversary celebrations was the exhibition of Latvian coin art "Our Values", organised by Latvijas Banka together with the Latvian National Museum of Art. The exhibition was based on the idea that money can serve as an important symbol of Latvia's image and national values.

The unique, miniature art objects tell a story about significant events and outstanding personalities of Latvia, creating a long-term connection between the past, present and future. The exhibition attracted almost 73 thousand visitors, becoming the third most visited exhibition of the Latvian National Museum of Art over the last 30 years. Historian Dr. Ineta Lipša has made a significant contribution to the exploration of Latvijas Banka's operation which resulted in a study "History of Latvijas Banka 1922-1940: Scientific publication dedicated to the 100th anniversary of Latvijas Banka" (scientific editor – Dr. habil. hist. Aivars Stranga). The study reveals the work of Latvijas Banka, its managers, employees and state public figures in decision-making processes and in the interaction of institutions – from the founding of the central bank in 1922 until its liquidation in 1940. It allows the reader to understand the story of the central bank in a broader time context and provides a factual basis for arriving at a conclusion as to how our understanding of the role of the central bank has evolved.

The sources analysed in the book about the interwar history of Latvijas Banka were also used in creating the travelling exhibition "From Ventspils to Valka. Latvijas Banka in Regions (1922-1940)". The purpose of the exhibition was to give an idea of the history of Latvijas Banka and to help understand how its tasks and role played during the Latvian statehood have changed over time. One of the cornerstones of the exhibition was personalities who played an important part in the operation of Latvijas Banka between 1922 and 1940. From 14 May 2022 to 15 January 2023, the exhibition was on display in 10 cities – Riga, Ventspils, Kuldīga, Jelgava, Cēsis, Madona, Jēkabpils, Daugavpils, Rēzekne and Valka.

The buildings of Latvijas Banka in Riga opened their doors to visitors, organising architectural and historical tours "Two Buildings" and a visitor's day "Open the vault!" During these events, more than 1500 people visited the historical buildings of Latvijas Banka.

To raise public awareness of economic issues and promote discussions, in 2022 Latvijas Banka held its economic conference "Sustainability and Money: Shaping the Economy of the Future" in the atmosphere of the centenary and invited recognised world leaders: ECB President Christine Lagarde, Executive Vice-President of the European Commission Valdis Dombrovskis,

Member of the ECB's Governing Council and Governor of Banque de France François Villeroy de Galhau, the ECB's Executive Board Member Frank Elderson, Governor of Sveriges Riksbank Stefan Ingves, etc.

As part of the LAMPA Conversation Festival, Latvijas Banka participated in a special two-day programme, stimulating the exchange of ideas and questions about the future of society, the economy and money. Public good, sustainability, financial literacy, new forms of money, investments, money security and various economic issues were discussed and debated together with partners.

100 years is not a long period in the history of a country and its central bank, but it is a significant milestone on the way towards future challenges and development.



Leading cash processing centre in the Baltics

Processed
126.3 million banknotes

3% more than in 2021

30% more than 

700% more than 



Cash availability

897* ATMs

* nearly as many as a year ago

 84%* – level of public satisfaction with the availability of cash

* SIA Latvijas Fakti survey, August 2022

 Automation in cash processing



Modern payments

Value of instant payments made within the year


↑ 2.6 × to €16.2 billion

Overall, 2 million customer non-cash payments worth 710 million euro were made per day in Latvia



Data management, analysis, research

> 60 working papers and publications

 Real-time data on card payments have been introduced


 Range of models has been supplemented to assess the economic effects of the green transformation



Integration of Latvijas Banka and the FCMC

Synergy of competences and economy of resources

 More capacity, more ambition

 Total number of employees decreased from **659*** to **539**

* Before integration, at the end of 2019




Assets

Reached
€25.8 billion (+ 676 million)

 Latvia's securities purchased for monetary policy purposes
€4.2 billion (+ 659 million)



Support to Ukraine

 **Exchange of hryvni for refugees** using the official exchange rate – approximately 3 million hryvni

 **Coins for fundraising** – in 2022 a collector coin, in 2023 a €2 commemorative coin

 Staff volunteering and employment of Ukrainian interns



Sustainability in the field of investments

 **Reducing CO₂ footprint in the investment portfolio**
-47%

Management and organisation



Values and strategy

In 2022, we celebrated the 100th anniversary of Latvijas Banka, assessing the past performance and defining future opportunities, tasks and challenges. The century-long experience has enabled Latvijas Banka to become an independent, competent and strong financial institution with a vision for sustainable national development.

The world is changing rapidly, but the main task of Latvijas Banka remains unchanged – to enhance stability, reliability and sustainability of the national financial system for the common public good. The integration of the FCMC and Latvijas Banka implemented in 2022 also helps to achieve this goal.

The combining of knowledge and skills of the staff of Latvijas Banka and the FCMC, as well as other resources, provides an opportunity to foster stability and development of the financial sector more efficiently.

The strategic development directions and organisational values of Latvijas Banka are formulated in the “road map” created jointly by employees of Latvijas Banka and the FCMC. This vision is based on the strengths of both organisations, as well as on determination to influence the financial processes that are important for the state and each member of society individually: in the conditions of today’s economic turbulence, to be a safe bridge over troubled waters – a guarantor of balanced and forward-looking monetary policy decisions, increased competitiveness of Latvia and improved financial literacy of its population.

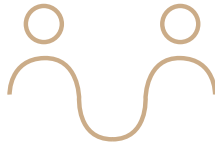
The mission of Latvijas Banka is to work for the benefit of Latvia. The vision of Latvijas Banka is a sound financial system, a developed country and a prosperous nation.

Our values



BRAVE IN THE FACE OF CHALLENGES

We are flexible in changes and implement them in a purposeful and targeted manner. We encourage each other and people around us to be brave, accept challenges and look for new solutions.



UNITED IN HUMANITY

We are well aware of the power of teamwork, and we achieve the best results through cooperation. Our team is united by humanity. We have a high sense of responsibility and we live up to our promises.



POWERFUL IN DEVELOPMENT

We improve ourselves and inspire others to do the same, so that we can collectively contribute to Latvia's development.

Directions of strategic development for 2023-2026



SECURE AND DEVELOPED FINANCIAL SECTOR

A favourable environment enabling the provision of financial services, the introduction of new products and quality operation of financial market participants

Proportionate regulation and effective supervision of the financial sector

Positive cooperation with decision-makers to develop a well-considered financial sector policy



SOUND ECONOMIC DECISIONS AT BOTH NATIONAL AND INDIVIDUAL LEVELS

Analysis and update of priority topics relevant to society

Improvement of the bank's analytical and research competence both in Latvia and internationally

Improving financial literacy and economic knowledge of the population and businesses



SUSTAINABILITY OF THE FINANCIAL SYSTEM AND THE ECONOMY

Implementation of sustainability principles in the financial sector and the economy

Building of a regulatory environment supporting sustainability

Sustainable behaviour in the bank's day-to-day work



EFFECTIVE AND INNOVATIVE CENTRAL BANK

Skilful data management, extracting a maximum value

Increasing efficiency through technologies

Development of innovation culture



MEANINGFUL CAREER OPPORTUNITIES FOR PROFESSIONALS

An inclusive and flexible work environment promoting employee well-being

Development of employee competencies and talents

Work in accordance with the organisational values



Organisational management

The management structure of Latvijas Banka includes the Council of Latvijas Banka, which is a collegial decision-making body that manages Latvijas Banka, departments that are responsible for the execution of specific functions and processes and the achievement of their results, as well as committees and commissions.

The Council of Latvijas Banka is the main decision-making body of Latvijas Banka. The term of office of the Governor, the Deputy Governor and other members of the Council of Latvijas Banka is five years. Arvils Sautiņš and Aivars Skopiņš were members of the Council of Latvijas Banka until 1 July 2022 (the end of their term of office). On 9 June 2022, the Saeima of the Republic of Latvia approved the appointment of Ilze Posuma as a member of the Council of Latvijas Banka as of 2 July 2022.

The composition of the Council of Latvijas Banka, as at the end of 2022, was as follows:

- Governor Mārtiņš Kazāks;
- Deputy Governor Māris Kālis;
- Other members of the Council: Ilze Posuma,
Andris Vilks,
Zita Zariņa.

In 2022, several committees, commissions and working groups approved by the Council of Latvijas Banka, as well as the Commission for the FCMC Integration into Latvijas Banka (integration commission) continued their work, ensuring the high-quality performance of the tasks of Latvijas Banka. While strengthening the governance model of Latvijas Banka and preparing for the introduction of the governance system provided for in the new Law on Latvijas Banka, the Council of Latvijas Banka established a new audit committee on 31 January 2022, which oversees the preparation of Latvijas Banka's financial statements, the operation of the internal control system, as well as operation of the internal audit and external auditors.

Two out of three members of the committee are independent professionals selected through a competition and are neither the officials nor employees of Latvijas Banka.

On 23 September 2021, the Saeima of the Republic of Latvia adopted the Law on Latvijas Banka, the development of which was started in 2020 and which is in force since 1 January 2023. A new central bank law was necessary for two main reasons – to ensure a modern and homogeneous legal framework for Latvijas Banka's operation and to implement the integration of the FCMC's functions into Latvijas Banka, supplementing the tasks of Latvijas Banka with regulating and monitoring the activity of the financial market and its participants, performing the tasks of the resolution authority and the operation of compensation disbursement schemes and ensuring the disbursement of compensation to investors.

Integration of the Financial and Capital Market Commission into Latvijas Banka

In 2022, work on the integration of the FCMC into Latvijas Banka continued in accordance with the new Law on Latvijas Banka adopted by the Saeima of the Republic of Latvia on 23 September 2021 and amendments to the Law "On Latvijas Banka", as well as according to the integration plan approved by the Council of Latvijas Banka and the framework of the integration project approved by the FCMC. In compliance with the decision taken by the Saeima of the Republic of Latvia on 23 September 2021, Latvijas Banka took over all the functions of the financial and capital market supervision and development and resolution institution, as well as the provision of compensation disbursement schemes on 1 January 2023.

Already on 1 January 2022, Latvijas Banka took over the function of promoting the financial and economic literacy of the general public from the FCMC, thus facilitating a smoother takeover of the FCMC's functions, inter alia, by integrating the content of financial literacy and the related IT resources into Latvijas Banka, as well as avoiding duplication of functions. At the beginning of 2022, pursuant to the transitional provisions of the Law on Latvijas Banka, i.e. that all FCMC employees performing the core functions are transferred to Latvijas Banka, a list of FCMC employees who will continue their career at Latvijas Banka in 2023 was developed and approved. In the first half of 2022, particular attention was paid to the formulation of a new organisational strategy and values, designing of the governance framework, as well as review and refinement of all support functions.

SANTA PURGAILE

Deputy Governor of
Latvijas Banka



On 1 January 2023, a new stage in the supervision of the Latvian financial sector began, as integration provides opportunities to ensure the supervision and development of the financial sector by combining knowledge and competences, infrastructure improvements and capacity, jointly defining and implementing the strategic priorities of Latvijas Banka. We will continue acting as a supervisor which, by engaging in an open dialogue with the financial sector, is able to find new solutions to ensure the sector's improvement and further development.

In the second half of 2022, the work in the integration process was focused on the development of the processes necessary to perform the new core functions of Latvijas Banka and the development of the regulatory framework, as well as the training and integration of employees, including the conclusion of employment contracts with those FCMC employees who continue their career with Latvijas Banka.

In 2022, substantial preparations were made to ensure that from 1 January 2023, the decision-making process corresponds with the new Law on Latvijas Banka. Taking into account the fact that the Law on Latvijas Banka stipulates that as of 1 January 2023, the Council of Latvijas Banka consists of the Governor of Latvijas Banka, two Deputy Governors and four members of the Council, the Saeima of the Republic of Latvia on 9 June 2022 approved Santa Purgaile as the Deputy Governor of Latvijas Banka and Kristīne Černaja-Mežmale as a member of the Council of Latvijas Banka as of 1 January 2023, and their area of responsibility is supervision.

As required by the Law on Latvijas Banka, two new committees were established – the Supervision Committee of Latvijas Banka and the Resolution Committee of Latvijas Banka, which started their work on 1 January 2023. The Supervision Committee of Latvijas Banka makes decisions in the field of supervision of the financial market and its participants, the Resolution Committee of Latvijas Banka – the decisions required for the application of resolution and the implementation of the compensation disbursement schemes.

In order to promote the involvement of the financial market participants supervised by Latvijas Banka in the area of the regulation and supervision of the financial market and its participants, the application of resolution and the implementation of compensation disbursement schemes, a consultative body – the Consultative Financial Market Council (operating since 1 January 2023) – has been established pursuant to the Law on Latvijas Banka that consists of the delegated representatives of all associations of financial market participants supervised by Latvijas Banka and three representatives of Latvijas Banka.

In the autumn of 2022, the development of the regulations of these newly created committees was completed, as well as the regulation of the Consultative Financial Market Council was amended, and on 14 November 2022, they were approved by the Council of Latvijas Banka.

The key benefits of the FCMC integration into Latvijas Banka include more efficient management and faster decision-making, improved systemic risk management in the financial sector, reduced administrative burden and more efficient use of resources. It will also enable more effective supervision and development of the financial sector, thus increasing the public good.



ILZE POSUMA

Member of the Council of Latvijas Banka, Head of the integration project

At the end of the year, particular attention was paid to the practical aspects of integration – solving the issues related to the work environment and fully integrating the record keeping processes.

Pursuant to the transitional provisions of the Law on Latvijas Banka and within the framework of the cooperation agreement, in 2022 Latvijas Banka continued to expand the provision of support function services to the FCMC, particularly in the field of information technologies.

Various stakeholders – financial market participants, the Saeima, the Chancery of the President, the Office of the Prime Minister and the Ministry of Finance – were regularly informed about the progress of the project. At the same time, up-to-date information about the progress of the project was also provided to employees of Latvijas Banka and the FCMC on a regular basis. The most important aspects of the integration of the FCMC into Latvijas Banka were explained to the general public via the mass media.

According to a survey conducted by the public opinion research company Latvijas Fakti in November 2022, 20% of respondents had heard about the integration of the FCMC into Latvijas Banka. 59% of those who had heard about the integration of the two institutions assessed it as a right step and only 9% believed the opposite; the rest of the respondents refrained from expressing their assessment. At the same time, 51% of all respondents thought that Latvijas Banka was already responsible for the supervision of commercial banks in Latvia in 2022 and only 31% of respondents named the FCMC as the responsible institution.

Chart 1. Have you heard that Latvijas Banka and the supervisory authority, the Financial and Capital Market Commission, will be merged into one institution – Latvijas Banka?

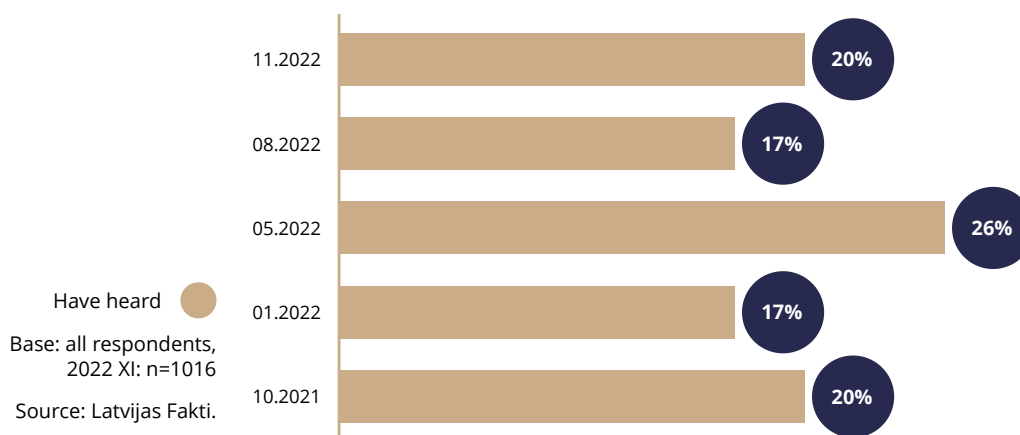
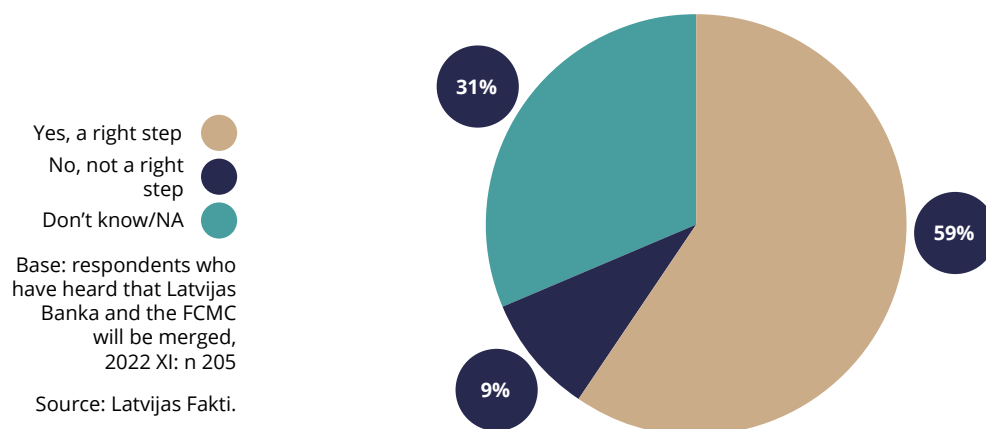


Chart 2. Overall, do you think that merging the Financial and Capital Market Commission and Latvijas Banka into one institution is a right step?



The integration project in 2022 was managed and implemented by Latvijas Banka and the FCMC, mainly using their own resources. External consultants were only engaged to a very limited extent in the process of investigating the organisational culture, as well as defining the strategy and values of the integrated institution.



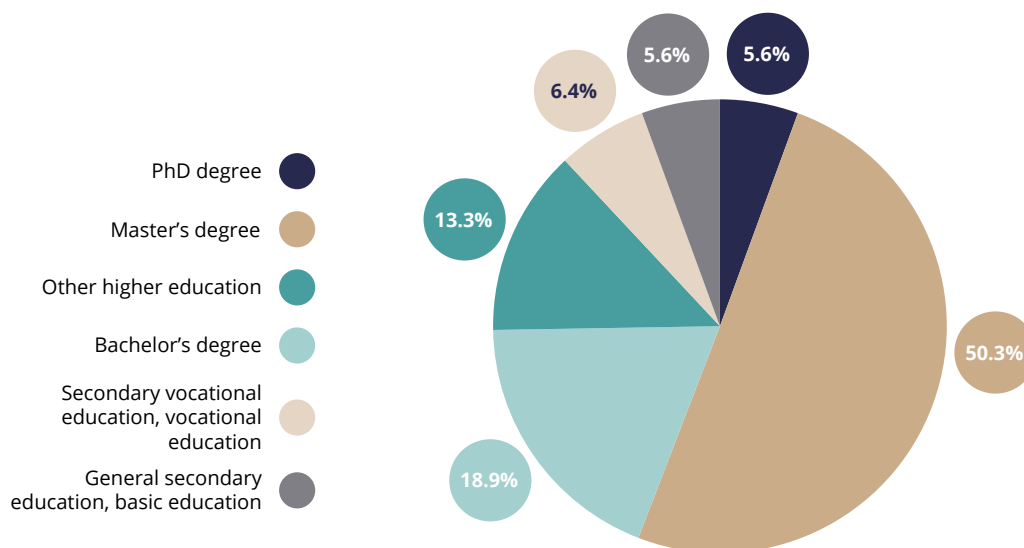
Human resources

At the end of 2022, 376 employees worked at Latvijas Banka, including 15 employees with a fixed-term employment contract (at the end of 2021 – 380 employees, 10 of whom had a fixed-term employment contract). At the end of 2022, 56% of Latvijas Banka's employees were men and 44% were women (at the end of 2021, 55% and 45% respectively), 62% of all managers were men and 38% were women (at the end of 2021 – 69% and 31% respectively). A Counsellor of Latvijas Banka worked at the Permanent Representation of the Republic of Latvia to the EU in 2022.

As in previous years, in order to promote the development and growth of personnel, Latvijas Banka provided training for employees to improve their professional knowledge. Latvijas Banka's staff training costs amounted to 1.2% of the total expenses on remuneration (0.8% in 2021).

At the end of 2022, 88% of employees of Latvijas Banka had higher education, including 5.6% of those holding a PhD degree (88% and 4.2% in 2021 respectively).

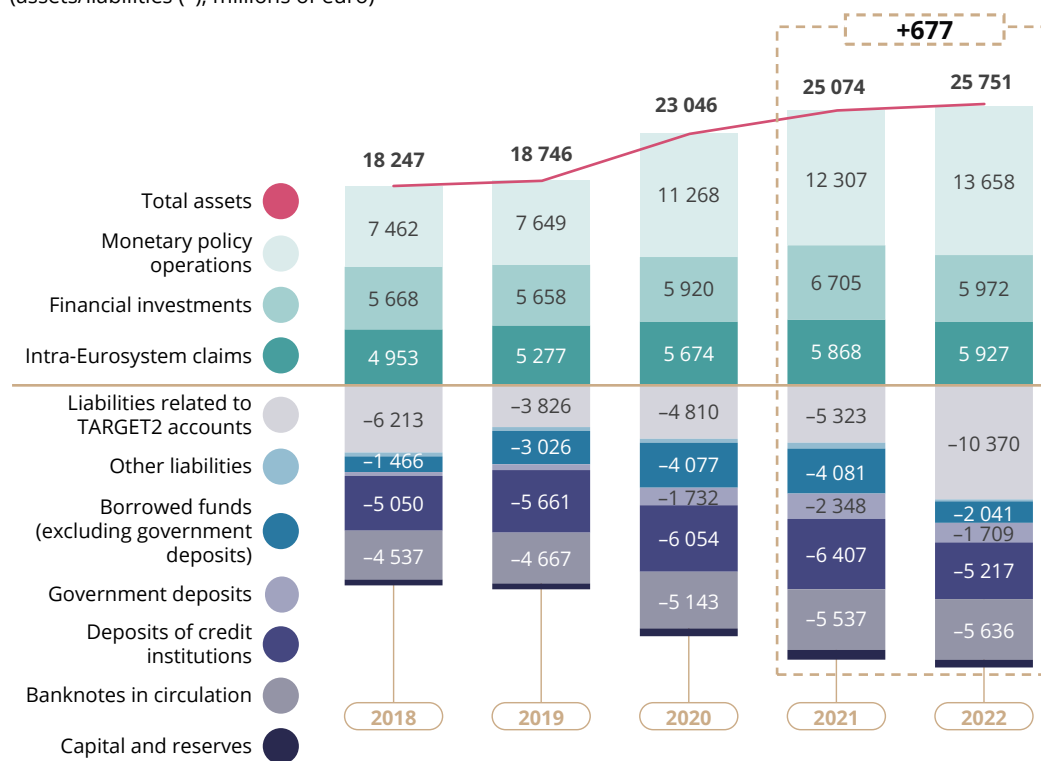
Chart 3. Education of Latvijas Banka's employees



Financial resources

Chart 4. Balance sheet of Latvijas Banka

(assets/liabilities (-); millions of euro)



The financial management system of Latvijas Banka has been developed to ensure support to decision-making, financial risk management and efficient use of financial resources. Major financial transactions of Latvijas Banka are related to the management of financial assets and the implementation of monetary policy.

Assets of Latvijas Banka increased by 677 million euro in 2022. The main changes in assets and liabilities were as follows:

- as a result of purchases under the PEPP and PSPP, assets of monetary policy operations increased by 1351 million euro;
- the decline in the market value of debt securities due to the significant increase in interest rates and the reduction in investment portfolios resulted in a decrease in investment assets by 733 million euro;
- as a result of cross-border payments, liabilities to the ECB for the settlement result in TARGET2 increased by 5047 million euro;

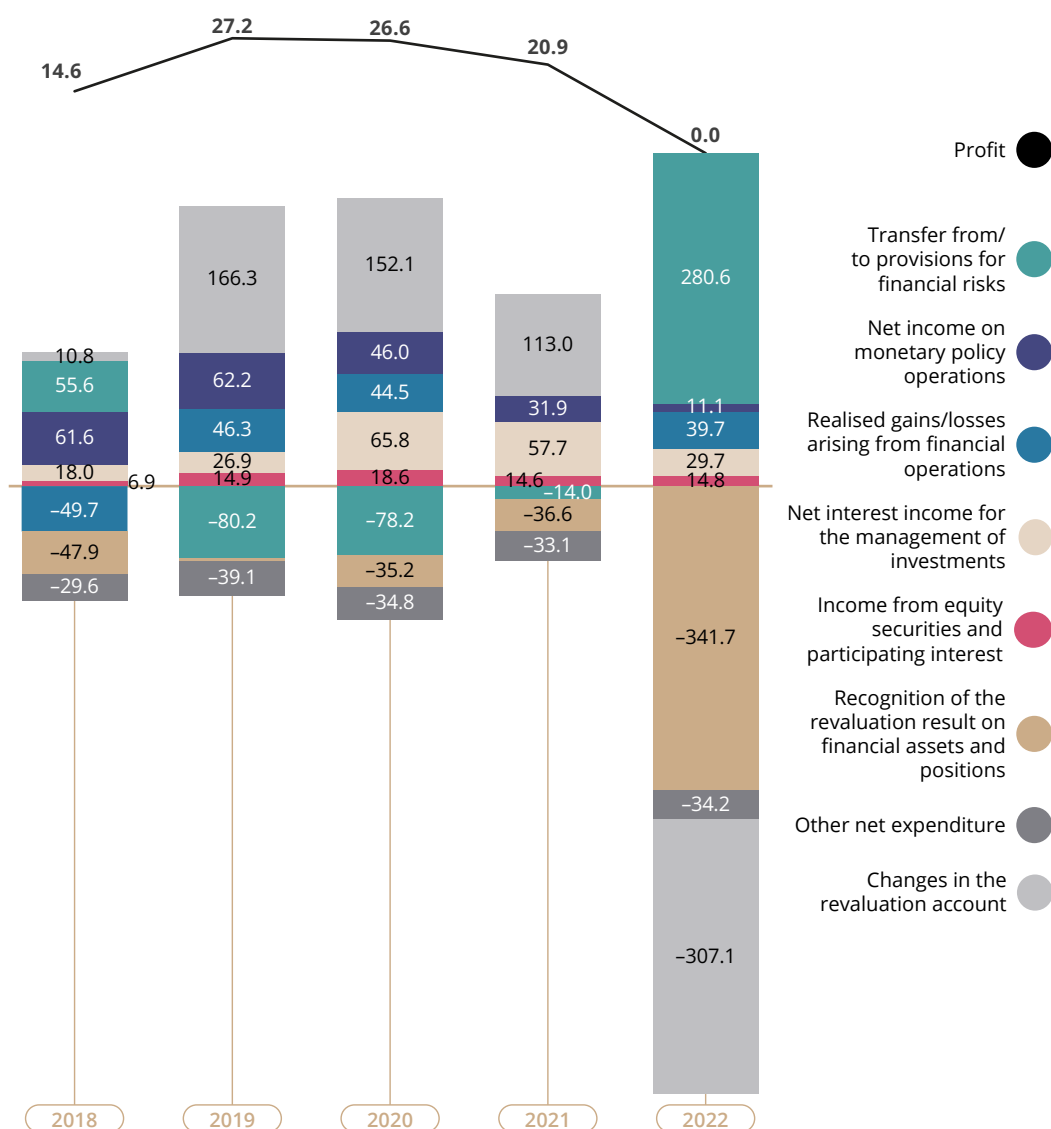
- borrowed funds, excluding government deposits, decreased by 2040 million euro, mainly due to the decrease in the volume of repurchase agreements

Latvijas Banka finances its operation primarily from the income generated from managing financial investments and from monetary policy operations. Latvijas Banka does not receive any financing from the state budget. Instead, it transfers 70% of the profit made during the reporting year to the state budget. In 2022, Latvijas Banka did not make any profit. Over the last five years, Latvijas Banka's profit totalled 89 million euro, of which an amount of 62 million euro was transferred to the state budget.

In 2022, Latvijas Banka's income from financial investment management and monetary policy operations was affected by the uncertainty prevailing in the financial markets and Russia's war in Ukraine. With the economies important to Latvijas Banka's investments recovering after the lifting of Covid-19 restrictions and the supply chain bottlenecks intensifying and energy and food prices rising at the same time, inflation hit record highs. To curb inflation, central banks began to sharply raise base interest rates, leading to a fall in investment market value. With the ECB raising interest rates, income from the Eurosystem's monetary policy operations also decreased at the same time.

Chart 5. Latvijas Banka's profit

(millions of euro)



The financial performance of Latvijas Banka in 2022 was mainly affected by the following factors:

- the significant interest rate rise in the most important investment markets of Latvijas Banka caused a decrease in the market value of debt securities and increased the negative revaluation result of financial assets and positions by 305.1 million euro;
- the reduction by 420.1 million euro in the valuation account changes was affected by the afore-mentioned rise in interest rates;
- a lower average security yield and higher costs of hedging currency risks reduced net interest income for investment management by 28 million euro;
- lower interest income on the deposits received and higher interest expenses on the intra-Eurosystem liabilities as a result of the increase in interest rates reduced the net income for monetary policy operations by 20.8 million euro;
- taking into account the negative revaluation result of financial assets and positions caused by the large increase in interest rates, Latvijas Banka used its provisions for financial risks in the amount of 280.6 million euro.



Risk management

Financial risks

Latvijas Banka manages financial risks for the purpose of reducing the negative impact of possible adverse changes in the financial market factors or counterparty default on the financial position and financial results of Latvijas Banka. When managing financial risks, including the market risk (price, interest rate and currency risks), credit risk and liquidity risk, the acceptable financial risk limits and parameters are taken into consideration to preserve the value of investments ensuring the required liquidity and income generation in the long term (see also the subsection Risk Management of the section Investment Management).

Financial risks of Latvijas Banka relate primarily to its investments in financial instruments, as well as the implementation of the single monetary policy operations associated with Latvijas Banka's participation in the Eurosystem and sharing of the related risks and financial results. Latvijas Banka's financial assets are mostly exposed to market risk and credit risk. On the basis of reasonable risk estimates, the Council of Latvijas Banka decides on making provisions for financial risks associated with Latvijas Banka's investment management and other financial transactions, as well as the use of these provisions should the above risks materialise.

Operational risks

Operational risks are managed to ensure efficient achievement of quality result of a process or project within the specified time frame as well as continuous, appropriate and secure implementation of the process, mitigating a potential negative impact on Latvijas Banka's capability to accomplish its tasks, on its reputation or financial position and financial performance.

During the operational risk management process, processes and risks are classified, evaluating the impact of risks on the results of processes or projects and, depending on the classification of processes and risks, defining and implementing the most appropriate actions to ensure adequate risk management.

The operational risks of Latvijas Banka are managed within a common operational risks management framework.

Major operational risks	Objective of governance
Compliance risks	Ensure the compliance of Latvijas Banka's operation with legislative acts
Business continuity risks	Mitigate a potential negative impact on the execution of critical processes where their discontinuity may cause negative consequences for Latvia's financial system or adversely affect the implementation of Latvijas Banka's tasks
Physical security risks, including risks associated with fire safety and civil protection	Ensure physical security of persons present on the premises of Latvijas Banka, the premises of Latvijas Banka, transportation of its valuables and the events organised by Latvijas Banka. Priority – protecting life and health of individuals
Information security risks	Prevent unauthorised disclosure or use of confidential information, classifying it by its degree of confidentiality and ensuring appropriate protection
Risks related to information systems, including cyber security risks	Prevent a potential negative impact on availability, security and integrity of the information systems and infrastructure of of Latvijas Banka

The Operational Risk Management Department maintains a common operational risk management framework, organises the operational risk management process and incident management, as well as provides information on operational risk management in accordance with Latvijas Banka's legal acts on a regular basis. The risk management process is based on the best practices in the field of risk management and concentrates the resources intended for the management of operational risks, thus creating a more effective model for managing this process.

Operational risk management is coordinated by the Operational Risk Committee of Latvijas Banka.

Latvijas Banka regularly organises training and tests, as well as provides education of employees in the field of risk management to maintain an appropriate level of their know-how and skills.

In 2022, in the field of operational risk management, the focus was on changes in the operational risk management framework related to the integration of the FCMC to ensure the availability of critical financial services, and improvement of physical security risk management continued. In 2022, operational risks were appropriately managed, and the implemented risk mitigation measures reduce these risks to acceptable levels.

At the same time, in accordance with the amendments (adopted by the Saeima of the Republic of Latvia in 2022) to the Law on Latvijas Banka and to the National Armed Forces Law, Latvijas Banka has the right to engage the military police in ensuring the physical security of Latvijas Banka as of 1 November 2022.

Given the rights stipulated by the law, Latvijas Banka and the National Armed Forces concluded an agreement on the engagement of the military police in ensuring the physical security of Latvijas Banka's premises, escorting and guarding cash transportation and guarding the real estate. The commenced cooperation has provided an opportunity to improve and make the relevant processes more efficient.

Sustainability

2022 marked the importance of sustainability topics at global level even more clearly. Social responsibility factors, e.g. in relation to the humanitarian crisis; environmental factors – including climate change, the energy crisis and the ever-growing need to rapidly reduce dependence on fossil resources; governance factors, such as the impact of sanctions, the suspension of operation of international companies in Russia, and other factors – all of them were in spotlight in 2022.

In 2022, Latvijas Banka continued to operate in all the directions set out in its [Sustainability Strategy](#), specifically focusing on risk analysis, as well as analysis of various economic sectors from the sustainability perspective, preparing a series of publications (see, for example, [here](#), [here](#) and [here](#)) to draw public attention to recent developments in the field of sustainability. The principles of sustainability are increasingly becoming a part of Latvijas Banka's day-to-day work– both through including aspects of sustainability in [our research](#) and introducing the principles of sustainability in other areas of Latvijas Banka's activities, which are described in more detail in the relevant sections of the report.

To highlight the challenges of the construction industry in terms of sustainability, Latvijas Banka organised a discussion “Will global warming heat up the construction sector in Latvia?” at the LAMPA conversation festival. Latvijas Banka's experts have also shared their knowledge by participating at discussions held by other organisations, including a panel discussion “Does the economic crisis cancel the green deal?” organised by the European Climate Pact.



Latvijas Banka's tent "Tālskate" at the "Lampa" conversation festival

As part of Latvijas Banka's 100th anniversary events, an international economic conference "Sustainability and Money: Shaping the Economy of the Future" was held in November 2022. It focused on the shift towards a genuine green economy.

In the field of financial stability, [exposure of businesses to physical risks and the trend in physical risks](#) were examined. Also, research on [adaptation to climate change and its impact on developments in the financial system has been carried out](#). Analytical work on financial stability was commenced, the results of which are expected in the future – for example, an analysis of climate stress test scenarios is being carried out, an investigation of biodiversity issues has been launched and various data sources are being combined to provide a comprehensive analysis, which will allow for an in-depth assessment of the impact resulting from materialisation of different types of floods and other physical risks, allowing to monitor building energy performance indicators of real estate that is pledged as collateral and see the progress of leased vehicle fleet's transition towards carbon-free engines.

In 2022, attention was also increasingly focused on sustainability aspects in the field of reserve management. In 2022, the stock portfolio of developed markets was transformed in accordance with the sustainability strategy of Latvijas Banka, and its target indicators include: enhancement of carbon neutrality by 2050 at the latest, adaptation of the portfolio to the provisions set out in the Paris Agreement., prevention of environmental pollution, preservation of biological diversity and promotion of environmental, social and governance (ESG) factors. Description of the application of sustainability criteria and changes in investment portfolios is reflected in the report "[Climate-related disclosures of Latvijas Banka's non-monetary policy portfolios](#)".

EDVARDS KUŠNERS

Adviser to the Council
of Latvijas Banka,
Head of Sustainability



2022 marked the importance of sustainability issues at global level even more clearly. The spotlight was on social responsibility factors, for example, in relation to the humanitarian crisis, and environmental factors – climate change, the energy crisis and the ever-increasing need to rapidly reduce dependence on fossil resources – and governance factors, such as the impact of sanctions, the suspension of operations of international companies in Russia, etc.

The implementation of sustainability principles into our “in-house activities” is also ongoing – in 2022, like in previous years, information seminars on climate and sustainability topics were organised for employees of Latvijas Banka. In addition, another solar PV unit was built, and an action plan was drawn up to optimise heating, ventilation and lighting in order to increase the energy efficiency of Latvijas Banka’s buildings and systems in the long term.

In 2022, [the strategy of Latvijas Banka](#) for 2023–2026 was developed, defining the sustainability of the financial system and the national economy as one of the five medium-term strategic priorities. The objectives of this priority are to promote the implementation of sustainability principles in the financial sector and the economy, to participate in the creation of a regulatory environment promoting sustainability and to ensure sustainability in everyday work of the bank. These objectives will determine our future work in the field of sustainability as an integrated institution in charge of the functions of the central bank, the financial and capital market supervision and the financial sector resolution.

Operational areas of Latvijas Banka



Economic environment and monetary policy

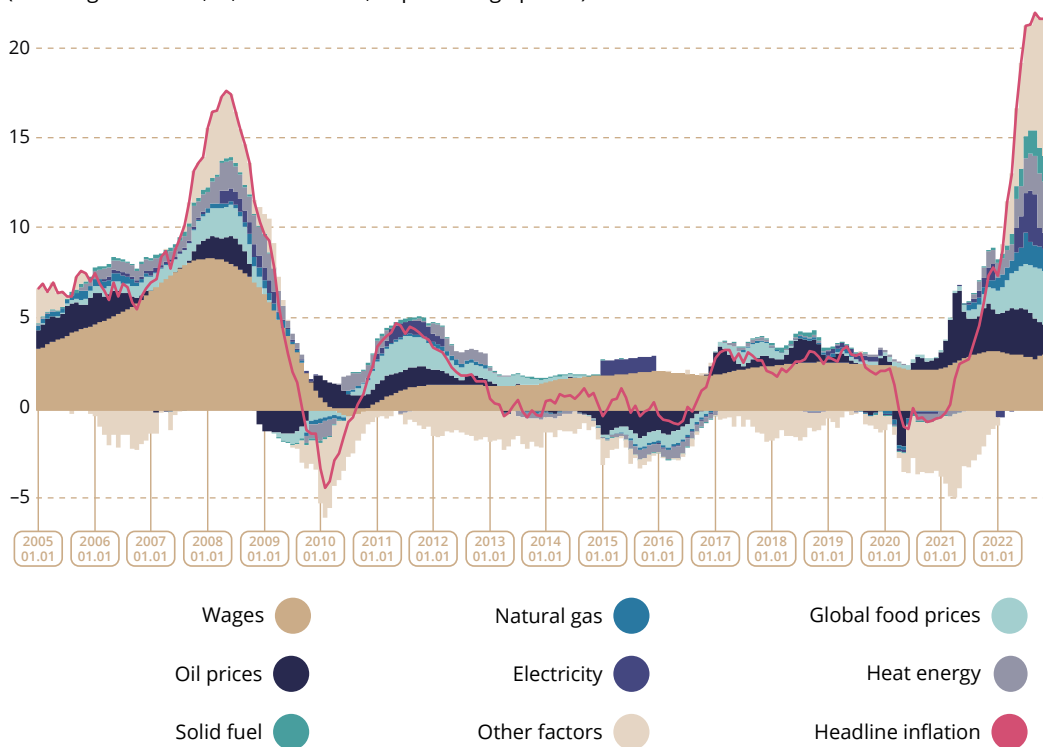
The reversal of monetary policy to achieve a timely return of inflation to the 2% medium-term target

The year 2022 will be remembered for the unexpectedly high inflation. Part of this increase was foreseen, as price hikes of energy resources were already evident in late 2021 facilitated by the recovery of the global economy. It was already in December 2021 that the Eurosystem staff forecasted higher inflation in the euro area (3.2% in 2022 and 1.8% in 2023 and 2024). However, Russia's invasion of Ukraine sharply exacerbated the situation in the global energy market. European countries were most affected by reduced Russian natural gas supplies, leading to an almost threefold price increase for natural gas compared to the annual average level of 2021 and sixfold – compared to that of 2015–2021. The forecast of the central banks on the future dynamics of inflation was revised upwards. As the rise in energy prices and the subsequent increase in food prices affected the prices of other goods and services, the world's major central banks raised their interest rates repeatedly and considerably in 2022 to prevent inflation from taking root. On average, the euro area inflation reached 8.4% in 2022, and according to the December forecasts by Eurosystem staff, prices will rise by 6.3% and 3.4% in 2023 and 2024 respectively, as well as inflation will return close to the target level of 2% in 2025. Latvijas Banka's experts revised the Latvian inflation forecasts for 2023 upwards as well – from 2.9% a year ago to 10.9% in [Latvijas Banka's December forecasts](#).

The reasons for the current high inflation and its normalisation were discussed at the December 2022 expert discussion "[Inflation – then and now](#)". The discussion concluded that unlike the inflation experienced in 2007–2008, the current problem is global in nature. Being a small, open economy, Latvia "imports" inflation therefore the decrease in inflation will largely depend on the dynamics of global energy and food market prices.

Chart 6. Decomposition of Latvia's inflation

(annual growth rate; %; contribution; in percentage points)



ULDIS RUTKASTE
Head of the Monetary
Policy Department



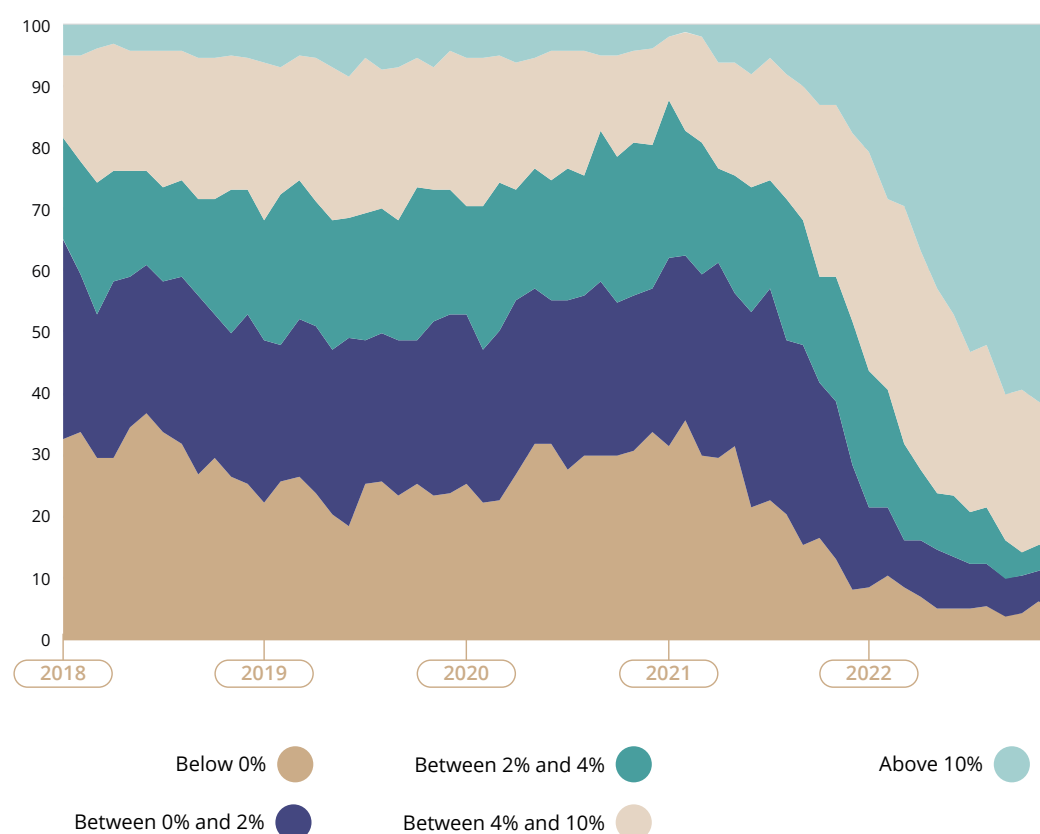
Although higher interest rates also result in higher borrowing costs for Latvia, the successful work done over the past 10 years, during which the government debt was refinanced for a longer period at record low interest rates, will make it possible to limit a more significant increase in the overall government debt servicing costs. However, it is expected that the indirect effect of rising interest rates – lower demand in export markets – will have a larger impact on the Latvian economy.

Inflation in Latvia was significantly higher than in the euro area as a whole. In December, prices in the euro area were 9.2% higher than a year ago, while in Latvia – by 20.7%. The analysis included in the [Macroeconomic Developments Report. September 2022](#) concludes that the difference is partly attributed to a larger share of food and energy in Latvia's consumption basket and a faster increase in these prices, which is related to administrative regulation, tax changes and a faster transmission of global prices to the local ones. Wages are also growing faster in the Baltic countries, putting an additional pressure on domestic prices.

In 2022, the high inflation was mainly caused by the supply side, i.e. it was driven by higher commodity prices. However, the effects of the supply shock can become more persistent in the event of transmission to other goods and services. The analysis by experts of Latvijas Banka concludes that inflation is also increasing in the product groups included in the core inflation calculation. If the process continues, consumer inflation expectations may change and employee requests for salary increase may follow an upward trend, thus triggering persistently high inflation. Therefore, in order to prevent inflation from taking root, the ECB has raised its interest rates.

Chart 7. Latvia's inflation components by growth rate

(% of total)



To contain the soaring inflation and the rise in inflation expectations, the ECB initially needed to raise interest rates at faster pace so that they also rise in real terms. Later, as interest rates approached the natural or neutral level, step down in the pace of interest rate increases followed in December 2022; however monetary policy still moved in the direction of tightening financial conditions. Articles explaining what the natural interest rate is and what interest rates can be expected in the future have been published on the economic analysis website of Latvijas Banka www.macroconomics.lv/how-high-will-interest-rates-rise-future.

A study conducted by Latvijas Banka looks at the effectiveness of non-standard monetary policy instruments (for example, asset purchases) under different macroeconomic conditions and concludes that they do not fully substitute conventional interest rate policy. Thus, currently higher interest rates remain the main monetary policy tool for driving down the inflation.

What higher interest rates entail for the Latvian economy was discussed at the expert discussion "Rising interest rates – bitter medicine to prevent infection" in October. Experts of Latvijas Banka together with experts from credit institutions and the Treasury, as well as representatives of business organisations,

concluded that higher interest rates could pose a series of challenges to certain companies and households with a higher debt burden. Although the direct impact on the Latvian economy as a whole will be mild, restrictive monetary policy will materialise, to a large extent, through economic developments in the euro area and lower imported inflation. The direct impact of the increase in interest rates is somewhat confined by a low level of borrowing for both households and businesses. Although higher interest rates also result in higher borrowing costs for Latvia's government, the successful work done over the past 10 years, during which the government debt was refinanced at longer maturities and at record low interest rates, will limit the increase in the debt servicing costs. However, it is expected that the indirect effect of rising interest rates – mainly lower demand in export markets – will have a non-negligible impact on the Latvian economy. As liabilities of households and businesses to credit institutions in the European Union are almost three times higher than in Latvia, rising in interest rates will affect the economies of these countries more severely. This will also be reflected in lower demand for products of our companies.

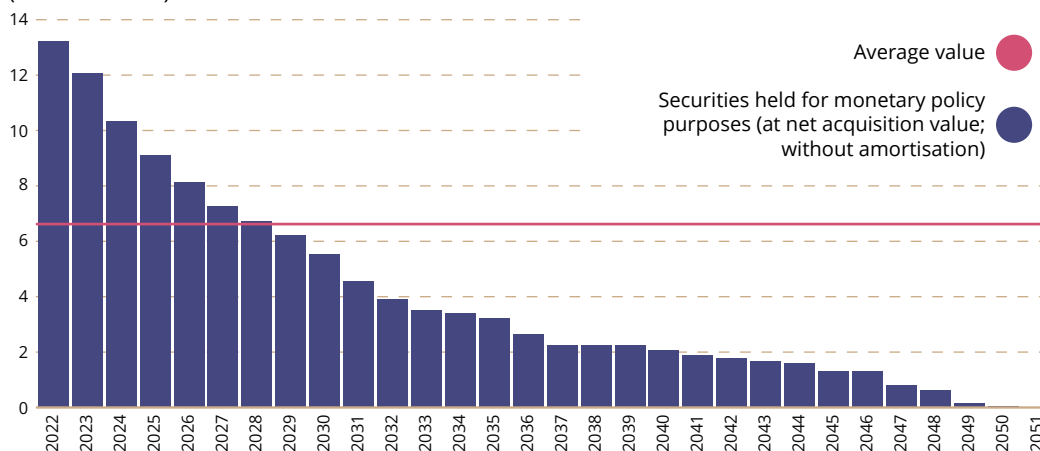
The use of other monetary policy instruments in the ECB's toolkit was also revised when commencing a rise in interest rates. First of all, following the end of net asset purchases under the asset purchase programme (APP) in July, the securities portfolio held by Latvijas Banka for monetary policy purposes no longer continues to grow rapidly. Second, according to the December 2022 decision taken by the Governing Council of the ECB, the APP portfolio will be reduced by an average of 15 billion euro per month as of March 2023. In compliance with the capital key, the portfolio of Latvijas Banka could decrease by almost 50 million euro per month.



Expert discussion "Inflation then and now"

Chart 8. Outstanding value of securities held for monetary policy purposes by year according to their maturity

(billions of euro)

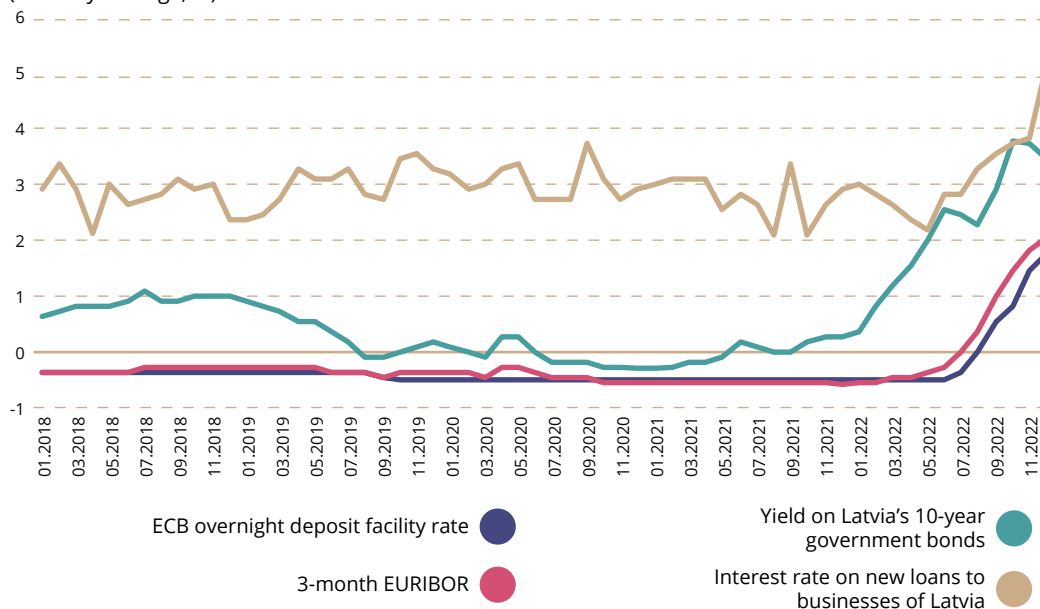


Third, as the favourable conditions of targeted longer-term refinancing operations (TLTRO) were scaled back, Latvian credit institutions also accelerated the repayment of funds borrowed from Latvijas Banka. The reversal of these non-standard instruments is necessary in order to restore policy space to manage potential future crises successfully.

The increased ECB interest rates have also resulted in higher euro area government bond yields.

Chart 9. The ECB's interest rate on the deposit facility, 3-month EURIBOR, the yield on 10-year Latvian government bonds and the interest rate on new loans to Latvian businesses

(monthly average; %)



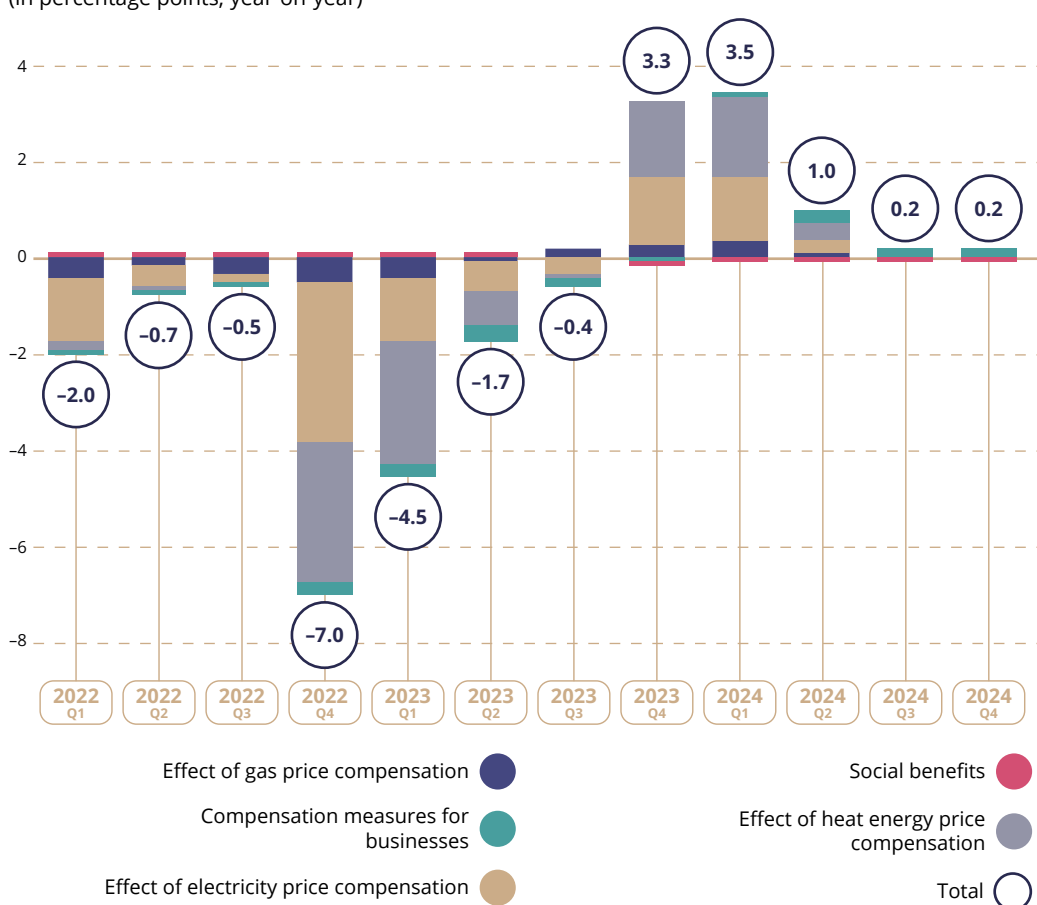
New debt issuance has become more expensive for the government of Latvia. According to the European Commission's guidelines, 2023 will be a transitional year for fiscal policy, as the deactivation of the general escape clause and a return to a neutral fiscal stance (as opposed to the supportive fiscal stance that was characteristic of the Covid-19 pandemic period) is scheduled for 2024. If the governments of the euro area countries fail to normalise fiscal policy and try to continue the expansionary approach, monetary policy may have to react much more firmly than expected by the financial markets, raising interest rates even further. Such a combination of policy instruments (supportive/still expansionary fiscal policy and restrictive monetary policy) is not desirable as it will slow down the return of inflation to the 2% target in the medium term.

Consulting the government on providing fiscal support – in order to mitigate the negative impact of the energy price crisis and slowing economic growth

In 2022, the government provided support to the population and businesses totalling 2.2% of gross domestic product, mitigating the impact of the rapid increase in energy prices and high inflation. Latvijas Banka used various large-scale macroeconomic models to assess the impact of these measures on output, inflation, and disposable income for different population groups. Estimates suggest that the fiscal response was proportionate and that it helped to reduce the depth of the recession and slow down the rise of inflation (see [Government support during the energy crisis. Impact on the economy](#)). These support measures are certainly necessary in the energy price crisis, and they stabilise the economy in the short term; however, public investment is crucial for strengthening the potential of economic growth in the long run to enhance energy efficiency and energy independence.

Chart 10. Impact of government support on inflation

(in percentage points; year-on-year)

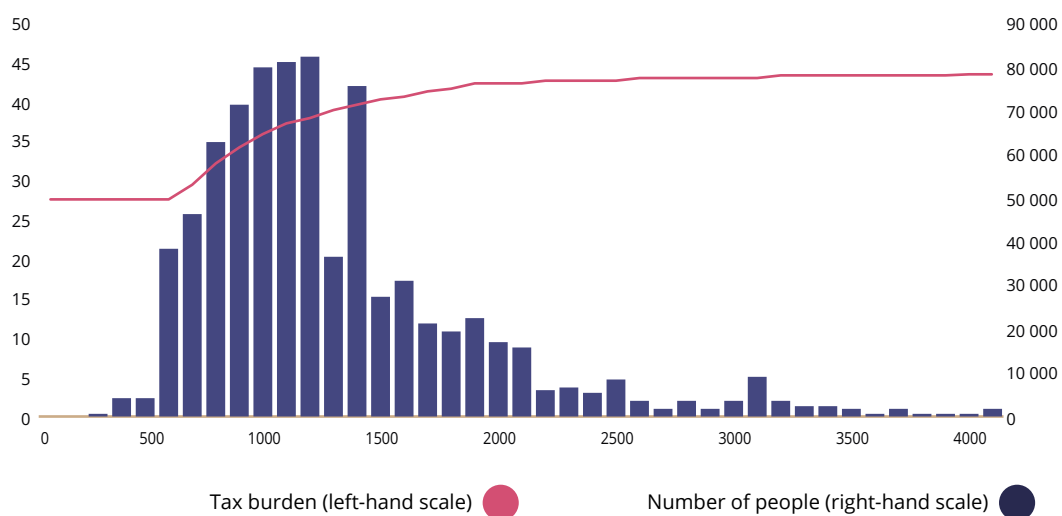


Latvijas Banka has compiled best practices, experiences and recommendations of European countries regarding the support measures applied during the energy price crisis, also providing advice to the government and various working groups. Meanwhile, government support measures used in the heating season of 2022/2023, compared to the beginning of the year, have become more targeted, while maintaining the incentives to reduce consumption, which accordingly increases the efficiency of the support, mitigating its fiscal impact.

As regards matters of tax policy, the discussion on a possible cut of the labour tax wedge became topical at the end of 2022. The labour tax wedge in Latvia (as in most European Union countries) is relatively high, so an argument can be made in favour of reducing it; however, in order to reap the maximum economic benefits of such a step, it should be implemented under conditions where labour market reserves are abundant and inflation has slowed down (see [the article](#) for more details). Considering Latvia's low ratio of tax revenues to the size of the economy compared to other countries of the region, the labour tax cuts, if implemented, should be carried out in a fiscally neutral way.

Chart 11. Tax burden by employee remuneration group (November 2022)

(tax burden; %; gross wage; euro)



As of 1 January 2023, the national minimum wage has been increased from 500 to 620 euro. Such a move will help to mitigate the poverty risk and inequality among employees, but it also has side effects. A higher minimum wage can reduce employment, particularly among younger and low-paid employees. Namely, if employee productivity is below the minimum wage level, the employer has no economic justification for retaining the job (position). The impact of a higher minimum wage can vary quite widely across sectors – for more details, see [Macroeconomic Developments Report, September 2022](#).

In times of crises, when the private sector adopts a wait-and-see attitude due to high uncertainty, public investment can serve as an important factor stabilising the economy. However, in 2022, the total public procurement in the construction sector, including projects financed by EU funds, was lower and slower than expected when planning the budget. As a result of Russia's invasion of Ukraine, the traditional suppliers were lost, and the prices of building materials and energy hiked. The extension of deadlines and revision of contract prices or even termination of contracts hindered the implementation of public investment.

Latvijas Banka's research shows that in OECD countries, including Latvia, each euro invested in the public capital attracts private investments worth two euro on average. Thus, returning to a more balanced fiscal policy should not come at the expense of public investment. Public investment is a good way to strengthen the private sector's investment activity and make a significant contribution to economic growth.

Experts of Latvijas Banka model the extent of construction project price increases and possible shifts in implementation schedules (including Rail Baltica), and also identify and estimate total public investment plans for the coming years to assess the adaptability and risks of the construction sector. In 2022, several discussions took place (including with representatives of the OECD, the Ministry of Economics and the Ministry of Finance), and experts of Latvijas Banka pointed to the need for drawing up and publishing public investment plans for the medium term in a centralised manner, including information provided by municipalities and other budget institutions. This would help to balance public procurements over the time scale, thereby reducing the risk of further price hikes, and would also foster the private sector's capacity building in planning and completion of works, quality and predictability in the sector as a whole.

Improving analytics – for assessing the potential of sustainable economic development

Research enhances the adoption of deliberate economic policy decisions in Latvia and the euro area. Working papers published in 2022 analyse topics crucial for the Latvian economy: [Survival of Latvian companies and their products in export markets](#), [the frequency and extent of price changes in euro area countries](#), and [the assessment of the size of shadow economy](#). These working papers deepen understanding of macroeconomic developments in Latvia and allow a more detailed analysis of the economic impact from various shocks. In 2022, the results of research conducted by Latvijas Banka were presented at 34 international scientific conferences or research seminars, they were reflected in 6 working papers of Latvijas Banka, 2 discussion papers and 3 articles published in scientific journals (see Annex 5).

Development of “green economy” models also continued. These models will help to understand the various channels through which climate risks and countries’ response to them will affect the Latvian economy (see an example of the models [here](#)).

Experts of Latvijas Banka have analysed the current [energy efficiency](#) of buildings in Latvia, estimating the potential of saving heat energy in buildings, as well as explaining the reasons which have led to the current situation and offering solutions for increasing the pace of building renovation. Experts of Latvijas Banka have pointed to the main steps to be taken to implement the transformation of the Latvian energy industry and the entire energy supply system much more successfully when dealing with the crisis of energy availability and prices.

The discussion on sustainable economic policy and energy literacy was brought to the fore, as both the pandemic and the energy price crisis, which required immediate solutions, highlighted a backlog of work to be accomplished in the field of sustainable development. Urgent solutions concerning the necessary support measures have further exposed Latvia’s budget expenditure to climate risks. Such situations can also contribute to hyped demand, price hikes, as well as the risk of incompletely coordinated solutions.

Gross domestic product and income describe the population’s material wealth, but they are only tools for improving people’s quality of life. Latvijas Banka analysed how residents of Riga rate their quality of life, taking into account various aspects, such as safety, environmental pollution, demography, housing availability, etc. Comparative measurements of the quality of life show that Riga is far behind Tallinn, Vilnius and most European cities in this regard in comparison with income of the population. The results of the analysis were presented to Riga municipality officials. A [discussion paper](#) was also published on this topic and an [expert discussion](#) “How can Riga cope with the Baltic competition and regain the status of a European metropolis?” was held. The study concluded that the quality of life in the capital can be considerably higher even without any changes in the current level of income (gross domestic product per capita) and the number of population. This shows that Riga has a substantial development potential.




Kārlis Vilerts, Head of the Research Division of the Monetary Policy Department, and principal researchers Ludmila Fadejeva and Oļegs Tkačevs.



KĀRLIS VILERTS

Head of the Research Division

Research contributes to high-quality economic policy decision-making in Latvia and throughout the euro area. Studies raise awareness of macroeconomic developments in Latvia and allow a more detailed analysis of the economic impact from various shocks.



Financial stability

As of 2023, when Latvijas Banka took over the functions of macroprudential policy, the Financial Stability Department was reorganised. It was renamed the Financial Stability and Macroprudential Policy Department, and it has two divisions – the Financial Stability Analysis Division and the Macroprudential Policy Division. The Macroprudential Policy Division will perform macroprudential functions, including [preparing of macroprudential decisions and acts regulating macroprudential requirements](#).

International cooperation

In 2022, Latvijas Banka contributed to the work of the Nordic-Baltic Stability Group (a cooperation group bringing together central banks, supervisory and resolution authorities and ministries of finance of the Nordic and Baltic countries for the purpose of cross-border crises coordination, information exchange and its generation). Latvia was the presiding country of the group in 2022. In view of the conclusions drawn from the financial crisis exercises carried out in previous years, three subflows of work were created in this group where Latvijas Banka: 1) managed the implementation of secure information exchange between participants; 2) coordinated identification of legal obstacles to the exchange of information with regard to the functions and institutions involved in crisis in Latvia; 3) the preparation of the next crisis exercise. Latvijas Banka also continued to be an active participant of the macroprudential forum of the Nordic and Baltic countries and of the cooperation framework of central banks regarding cross-border financial institutions.

In 2022, experts of Latvijas Banka contributed to an article [The 2008 financial crisis in the Baltic States](#) by the Financial Stability Institute of the Bank for International Settlements, which added to the series of articles on bank crisis management.

Latvijas Banka took an active part in the Nordic and Baltic technical assistance project “Analysis of financial flows and AML/CFT supervision” implemented by the IMF, providing advice on the improvement of the assessment methodology and ensuring data for a proper assessment.

Latvijas Banka contributed to the assessment of systemic risks to financial stability and of macroprudential policy in the euro area by participating in the work of the Financial Stability Committee (consisting of representatives of the ECB and central banks and supervisory authorities of the Banking Union countries) and its subgroups, as well as engaged in the work of the Advisory Technical Committee of the European Systemic Risk Board (ESRB) and its working groups, and contributed to drafting policy and analysis documents and defining opinion at EU level.

Research and publications

In 2022, Latvijas Banka made an in-depth assessment of [borrowers' vulnerability against the backdrop of inflation and rising interest rates](#). The results of the analysis were published on the website [makroekonomika.lv](#) and discussed at public expert discussions organised by Latvijas Banka, as well as presented at the financial stability working group of the Nordic-Baltic central banks.

Significant work continued in the area of financial system sustainability analysis. By combining climate forecasts, data on companies' finances and geospatial data of companies' structural units, [a study on the impact of climate change physical risks on Latvian businesses was carried out](#). It showed that companies' future activities will be affected by more intense precipitation and floods risks. The risks posed by heat in cities where business activity is concentrated should be particularly emphasised. An assessment of [physical \(natural disasters\) risks from climate change was also carried out](#), dedicating several series of articles to this topic on the website [makroekonomika.lv](#). The main risks stem from floods, but storm risks are also significant, and [insurers play a vital role in mitigating and transferring these risks](#). The theme of [housing sustainability](#) was also analysed. The results of the analysis of the gains from energy efficiency of buildings, costs and problems hampering a more active renovation process, as well as reasoning for prompter political action were discussed at the LAMPA Conversation Festival.

The raising of public awareness about [cyber security risks](#) and developments [in the field of crypto-assets](#) continued. These topics will remain important in the future as well – although no critical cyber incidents have been detected in Latvia, the activity of attackers has grown, and [it is possible to insure against cyber risks](#). The volumes of crypto-asset payments in Latvia are increasing therefore the risks related to crypto-assets should be monitored in the future.

Latvijas Banka continued to analyse vulnerability of the real estate market by enhancing a range of data available in the Credit Register of Latvijas Banka and devising solutions for the assessment of borrowers' vulnerability and the resulting risks to the financial sector, using the data provided by the Credit Register and other state registers (for example, the State Land Service and the Enterprise Register of the Republic of Latvia), as well as the State Revenue Service. An analysis tool was also created, which automatically collects the real estate advertisement data published on the internet, thus making it possible to obtain information describing market activity and the price level.

Cooperation with public institutions

In 2022, one meeting of the Macroprudential Council was held, where representatives of Latvijas Banka, FCMC and the Ministry of Finance discussed the systemic risks of financial stability and the need to implement macroprudential measures to limit them. Taking into account the integration of the FCMC into Latvijas Banka, the agreement between Latvijas Banka, the FCMC and the Ministry of Finance on cooperation in promoting financial stability was revised accordingly, providing that Latvijas Banka and the Ministry of Finance continue to cooperate within the Macroprudential Council.

Latvijas Banka continued its cooperation with the public institutions of the Republic of Latvia on AML/CFT, proliferation and sanctions: to improve the legal framework, develop and maintain Latvia's position on EU AML/CFT action, prepare a public summary of the national AML/CFT risk assessment report and participate in the Baltic-Nordic regional AML technical assistance project.

In 2022, by providing advice to the Ministry of Finance, Latvijas Banka continued to engage actively in the preparation of Latvia's position on the European Commission's legislative proposals for strengthening the AML/CFT and proliferation framework, including the possible location of the new EU Anti-Money Laundering Agency (AMLA) in Riga.

During 2022, the importance and development of the 2nd pillar pension funds, potential amendments to the Law on State-funded Pensions and their impact on Latvia's economy was discussed with representatives of the Finance Latvia Association and public institutions.

Through the cooperation of Latvijas Banka and the legislator with the Finance Latvia Association, the cancellation of mortgage debts during the crisis was implemented. Hopeless irrecoverable debts in the amount of at least 158 million euro were written off, helping at least 3250 borrowers and their guarantors to address their loan problems and return to the economy.

In 2022, Latvijas Banka developed proposals for the improvement of the housing guarantee programme of AS Attīstības finanšu institūcija Altum, which were published in the Financial Stability Report 2022 and presented at the discussion on lending in Latvia organised by the Finance Latvia Association.

ELMĀRS ZAKULIS

Head of the Financial
Stability and
Macroprudential Policy
Department



Since 2023, Latvijas Banka determines and implements macro-prudential policy, including applying macro-prudential policy instruments to strengthen the resilience of the financial system against shocks and limit the formation of systemic risks. The explicitly defined macro-prudential policy mandate in the Law on Latvijas Banka and the synergy between the macro-level and micro-level competences will enable the implementation of macro-prudential policy even more effectively.

Investment management

Latvijas Banka manages gold and financial investments in accordance with investment management guidelines and in line with prudent management principles. Investments are managed to ensure the following in the medium term:

- capital preservation,
- liquidity,
- income generation.

In addition, the management of investments takes into account the principles of sustainability and the Agreement on Net Financial Assets of the Eurosystem central banks.

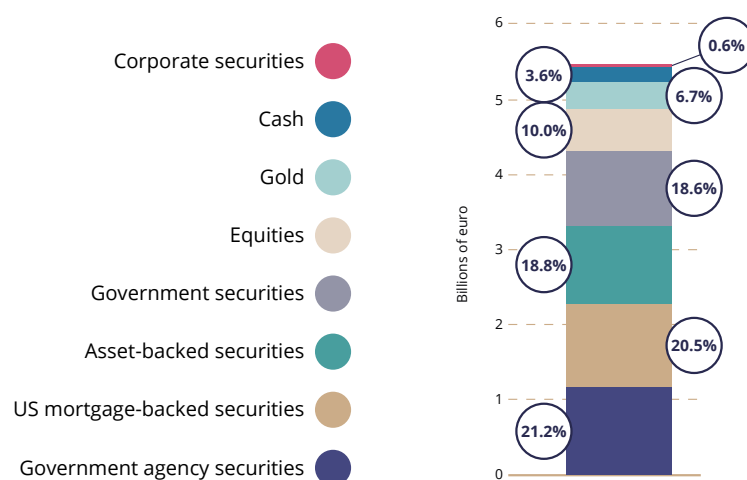
Investment structure

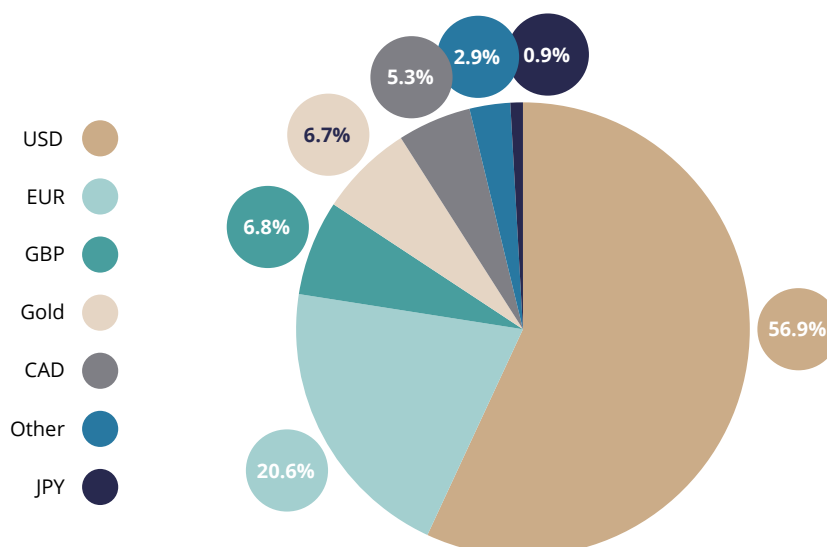
Diversification is one of the primary strategies used in investment management. Latvijas Banka mostly invests financial assets in debt securities issued by the governments of the US and European countries, their agencies and international organisations, asset-backed debt securities, debt securities issued by the governments of developing countries, equities included in the equity index of developed and developing countries, as well as in high-quality debt securities issued by corporates.

At the end of 2022, the total volume of investment portfolios of Latvijas Banka was 5.5 billion euro.

Taking into account the rapid increase in the likelihood of a recession, in 2022 Latvijas Banka sold approximately a quarter of its investments in equities, realising the accumulated profit.

Chart 12. Investment structure





Note. Excluding the portfolio of borrowed funds.

Source: Latvijas Banka.

Investment management organisation

Latvijas Banka uses both internal and external managers in its investment management, and investments comprise three main asset classes: fixed income securities, equities and gold.

- The largest share of investments in fixed income securities is managed internally. The benchmark of the financial assets managed internally consists of the weighted index of 1–3 year government securities of the US and Canada and that of 1–10 year government securities of euro area countries and the UK. The benchmark is composed of assets denominated in:

US dollar – 55%;

euro – 21%;

British pound sterling – 14%;

Canadian dollar – 10%.

Investments in the investment-grade fixed-income government securities of developing countries are made via exchange-traded fund (ETF).

Latvijas Banka also uses the services of seven external managers to manage a part of investments in fixed income securities. External managers manage assets in accordance with the guidelines issued by the Council of Latvijas Banka.

- Six managers manage portfolios of US mortgage-backed fixed income securities.
- One manager manages an investment grade global fixed income securities portfolio.

For all investments in fixed income securities, except for the investment grade global fixed income securities portfolio, the currency risk is hedged against the euro.

- Developed markets equity portfolio tracks the developed market equity index and is managed by an external manager. Developed markets equity portfolio makes up the largest share of equity investments. In 2022, the portfolio was restructured in accordance with the sustainability strategy of Latvijas Banka, and its target indicators include: to enhance carbon neutrality by 2050 at the latest, to ensure the compliance with the provisions set out in the Paris Agreement and to act towards the preservation of biodiversity and enhancement of pollution mitigation strategies and to improve environmental, social and governance factors (ESGs).

Investments in emerging market equities are managed against the respective equity index and are made using the ETF.

- Latvijas Banka's gold is stored at the Bank of England.

A description of the application of sustainability criteria and changes in investment portfolios is set out in the report "[Climate-related disclosures of Latvijas Banka's non-monetary policy portfolios](#)".

Similar to other central banks of the euro area, Latvijas Banka has transferred a small share of its financial assets to the ECB for management as part of its foreign reserves. The ECB reserves are managed by the central banks of the Eurosystem, where each national central bank receives a share of financial assets (according to their capital key at the ECB) that they manage according to the ECB's guidelines.

Together with Oesterreichische Nationalbank, Latvijas Banka manages the foreign reserve assets in Japanese yen transferred to the ECB. 1.1 tonnes of Latvijas Banka's gold are included in the ECB reserves.

Risk management

Risk management and control are an integral part of investment management. Risk management entails risk scenario calculations, assessments of potential loss in the worst-case scenarios and modelling of an optimal asset allocation. The investment portfolio's compliance with the guidelines and the risk allocation in accordance with investment decisions is monitored and controlled on a daily basis.

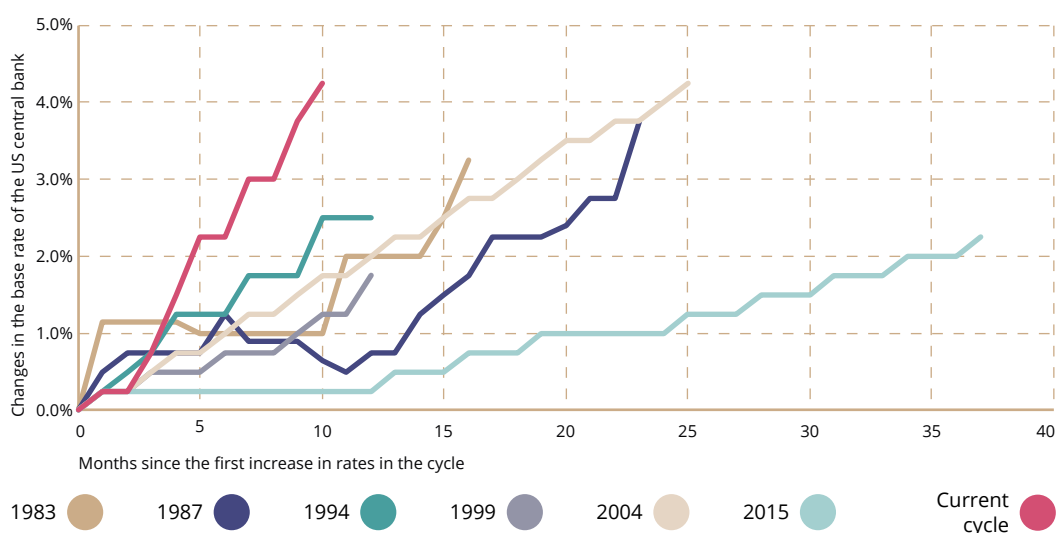
The interest rate risk is one of the most significant risk factors affecting Latvijas Banka's investments. In managing investments, the focus is on government 2, 5 and 10-year bond interest rates and risk premiums.

Developments in 2022

During 2022, interest rates in all markets increased significantly, in several segments eventually reaching the highest level observed during the year, and this had a very negative impact on the market value of fixed income investment portfolios.

The sharp rise in interest rates came as a surprise not only to investors but also to monetary policy decision makers. For example, the US Federal Reserve System's decision makers in December 2021 expected that by the end of 2022 interest rates would rise only by 90 basis points. In reality, the Federal Reserve's base interest rate rose by 425 basis points.

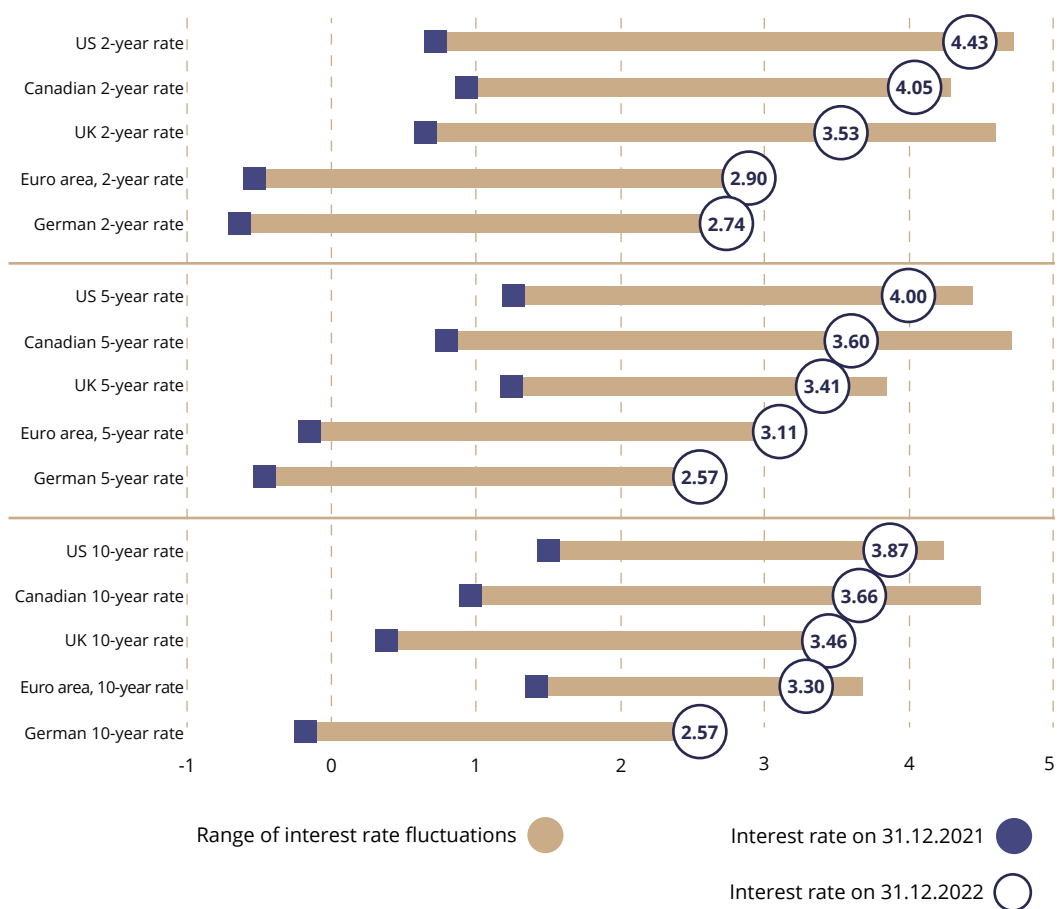
Chart 13. The US Federal Reserve System rate hiking cycles



Sources: Bloomberg Finance LP and Latvijas Banka.

Chart 14. Range of government securities yield in 2022

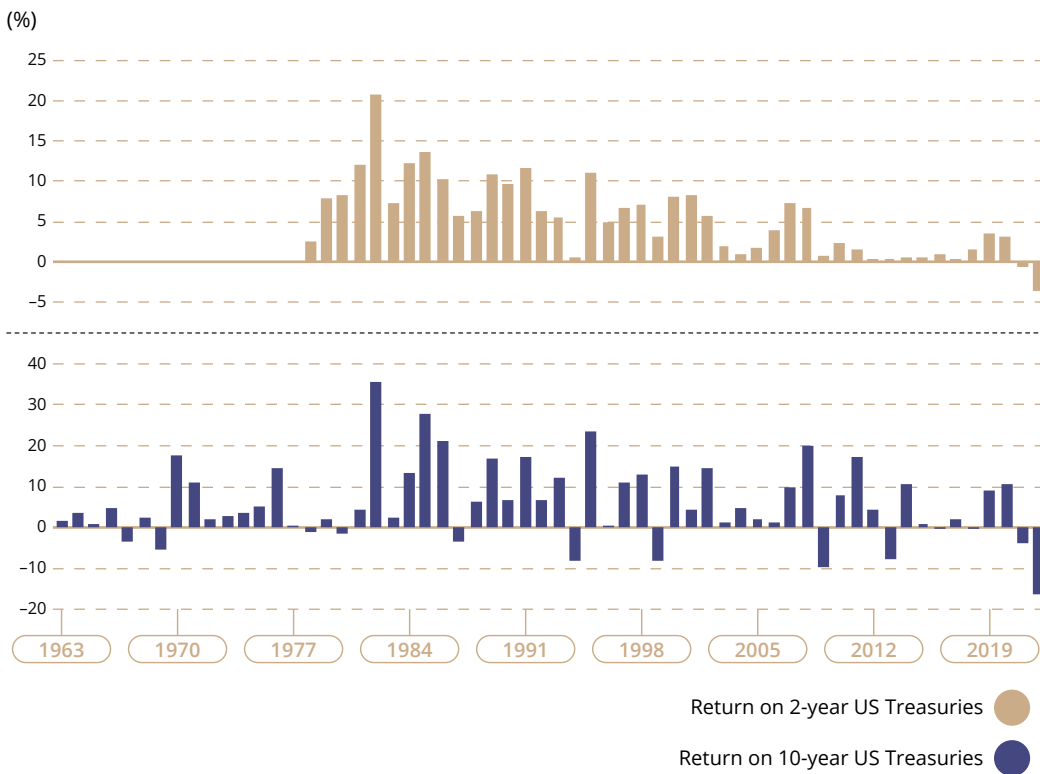
(yield; %)



Sources: Bloomberg Finance LP and Latvijas Banka.

Given the low level of interest rates at the beginning of the year and the rapid rise in interest rates in 2022, the safest investment asset – government fixed income securities – showed the worst annual performance (measured by the yield on US 2-year and 10-year government fixed income securities) in the last 45 and 60 years.

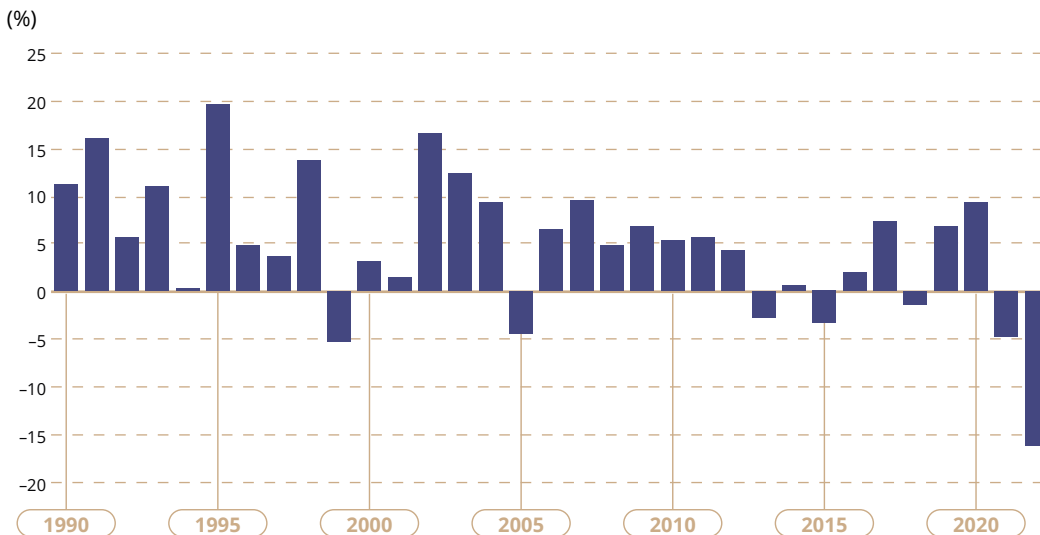
Chart 15. Return on US 2-year and 10-year Treasuries



Sources: Bloomberg Finance LP, ICE Data Services and Latvijas Banka.

Additionally, Bloomberg Global Aggregate index showed the worst result since the index's inception.

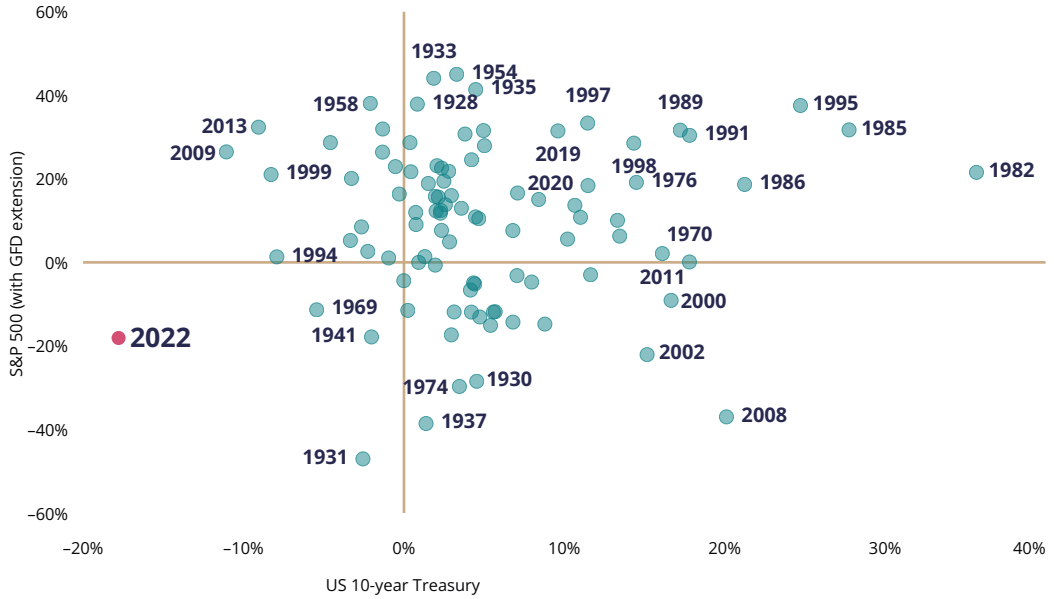
Chart 16. Bloomberg Global Aggregate index annual returns



Sources: Bloomberg Finance LP and Latvijas Banka.

The year 2022 was also unique, because it did not provide investors with real diversification opportunities. Historically, this was the first year when both equity prices (as measured by the US S&P 500 index) and fixed income securities (as measured by the US 10-year Treasury) fell by more than 10% in one year. The only asset class that showed positive returns in 2022 was natural resources.

Chart 17. Annual total return performance of the S&P 500 and US 10-year Treasury since 1928

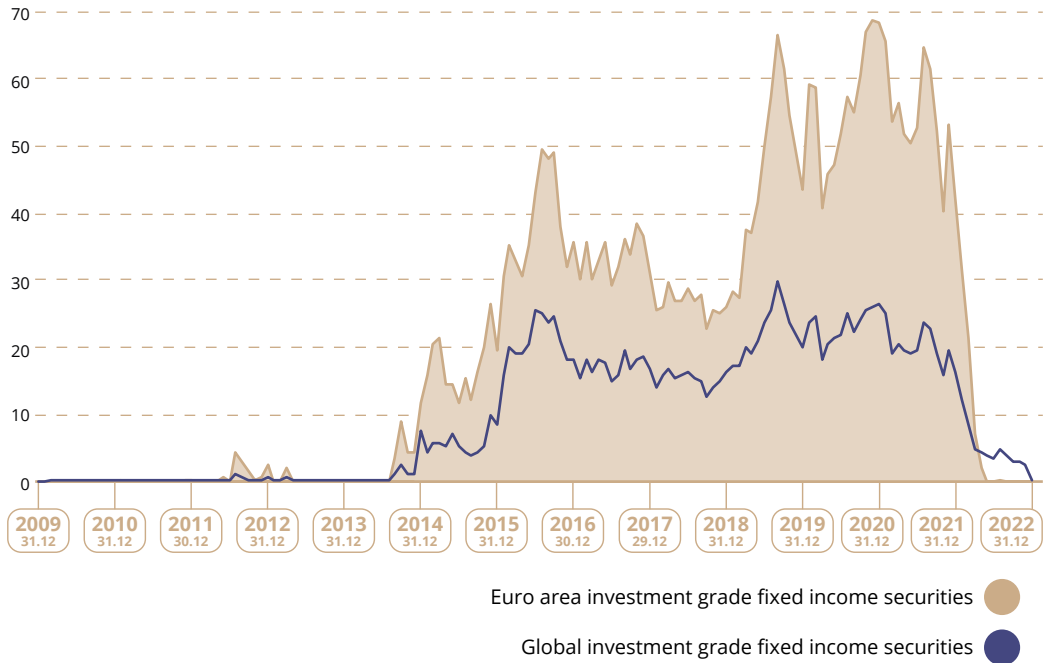


Sources: Bloomberg Finance LP, ICE Data Services and Latvijas Banka.

At the beginning of 2022, fixed income yields were still at very low levels: approximately 16.5% of global investment grade fixed income securities had negative yields. In the first half of the year, rates began to increase rapidly, and at the end of 2022, the amount of such securities was very small.

Chart 18. Negative-yielding fixed income securities

(% of total securities)



Sources: Bloomberg Finance LP and Latvijas Banka.

Higher yield rates and lower equity market values create a positive outlook for better investment performance in the medium term.



Cash circulation

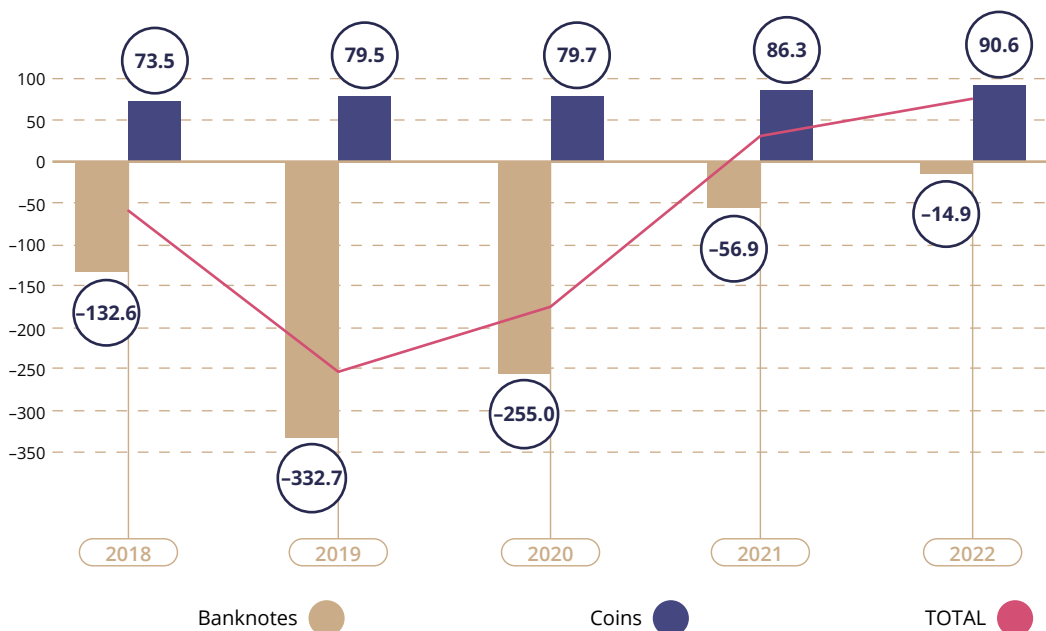
Securing cash circulation

Although citizens are increasingly choosing to use non-cash payments (according to the population survey data, in August 2022, one person made an average of 3.7 cash payments and 8.9 non-cash payments during the week), one of the important tasks of Latvijas Banka is ensuring cash circulation.

In 2022, net issuance of euro banknotes by Latvijas Banka followed an upward path, but it still remains negative (Chart 19). Meanwhile, issuance of euro coins by Latvijas Banka has also increased significantly. Thus, at the end of 2022, the total net issuance of euro banknotes and coins of Latvijas Banka was 75.7 million euro.

Chart 19. Net issuance of euro banknotes and coins by Latvijas Banka

(millions of euro)



The net issuance of euro banknotes by Latvijas Banka in terms of number increased by 12.8% during 2022 (up to 69.8 million banknotes). Of the euro banknotes issued by Latvijas Banka by the end of 2022, 50 euro and 20 euro banknotes predominated (Chart 20).

In 2022, the net issuance of euro coins of Latvijas Banka increased by 6.3%, reaching 454.5 million coins at the end of December. As to the coins issued by Latvijas Banka, 1 cent and 2 cent coins were the most popular coins in circulation at the end of 2022. (Chart 21).

Chart 20. Net issuance of euro banknotes by Latvijas Banka

(by denomination; 2014–2022; number in millions)

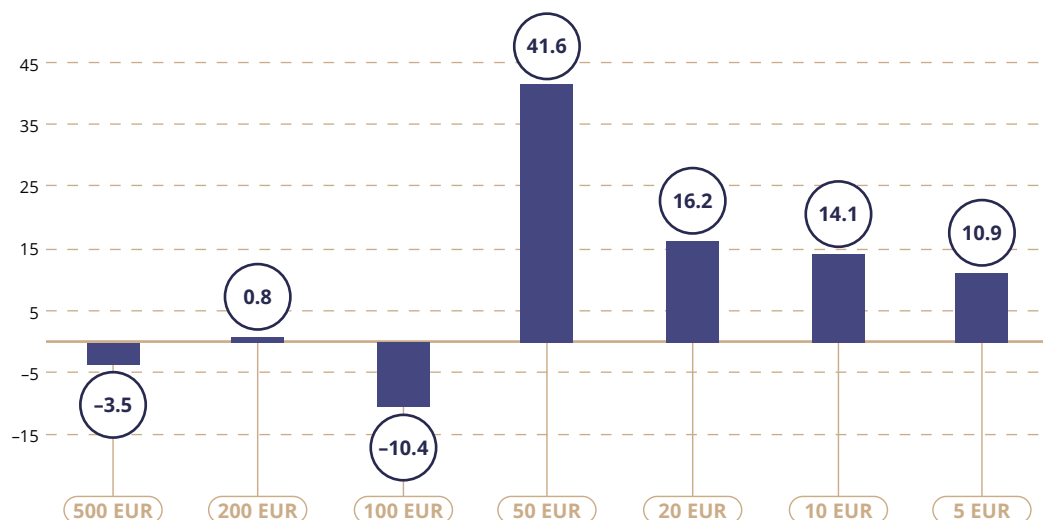
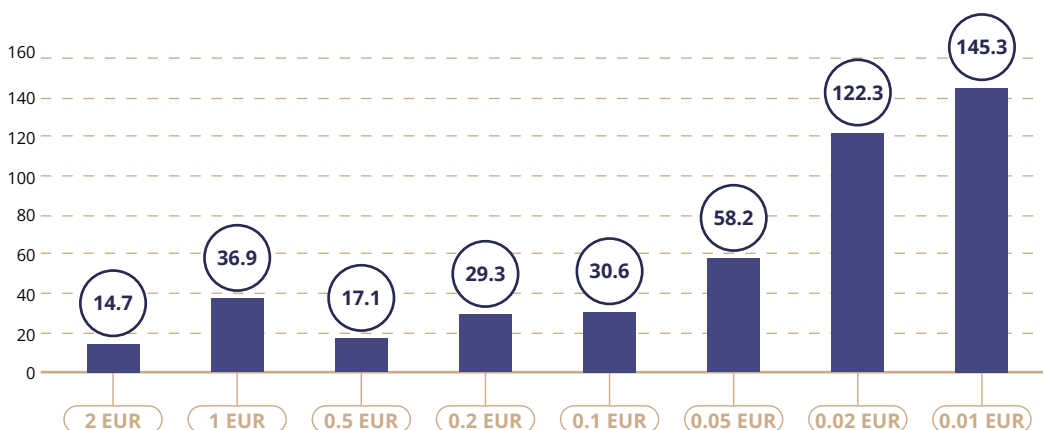


Chart 21. Net issuance of euro coins by Latvijas Banka

(by denomination; 2014–2022; number in millions)



The cash received from credit institutions was checked for fitness and authenticity by automated cash processing systems of Latvijas Banka. They processed 126.3 million banknotes in 2022 (3.3% more than in 2021). 8.6% (10.9 million) of the processed banknotes were identified as unfit for circulation and destroyed.

In 2022, Latvijas Banka continued to register cash processing institutions, i.e. the merchants engaged in handling and recirculating of euro banknotes and coins, and to monitor their operation. At the end of 2022, 35 cash processing institutions were registered in Latvia. Latvijas Banka conducted inspections of them by assessing the compliance of their operation with the requirements of laws and regulations governing cash handling. In 2022, six such inspections were carried out.

In 2022, the withdrawal of lats banknotes and coins from circulation continued. During the year, the lats banknotes and coins received from circulation by Latvijas Banka totalled 0.8 million lats (0.7 million lats in banknotes and 0.1 million lats in coins). Lats banknotes and coins worth 39.7 million lats and 43.8 million lats respectively were in circulation at the end of 2022. At the end of December 2022, the 5 lats and 20 lats banknotes (1.7 million and 0.7 million respectively) and the 1 santim and 2 santim coins (149.4 million and 89.5 million respectively) accounted for the majority of banknotes and coins in circulation in terms of number.

At the end of 2022, Latvijas Banka, the Finance Latvia Association, AS Citadele banka, AS SEB banka, Swedbank AS, and Luminor Bank AS Latvian branch agreed to continue the operation of the Memorandum of Cooperation on Ensuring Access to Cash for Residents of Latvia. The Memorandum mainly aims at ensuring access to cash for residents across the entire territory of Latvia and it provides for the following:

- until 1 January 2024, maintaining the existing network of ATMs without reducing the number of ATMs by more than 5%;
- when creating the network of ATMs, the straight-line distance from any location in Latvia to the closest ATM should not exceed 20 kilometres overall for 99% of Latvia's population;
- ensuring adequate hours of actual accessibility of ATMs to consumers (at least 12 hours a day).

In cooperation with the Central Bank of Ukraine and two Latvian credit institutions, in 2022, the exchange of Ukrainian hryvnia banknotes for euros was organised and carried out for refugees from Ukraine registered in Latvia.

At the end of 2022, the Cashier's Offices of Latvijas Banka were moved to the building of the Riga branch. The coin deposit machines installed on the premises of the new Cashier's Offices make the exchange of small denomination coins more convenient and faster for the population.

Execution of functions of the National Analysis Centre and the Coin National Analysis Centre

Number and types of counterfeits

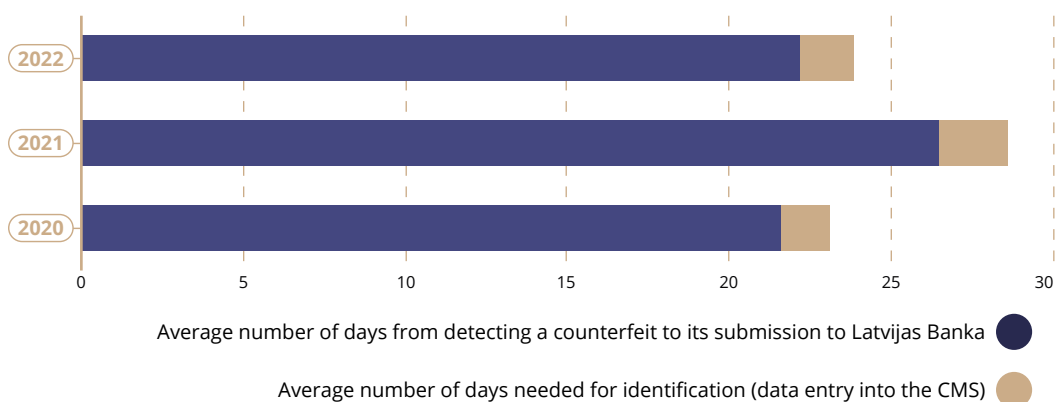
The main task of a National Analysis Centre is to identify, analyse and record counterfeit banknotes submitted to Latvijas Banka, thus ensuring and reinforcing the necessary measures that are required for coordinated anti-counterfeiting efforts in the European Union.

In 2022, the National Analysis Centre of Latvijas Banka received 1510 requests to identify banknotes (in 847 cases counterfeit banknotes were detected), in 33 cases the competent authority provided an opinion on the identification of banknotes at the request of the State Police.

In 2022, 984 counterfeit banknotes and coins were received from circulation and identified (494 counterfeit banknotes and 490 counterfeit coins). The number of detected counterfeits in circulation was more than 28% compared to 2021 (the number of counterfeit euro banknotes decreased by 9%, but the number of counterfeit euro coins increased by 118%). The proportion of counterfeit euro banknotes and coins was 90% of all counterfeit currencies found in circulation.

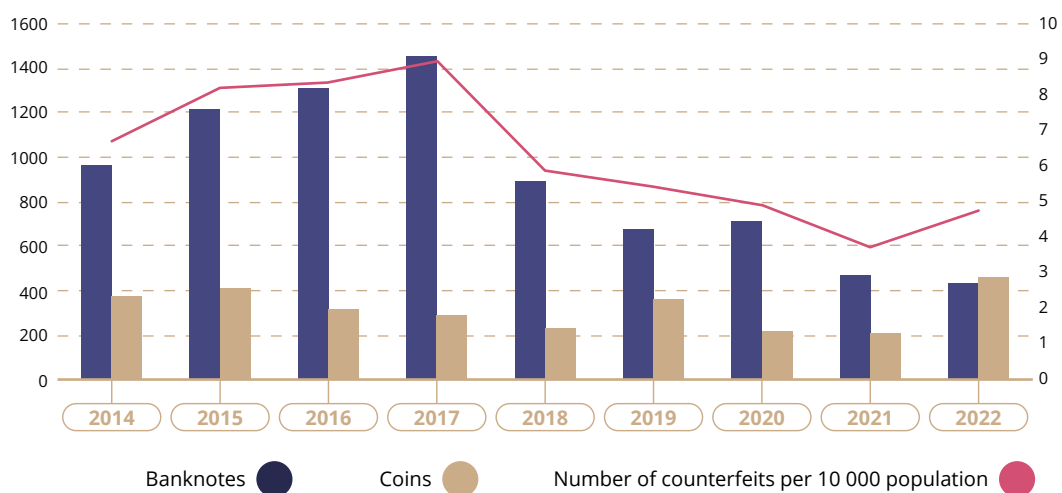
On average, the time for submitting counterfeit euro banknotes and coins to Latvijas Banka for identification after detecting such banknotes and coins was 22 days. It took less than two days to identify and register counterfeit euro banknotes and coins. The reduction in the number of days required for the submission of counterfeit banknotes and coins has a positive impact on the ability of law enforcement bodies to successfully investigate criminal offences.

Chart 22. Time until the submission of counterfeit banknotes and coins and time for their identification



In 2022, the increase in the number of euro counterfeits detected in circulation was determined by a larger amount of counterfeit coins; however, in general, the situation in the area of the spread of counterfeits is consistently low, i.e. less than five counterfeits per 10 000 population.

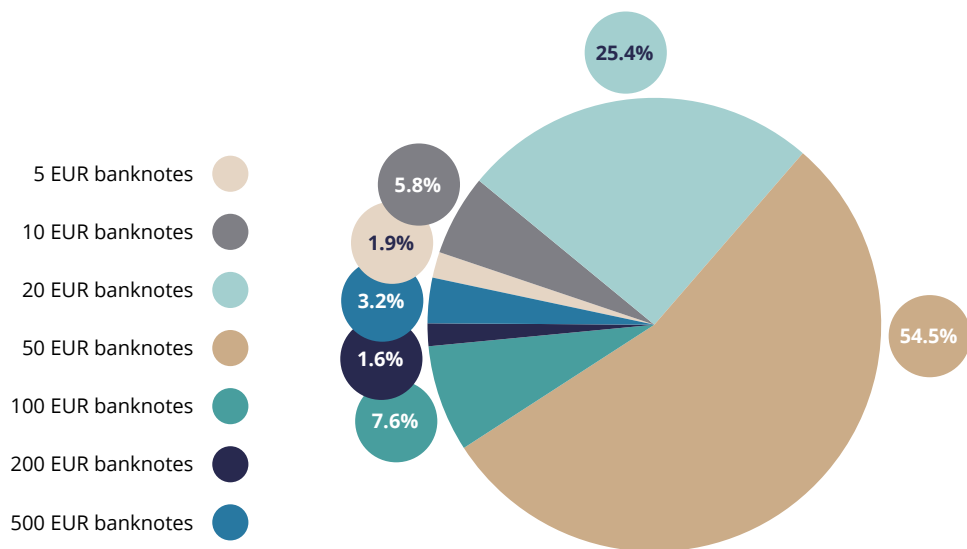
Chart 23. Number of counterfeit banknotes and coins



The 20 and 50 euro banknotes were the most counterfeited denominations detected in circulation. Their share in the total number of counterfeit euro banknotes was almost 80% of the total number of detected counterfeit euro banknotes.

Chart 24. Counterfeit euro banknotes by denomination

(%)



As to counterfeit euro coins, 2 euro counterfeit coins were mostly identified in circulation. In 2022, their share reached 90% of detected counterfeit coins. The share of counterfeits of 1 euro and 50 cent coins did not exceed 5%.

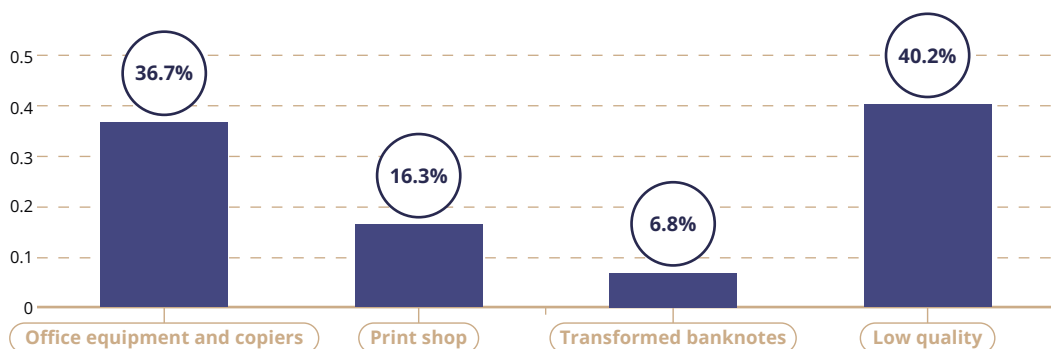
Quality of counterfeit banknotes

Most counterfeit banknotes are of bad quality: in their production, an attempt is made to achieve a relatively simple resemblance to genuine banknotes, without trying to imitate their security features. Quite often, they even feature an altered design: *movie money* banknotes with inscriptions *not legal tender, copy, prop copy, be used only for movies or props*. The spread of such banknotes is due to people's inattention and oversight when checking the security features of banknotes.

High-quality counterfeits are mainly detected among counterfeits of high denomination banknotes, i.e. 200 and 500 euro banknotes. However, their number has not significantly changed in the course of time.

In 2022, there were cases of distribution of genuine banknotes with affixed fake holograms and printed images, i.e. modified genuine banknotes (Chart 25). The origin of such banknotes is probably attributed to cases of robbery, during which the banknotes were ink-stained.

The availability of illegal products of high-quality printers/copiers and imitated security elements on internet trading platforms increasingly enable counterfeiters to opt for technologies that do not require expertise and skills.

Chart 25. Quality of counterfeit banknotes

Euro commemorative and collector coins issued by Latvijas Banka in 2022

In 2022, Latvijas Banka released into circulation four silver collector coins: "Satversme 100" (issued on 16 February 2022), "Vilhelms Purvītis" (issued on 25 May 2022), "Upward" (issued on 1 November 2022) and "For the Freedom of Ukraine" (issued on 15 December 2022), as well as a 2 euro commemorative coin dedicated to financial literacy (in circulation since 12 April 2022) and a set of circulation coins (in circulation since 25 May 2022), and a 2 euro commemorative coin dedicated to the 35th anniversary since the establishment of the EC Erasmus programme (in circulation since 1 July 2022).



Satversme 100

Face value: 5 euro
Weight: 26.24 g
Diameter: 45.00 mm
Metal: 925° silver
Quality: proof; colour print on the obverse and reverse; frosted letters and lines on the obverse and reverse.
Maximum mintage: 2500
Minted in 2022. *UAB Lietuvos monetų kalykla* (Lithuania)
Graphic design: Aigars Ozoliņš

Vilhelms Purvītis

Nominal value: 5 euro
Weight: 31.47 g
Diameter: 38.61 mm
Metal: 925° silver
Quality: proof; colour print on the obverse
Maximum mintage: 4000
Minted in 2022. *UAB Lietuvos monetų kalykla* (Lithuania)
Graphic design: Frančeska Kirke



Upward

Face value: 5 euro
Weight: 36.70 g
Diameter: 35.00 mm
Metal: 925° silver; with gilding
Quality: proof
Maximum mintage: 5000
Minted in 2022. *UAB Lietuvos monetų kalykla* (Lithuania)
Graphic design: Krista and Reinis Dzudzilo

For the Freedom of Ukraine

Face value: 5 euro
Weight: 22.00 g
Diameter: 35.00 mm
Metal: 999° silver; with gilding
Quality: proof
Maximum mintage: 8 000
Minted in 2022. *UAB Lietuvos monetų kalykla* (Lithuania)
Graphic design: Sergiy Maidukov
Plastic formation: Ligita Franckeviča

Latvijas Banka invites various Latvian artists to participate in coin design competitions therefore every coin is a unique work of art. The themes of the coins are chosen according to their topicality, in order to promote Latvian cultural values, as well as to highlight current topics in society.

The Coin of Luck was announced Latvia's Coin of the Year 2021 in the annual public survey. About 45 thousand votes were received in the public survey organised by Latvijas Banka and the news portal Delfi.lv.



Payment and settlement systems

Innovations of payment infrastructure

Instant payments

The instant payment service of Latvijas Banka's EKS provides an opportunity for banks to offer instant payments to their customers to transfer money from an account in one bank to an account in another bank within a matter of seconds on any day and at any time of the day and for the same fee as other credit transfers of the Single Euro Payment Area (SEPA). The joining of the Treasury to the instant payment service provided an opportunity for households and businesses to make budgetary and other payments to public institutions using instant payments. To make SEPA instant payments, the EKS uses connections with European instant payment systems. In 2022, the EKS, with the help of innovative solutions, reduced the number of intermediaries involved in the execution of instant payments, making the processes even more efficient.

ZITA ZARIŅA

Member of the Council
of Latvijas Banka



The instant payment service of Latvijas Banka's EKS provides banks with the opportunity to offer instant payments to their customers to transfer money from an account in one bank to an account in another bank in a few seconds on any day at any time of the day and for the same fee as other credit transfers of the Single Euro Payment Area (SEPA).

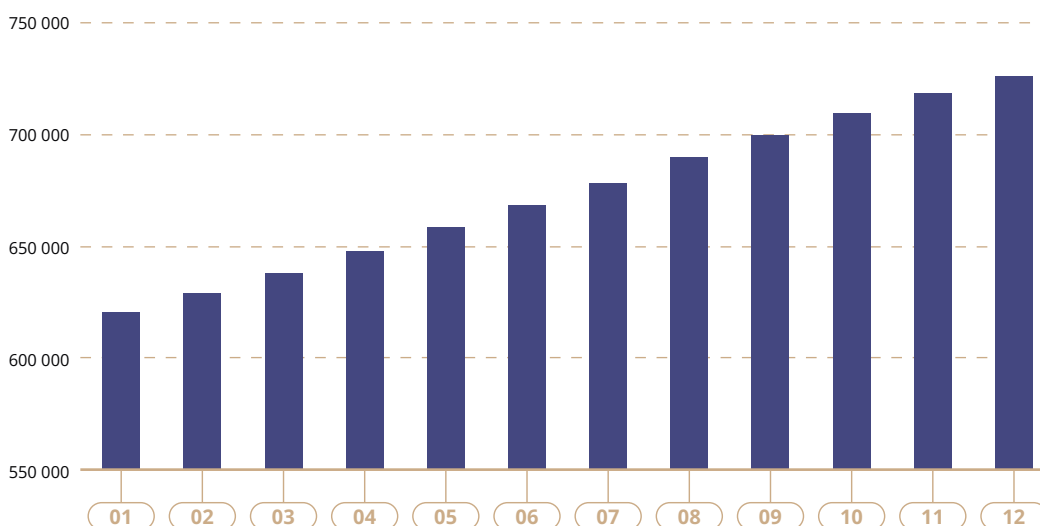
At the end of 2022, instant payments in Latvia were offered by Latvijas Banka, the Treasury and seven credit institutions (AS Citadele banka, AS SEB banka, Swedbank AS, Signet Bank AS, BluOr Bank AS, AS Reģionālā investīciju banka and AS LPB Bank), thus ensuring the availability of instant payments to more than 90% of Latvia's population.

Throughout the year, the volume and value of instant payments processed via the instant payment service increased by 2.0 and 2.6 times respectively (37.3 million instant payments totalling 16.6 billion euro were processed), with up to 200 thousand instant payments processed on certain days. The availability of the instant payment service was higher than 99.9%.

Proxy Registry "Instant Links"

Latvijas Banka ensured the operation of the Proxy Registry "Instant Links", enabling the customers of the largest Latvian and Estonian credit institutions to make instant payments and other payments in an even more convenient manner, just indicating the payee's mobile phone number in the payment order.

Chart 26. Dynamics of the number of instant links in 2022



At the end of 2022, 726 thousand instant links were registered with the Proxy Registry "Instant Links", the availability of which exceeded 99.9%, showing a 17% increase compared to the end of the previous year. In 2022, the register processed 19.5 million requests. 60% of instant links were registered with customers of Latvian banks and 40% with those of Estonian banks.

Digital Euro Project

To promote the development of innovative payment instruments of the central banks, Latvijas Banka participated in the investigation process of an innovative payment instrument, the digital euro, which was led by the ECB. Latvijas Banka cooperated with the HLTF-CBDC (High Level Task Force on Central Bank Digital Currency) and its working group, participating in the analysis of various digital euro issues. In the first year of the investigation phase, important fundamental questions of the digital euro design were decided, including the need to make payments with the digital euro offline, the level of privacy of payments, as well as the role of financial service providers in the digital euro ecosystem. To raise public awareness of the digital euro project, Latvijas Banka prepared a series of informative articles within the framework of the research plan, explaining the need for the digital euro and the progress of the investigation phase project.

Public education

Experts of Latvijas Banka participated in several conferences and professional discussions, including the provision of information on instant payments, [crypto-assets](#), central bank digital currencies and the launch of the investigation phase of the [digital euro](#) project to the mass media.

Analytical articles on [crypto-assets](#), the digital currency of central banks, the [digital euro](#) and [payment fraud](#) were written in 2022.

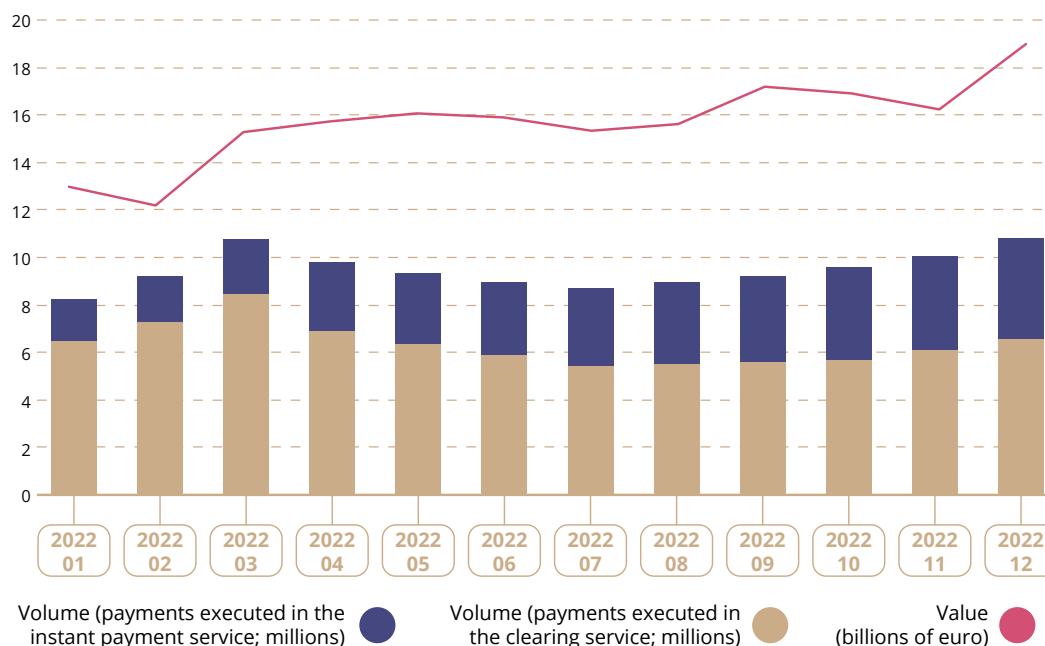
Experts of Latvijas Banka also continued to deliver lectures at Latvian universities on modern payments and how they are affected by innovation, technological development and everyday digital transformation. Students appreciated the lectures very much.

EKS operation

The EKS, developed and maintained by Latvijas Banka, ensures the settlement of customer payments in euro from an account in one bank to an account in another bank by the Latvian payment market participants via the instant payment service and the clearing service across the SEPA.

The direct participants of the EKS are eight credit institutions, the Treasury and Latvijas Banka, of which six credit institutions, the Treasury and Latvijas Banka used the instant payment service in 2022.

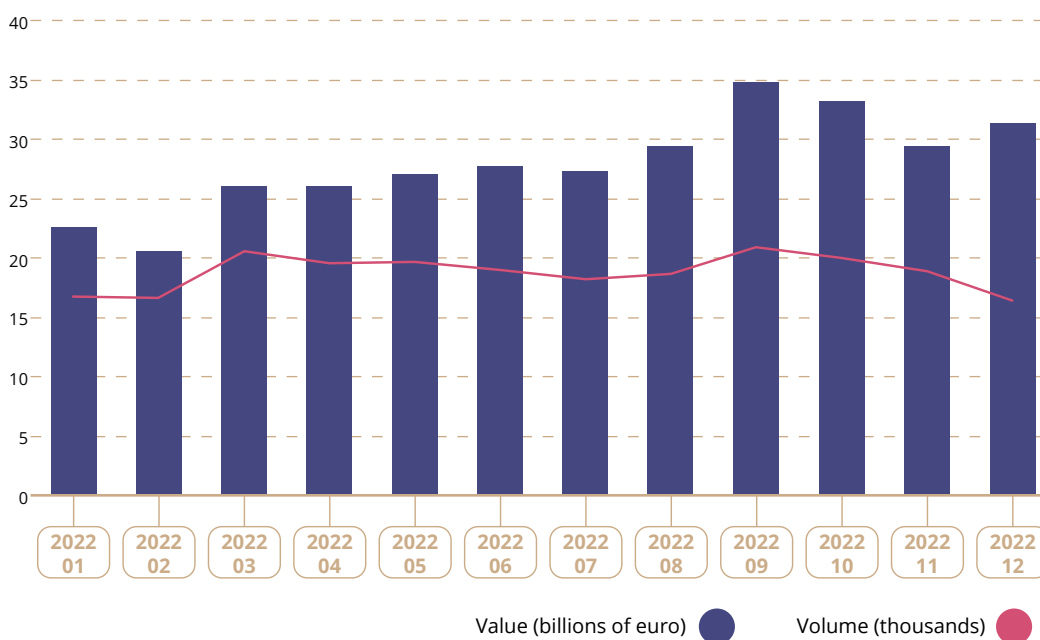
Chart 27. Volume and value of payments processed in the EKS



In 2022, 113.5 million SEPA credit transfers totalling 188.3 billion euro were executed in the EKS (in the instant payment service and the clearing service combined). The volume and value of the payments executed in the EKS increased by 12.2% and 17.8% respectively year-on-year.

TARGET2-Latvija operation

In 2022, Latvijas Banka continued to provide the operation of TARGET2-Latvija – one of the component systems of TARGET2, which is the third largest payment system in the world

Chart 28. Volume and value of payments made in TARGET2-Latvija

The availability of TARGET2, including TARGET2-Latvija, accounted for 100% in 2022. TARGET2-Latvija processed on average 878 payments per day worth 1.3 billion euro. The total volume of payments decreased by 0.9%, while their total value rose by 22.0% year-on-year.

In 2022, Latvijas Banka, together with the other central banks of the Eurosystem, continued the implementation of the TARGET2 and TARGET2-Securities consolidation project under which a new innovative payment system TARGET is established. The T2 service of this system will replace the currently operating TARGET2. Although Latvijas Banka and TARGET2-Latvija participants were ready for migration to the new system on 21 November 2022, the system start-up date was moved to 20 March 2023, considering the need for participants in other countries to continue testing.

Latvijas Banka also provided payment services in euro to the institutions whose settlement accounts were opened with Latvijas Banka, but which were not direct participants of Latvijas Banka's payment system TARGET2-Latvija, i.e. the Treasury, the FCMC, Latvian, foreign and international financial institutions. In 2022, payments of the above institutions executed by Latvijas Banka amounted to 2.3 billion euro.

Payment system oversight

Latvijas Banka performed day-to-day oversight of the EKS, analysing the system's technical and operational functions, compiling its statistical data and making sure that the interbank payment environment in Latvia is secure and efficient.

When performing the oversight of development of the payment instruments used in Latvia, Latvijas Banka regularly (on a semi-annual basis) compiled and analysed data on payments made by customers of Latvia's payment service providers. Payment data are compiled in compliance with a uniform ECB statistical methodology.

Oversight of financial instrument settlement systems

Latvijas Banka, in cooperation with Eesti Pank, Lietuvos bankas and the central bank of Iceland, completed the cyber resilience assessment of the Central Securities Depository Nasdaq CSD SE covering 239 CROE (cyber resilience oversight expectations) aspects. According to the assessment, the depository ensures compliance with CROE standards. In order to improve cyber resilience, recommendations and observations were made in areas where improvements are possible.

Representing the Eurosystem as the central bank issuing euro, Latvijas Banka conducted an annual assessment of the compliance of Nasdaq CSD SE operation with the requirements of the Eurosystem, making sure that the depository ensures compliance with all requirements.



Statistics

Latvijas Banka collects and compiles a wide range of statistical information in pursuit of its tasks, including those of the ESCB. Latvijas Banka uses statistical information for performing financial and macroeconomic analyses, assessing financial stability, as well as for raising public awareness of developments in the financial sector and the national economy. The ECB uses statistical information produced by Latvijas Banka to compile the Eurosystem's monetary statistics and the relevant euro area statistical data, as well as to discharge its other tasks.

Latvijas Banka's statistical programmes

To provide transparent information on the planned activity in the field of statistics, Latvijas Banka publishes Latvijas Banka's [annual statistical programme and medium-term statistical work programme for the period of three years](#). The 2022 Statistical Programme of Latvijas Banka was implemented, except for two ESCB-level tasks (fact-finding and costs surveys on changes in the statistical requirements for insurance companies, as well as the creation of the ESCB Integrated Reporting Framework), the execution of which was postponed to 2023.

Development of statistical regulatory framework

In view of the entry into force of the new Law on Latvijas Banka on 1 January 2023, Latvijas Banka developed and adopted three new legal acts, which refer to the availability of statistical data for the purposes of research ([Regulation No 206 of Latvijas Banka](#)), the application of sanctions for infringements in the field of statistics ([Recommendations No 375/6 of Latvijas Banka's Council](#)) and statistical data provided by commercial companies performing securitisation activities ([Regulation No 233 of Latvijas Banka](#)), as well as reviewed and reissued regulations of Latvijas Banka in the field of statistics.

Improvement of data sources used in providing statistics

In the field of external statistics, the use of a new data source – statistical data on card payments – was launched in 2022 to obtain a more accurate assessment of travel services, as well as e-commerce of goods and services. The introduction of the new data source made it possible to revise the data of external statistics, starting with the data for January 2020.

Communication with statistical data providers

In 2022, [the official electronic address](#) or e-address started to be used in communication with reporting agents, to provide information about the approaching deadline for submitting statistical data and the registered users in the Non-bank Statistics System.

Publication of statistical information

Latvijas Banka continued to provide a wide range of data users with statistical information, both by a regular transmission of statistical data to direct data users and by publishing statistical data in Latvijas Banka's regular [publications](#) and on the [website](#), including [the internet statistical database INTS](#). The statistical data produced by Latvijas Banka are also published in the ECB publications and the Statistical Data Warehouse, as well as in IMF publications and within the framework of the IMF Special Data Dissemination Standard (SDDS Plus). Latvijas Banka continued to perform the tasks of the coordinating institution in Latvia within the framework of SDDS Plus.

In 2022, the range of statistical information published in the internet statistical database of Latvijas Banka, INTS, was expanded with weekly and monthly data on sent card-based payments transactions, as well as payment statistics. Data from the 2020 Household Finance and Consumption Survey on household real and financial assets, liabilities, income and consumption have been published in the "Statistics/Data" section of Latvijas Banka's website.

Latvijas Banka started publishing the lists of financial institutions, which are maintained for the purpose of producing statistics, in a new format. It allows to sort and search the information included on the lists, as well as to print and export the lists in CSV format and, starting from 2022, enables the accumulation of lists and the availability of historical lists. The lists can also be retrieved in XML and JSON format. Two new lists were added [to the lists of financial institutions](#) already published on the website of Latvijas Banka – the list of financial vehicle corporations and the list of payment statistics related institutions.

AGRIS CAUNE

Head of the
Statistics Department



The importance of statistics in the European context is confirmed by the fact that the European Statistics Day is celebrated every year. This year its motto was: "Statistics to understand and connect to society, in the search for truth". This emphasises the importance of statistics in creating an inclusive society, promoting well-being and fighting misinformation.

Credit Register

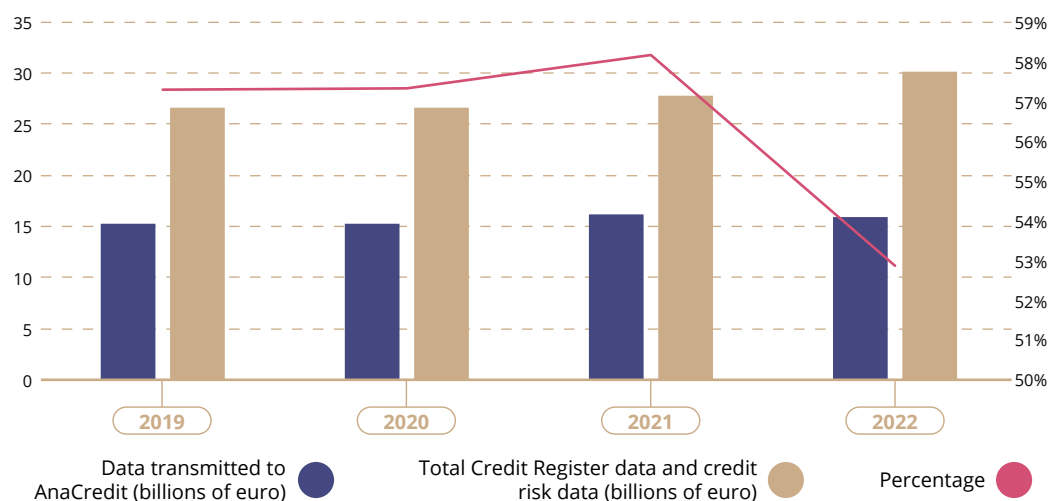
Latvijas Banka ensures the operation of the Credit Register, accumulating data on loans and guarantees provided to natural and legal persons. The Credit Register provides information necessary for Latvijas Banka's tasks, including the ESCB tasks, as well as additional opportunities for public institutions to receive information within the framework of the tasks stipulated by laws and regulations.

In 2022, Latvijas Banka improved the use of information from the Credit Register. Cooperation with the State Revenue Service was expanded, ensuring the receipt of corporate annual report data in a more convenient way, as well as starting the receipt of income data of natural persons. Merging of data included in the Credit Register and the data of the State Revenue Service made it possible to compile the data necessary for the performance of financial stability tasks in connection with the analysis of the risks of financial vulnerability of borrowers.

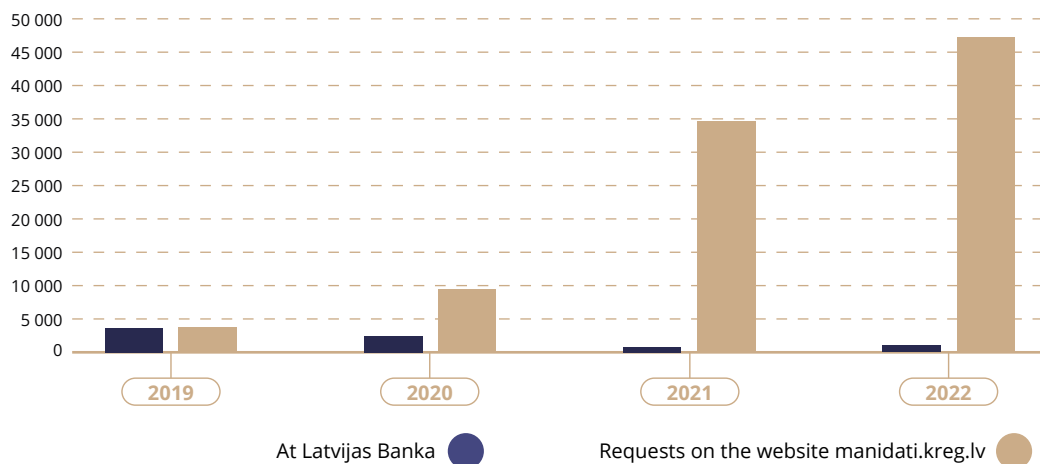
At the end of 2022, the Credit Register stored data on 4.7 million obligations pertaining to 1.19 million borrowers and borrowers' guarantors from its 85 participants with the actual outstanding amount of the obligations amounting to 21.58 billion euro and the off-balance sheet amount of the obligations amounting to 4.46 billion euro.

In 2022, Latvijas Banka continued to report the Credit Register data to AnaCredit in accordance with the requirements of Regulation (EU) 2016/867 of the European Central Bank of 18 May 2016 on the collection of granular credit and credit risk data (ECB/2016/13). Data on 16.61 thousand loans (on average) granted by credit institutions to legal entities and credit exposures between the credit institutions with the total actual outstanding amount of the obligations (on average) amounting to 16.47 billion euro were reported to AnaCredit on a monthly basis (see also Chart 29).

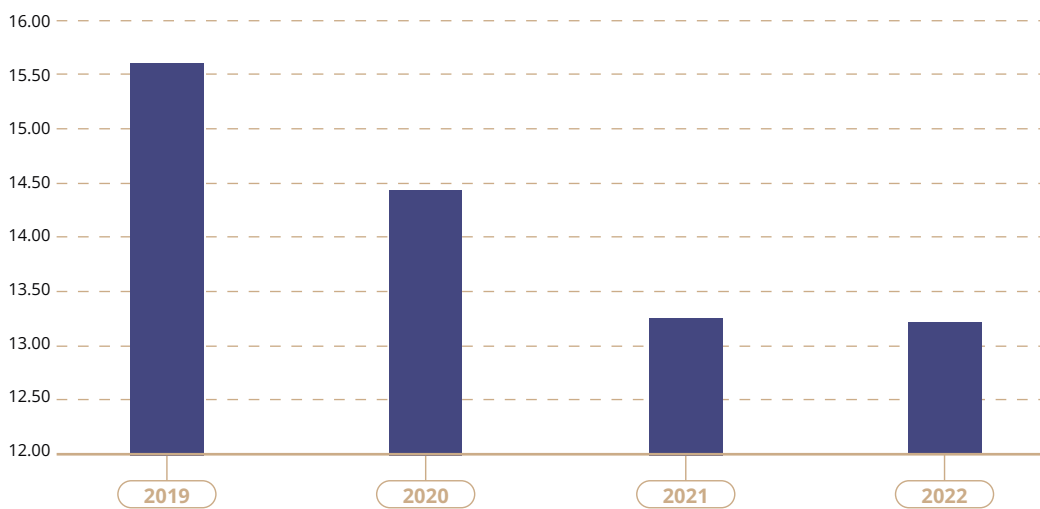
Chart 29. Credit Register data and credit risk data



Latvijas Banka provided any person with the opportunity to receive information about himself/herself included in the Credit Register, including on the electronic service website <https://manidati.kreg.lv/?lang=EN> (Chart 30).

Chart 30. Dynamics of provision of the Credit Register data (volume; millions)

In 2022, the Credit Register participants submitted 13.2 million requests to the Credit Register to use the Credit Register data for the purpose of assessing the creditworthiness of their current or potential borrowers and borrowers' guarantors (Chart 31).

Chart 31. Requests made by participants (volume; millions)

Advice on matters within Latvijas Banka's competence

One of the tasks of Latvijas Banka is to advise the *Saeima* and the Cabinet of Ministers of the Republic of Latvia on monetary policy and aspects of economic policy associated with Latvia's participation in the euro area, as well as other issues related to the performance of the tasks of Latvijas Banka.

In 2022, officials of Latvijas Banka and its employees held regular meetings with the representatives of the *Saeima* and the government of the Republic of Latvia, inter alia, participated in meetings of the committees of the *Saeima* and the Cabinet of Ministers of the Republic of Latvia and in the work of several committees and working groups established by the government, providing an opinion on financial and economic development. In 2021, when analysing Latvia's economic growth prospects, Latvijas Banka advised the *Saeima* and the government on the development and problems of Latvia's economy, helped the government to evaluate the optimal energy crisis support measures and made proposals for their implementation, as well as advised on the issues related to taxes, social security and the education policy, 2nd pillar pension schemes issues and the pension basis model. Latvijas Banka also continued to analyse the role of Latvia's financial sector in the economy by starting an in-depth discussion with financial sector participants on lending trends, their underlying factors and the future development in Latvia.

Employees of Latvijas Banka made their contribution and worked in various working groups and professional organisations, sharing their experience and providing them with advice and support, including in the areas of economic forecasts, the government expenditure and the programming and uptake of EU funds, the financial sector and development of financial services (including payment services), as well as in other areas and in the process of drafting legal acts and their amendments regulating them.



Announcement of Latvijas Banka's forecasts and the discussion of economists

Employees of Latvijas Banka in their capacity as experts continued to participate in the Working Group for the Preparation of the Notification of the General Government Budget Deficit and Debt chaired by the Central Statistical Bureau, by compiling the notification data of the general government budget deficit and debt for 2021, the operational data related to the Recovery and Resilience Facility and the impact of Covid-19 on the government budget deficit and debt operating data and the related methodological issues. In 2022, experts of Latvijas Banka together with colleagues from the Central Statistical Bureau, the Treasury and the Ministry of Finance, participated in a dialogue visit of the European Union Statistical Office (Eurostat), in the preparation of Latvia's consultation request on the accounting of the mandatory purchase component of electricity and the one-off payment, as well as in the sessions of solving methodological issues organised by Eurostat and surveys on the accounting of macro-financial assistance loans to Ukraine, also on the accounting of state aid related to high energy prices and on the new and revised sections of the edition of Manual on Government Budget Deficit and Debt (MGDD 10th edition).

Experts of Latvijas Banka provided support for the government enabling Latvia to take an active part in the EU and the OECD, as well as ensured the exchange of information with the international rating agencies.



Financial literacy

As of 2022, Latvijas Banka took over the implementation of the task of the FCMC, i.e. promoting financial literacy and economic knowledge. Until 2022, this task was carried out by both institutions – the FCMC and Latvijas Banka, by each of them creating its own content and maintaining its own thematic websites.

In 2022, Latvijas Banka coordinated the implementation and evaluation of the National Strategy for Financial Literacy in Latvia 2021–2027 (Strategy). Together with more than 20 public, non-governmental and private sector institutions, 105 initiatives were implemented to gradually achieve the objectives of the Strategy. Latvijas Banka organised the Financial Literacy Week 2022, when 18 institutions carried out 25 initiatives in which 23 550 participants (students, teachers, families, seniors, etc.) took part. To assess the level of financial literacy of Latvia's population, a financial literacy survey was conducted, and the Financial Literacy Index was developed.

In 2022, the work to improve the digital learning tool "My Economy" continued. The content of the advanced secondary school course "Social Science II" was developed and published. 302 449 unique users visited the e-learning tool "My Economy". In order to support schoolteachers of economics and financial literacy, workshops and a conference for teachers were held with over 500 participants. In the survey conducted by Latvijas Fakti, 94% of teachers of social and civic education classes welcomed the contribution of Latvijas Banka in the development of economic and financial literacy teaching and educational aids.

In 2022, the Knowledge Centre "Money World" was opened for both remote and on-site visits, which was visited by groups of students, families and employees of various companies of Latvia. Companies also showed interest in Latvijas Banka's financial literacy classes. In total, employees of more than 700 companies have attended personal finance planning classes of Latvijas Banka.

Other financial literacy materials have also been developed and various online and on-site events have been carried out.

Cooperation with international organisations and foreign central banks

Latvijas Banka is the representative of the Republic of Latvia in foreign central banks and international financial institutions. Latvijas Banka may participate in operations of other international financial and credit organisations consistent with its objectives and tasks.

Latvijas Banka continued to represent Latvia's interests at the meetings of the IMF Board of Governors as well as participated in the coordination of operational issues. Priorities of the IMF policy were mainly related to developments in the global economy and the financial system. Also in 2022, the IMF focused particularly on the crisis caused by the Covid-19 pandemic, the subsequent energy crisis triggered by Russia's invasion of Ukraine, the problems of global supply chains, high inflation and the need determined by these factors to provide financial assistance to more than 90 countries of the world. The financial assistance instruments were improved for this purpose, including to reduce the burden of debt servicing costs on poor countries. The development of a comprehensive strategy was launched to support emerging market economies, given their already high debt levels. Discussions also continued on the IMF resources, challenges related to climate change and inequality.

Latvia's interests in the IMF were represented in the Nordic-Baltic Constituency that includes Denmark, Estonia, Iceland, Latvia, Lithuania, Norway, Finland and Sweden. One Executive Director represented this constituency on the IMF Executive Board, with a total of 3.3% votes.



Conference of Latvijas Banka "Sustainability and Money: Shaping the Economy of the Future"

In 2022, cooperation with the IMF continued, based on consultations under Article IV of the IMF Articles of Agreement. Latvijas Banka also coordinated the involvement of Latvian institutions in the IMF's regional (Nordic and Baltic countries) Anti-Money Laundering Assessment Project. The planned project closing date is the autumn of 2023.

In 2022, Latvijas Banka continued its membership in the Bank for International Settlements (BIS). Latvijas Banka actively participated in the work of the Eurosystem "Innovation Forum" (Innov8), as well as in the work of the BIS Innovation Network, in which an expert of Latvijas Banka participates in the High-Level Task Force on Central Bank Digital Currency.

Cooperation between the central banks of the Nordic and Baltic countries also continued, with the discussions on topical issues relevant for central banking. As part of the long-term cooperation between the central banks of the Baltic States, seminars and high-level meetings for experts were organised in Riga.

Latvijas Banka represents Latvia's interests in foreign central banks and international financial institutions and closely cooperates with the central banks of the Nordic and Baltic countries. Thus, we are deeply integrated and united with other institutions in making important decisions for the Republic of Latvia.



JURIS KRAVALIS

Head of the General Secretariat

Latvijas Banka in the Eurosystem and institutions of the European Union

In its activities, Latvijas Banka as a member of the ESCB and the Eurosystem complies with the Republic of Latvia and EU legislation, including the ECB legal acts in accordance with the Treaty on the Functioning of the European Union and the Statute of the European System of Central Banks and the European Central Bank (hereinafter – the Statute of the ESCB and ECB).

In 2022, the Governor of Latvijas Banka participated in the work of the Governing Council and the General Council of the ECB, namely, in the formulation of the Eurosystem's monetary policy and decision-making related to the tasks of the Eurosystem and the ESCB.

A representative of Latvijas Banka, in cooperation with the Financial and Capital Market Commission, participated in the work of the Supervisory Board of the ECB, ensuring the fulfilment of ECB tasks relating to the supervision of credit institutions and preparing the respective draft decisions to be submitted to the Governing Council of the ECB according to the non-objection procedure.

Representatives of Latvijas Banka participated in the Eurosystem/ESCB committees and working groups, addressing issues pertaining to monetary policy, market operations, financial stability, payment systems, euro banknotes, statistics, international relations, communication and financial accounting, as well as in other areas. The working groups of different levels addressed issues in several new areas, such as sustainability and climate, central bank digital currency, innovative technologies, data processing platforms and other issues.

Participation of Latvijas Banka in the Eurosystem and the European System of Central Banks

Governing Council of the ECB	
General Council of the ECB	
Supervisory Board of the ECB	
High Level Task Force on Sustainable and Responsible Investment Principles in Non-Monetary Policy Portfolios	High Level Task Force on Integrated Data Provision Framework Project
Banknote Committee	Budget Committee
High Level Task Force on Central Bank Digital Currency	Human Resources Conference
Eurosystem "Innovation Forum"	Eurosystem/ESCB Communications Committee
Financial Stability Committee	Accounting and Monetary Income Committee
Internal Auditors Committee	Information Technology Committee
Legal Committee	Committee on Controlling
Monetary Policy Committee	Organisational Development Committee
Risk Management Committee	International Relations Committee
Statistics Committee	Market Infrastructure and Payments Committee
Market Operations Committee	

Experts of Latvijas Banka also participated in committees and working groups of the Council of the EU and the European Commission. Participating in the meetings of the Economic and Financial Committee and its sub-committees, representatives of Latvijas Banka regularly took part in the preparation of decisions concerning the economic development and financial stability of the EU with a particular focus on EU-level measures related to the energy and economic problems caused by the Covid-19 pandemic, on overcoming the crisis triggered by Russia's invasion of Ukraine, as well as on promoting economic resilience and sustainable development, taking into account the opportunities and challenges resulting from both digitalisation and climate change.

Representatives of Latvijas Banka participated in the working groups of the European Commission and Eurostat addressing issues related to euro coins, economic forecasting and statistics.

In 2022, Latvijas Banka participated in the work of the European Systemic Risk Board, which made decisions on issues related to macroprudential policy in the EU, in the work of the Advisory Technical Committee of Specialists of the European Systemic Risk Board and in its working groups.

With the consent of the FCMC, a representative of Latvijas Banka also participated in the work of the Board of Supervisors of the European Banking Authority whose general objective is to maintain financial stability and to safeguard the integrity, efficiency and orderly functioning of the banking sector.

Financial Statements of Latvijas Banka for the Year Ended 31 December 2022

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Abbreviations

BIS	Bank for International Settlements
ECB	European Central Bank
ESCB	European System of Central Banks
EU	European Union
FCMC	Financial and Capital Market Commission
IMF	International Monetary Fund
NCB	national central bank
OTC	over-the-counter
PEPP	Pandemic Emergency Purchase Programme
PSPP	public sector asset purchase programme
SDR	Special Drawing Rights
TLTRO	targeted longer-term refinancing operations
UK	United Kingdom
US	United States of America

Balance sheet

(at the end of the year; in thousands of euro)

	Note*	2022	2021
ASSETS			
Gold and gold receivables	6	364 821	344 166
Claims on non-euro area residents denominated in foreign currency	7	3 788 044	4 495 181
Receivables from the International Monetary Fund		549 961	542 959
Balances with banks and security investments, external loans and other external assets		3 238 083	3 952 222
Claims on euro area residents denominated in foreign currency	8	522 039	528 428
Claims on non-euro area residents denominated in euro	9	156 383	174 081
Lending to euro area credit institutions related to monetary policy operations denominated in euro	10	522 900	616 600
Longer-term refinancing operations		522 900	616 600
Other claims on euro area credit institutions denominated in euro	11	6 304	4 255
Securities of euro area residents denominated in euro	12	14 081 606	12 839 996
Securities held for monetary policy purposes		13 134 812	11 690 783
Other securities		946 794	1 149 213
Intra-Eurosystem claims	13	5 926 959	5 868 008
Participating interest in the European Central Bank		118 849	116 472
Claims equivalent to the transfer of foreign reserves		157 202	157 202
Other claims within the Eurosystem		5 650 908	5 594 334
Other assets	14	381 638	203 714
TOTAL ASSETS		25 750 694	25 074 429
LIABILITIES			
Banknotes in circulation	15	5 635 738	5 536 624
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	16	5 217 165	6 406 673
Current accounts (covering the minimum reserve system)		343 816	6 406 673
Deposit facility		4 873 349	-
Other liabilities to euro area credit institutions denominated in euro	17	320 273	649 746
Liabilities to other euro area residents denominated in euro	18	2 517 104	3 438 792
General government		1 157 761	1 803 339
Other liabilities		1 359 343	1 635 453
Liabilities to non-euro area residents denominated in euro	19	171 688	57 955
Liabilities to euro area residents denominated in foreign currency	20	706 038	1 594 262
Liabilities to non-euro area residents denominated in foreign currency	21	34 701	688 359
Intra-Eurosystem liabilities	13	10 376 364	5 356 980
Liabilities related to TARGET2 and correspondent accounts (net)		10 370 127	5 322 638
Other liabilities within the Eurosystem		6 237	34 342
Other liabilities	22	184 740	436 383
Capital and reserves	23	586 883	908 655
TOTAL LIABILITIES		25 750 694	25 074 429

The financial statements set out on pages 64 to 111 were authorised by the Council of Latvijas Banka on 9 March 2023.

Governor of Latvijas Banka

Mārtiņš Kazāks

EXPLANATION REGARDING TRANSLATION

This is a translation of the financial statements from the original, which was prepared in Latvian, and all due care has been taken to ensure that it is an accurate representation. However, the original language version of the financial statements takes precedence.

* The accompanying Notes set out on pages 67 to 111 are an integral part of these financial statements.

Profit and loss statement

(in thousands of euro)

	Note	2022	2021
Net interest income	33	47 021	123 981
Interest income		211 229	165 248
Interest expense		-164 208	-41 267
Net result of financial operations, recognition of revaluation result in profit and loss statement and financial risk provisions		-21 337	-50 235
Realised gains arising from financial operations	34	39 732	357
Recognition of revaluation result on financial assets and positions in profit and loss statement	23, 35	-341 715	-36 618
Provisions for market risk and credit risk	36	280 646	-13 974
Net expense from fees and commissions		-4 441	-3 951
Fees and commissions income		1 011	981
Fees and commissions expense		-5 452	-4 932
Income from equity securities and participating interest	37	14 755	14 575
Net result of pooling of monetary income	38	-6 237	-34 342
Other operating income	39	5 766	3 591
NET INCOME		35 527	53 619
Remuneration	40	-16 502	-16 403
Social security costs and solidarity tax	40	-3 653	-3 582
Banknote and coin acquisition costs	41	-2 618	-1 831
Depreciation of fixed assets and amortisation of intangible assets	14	-3 641	-3 802
Other operating expenses	42	-9 113	-7 093
PROFIT FOR THE YEAR		0	20 908

Statement of total recognised gains and losses

(in thousands of euro)

	Note	2022	2021
Profit for the year		0	20 908
Revaluation	23	-450 273	119 670
Realisation of the accumulated revaluation result	23	-198 579	-43 287
Recognition of revaluation result on financial assets and positions in profit and loss statement	23, 35	341 715	36 618
Total changes in the revaluation account	23	-307 137	113 001
TOTAL		-307 137	133 909

Notes to the financial statements

1. Principal activities

Latvijas Banka is the central bank of the Republic of Latvia and a member of the ESCB and the Eurosystem. It was established on 19 September 1922 (re-established in 1990). In its activities, Latvijas Banka complies with the legislation of the Republic of Latvia and the EU, inter alia, ECB legal acts, in compliance with the Treaty on the Functioning of the European Union and the Statute of the ESCB and of the ECB.

Pursuant to the Law on Latvijas Banka, in force during the reporting year, the primary goal of Latvijas Banka is to maintain price stability. Latvijas Banka has the following main tasks:

- participate in the formulation and implementation of the Eurosystem's monetary policy;
- manage foreign reserves and other financial investments;
- ensure cash currency circulation in Latvia and contribute to ensuring cash currency circulation in the euro area, as well as perform the function of the National Analysis Centre and the Coin National Analysis Centre, ensuring efficient analysis of currency counterfeits;
- participate in promoting the smooth functioning of payment systems;
- operate as the financial agent of the Latvian government and provide financial services to other market participants;
- cooperate with the ECB, the central banks of other EU Member States and other countries as well as other financial institutions;
- promote the stability of Latvia's financial system at the macro level;
- promote financial literacy of and acquisition of economic knowledge by the public;
- compile and publish statistical information in order to ensure the performance of the tasks of Latvijas Banka;
- maintain and develop the Credit Register;
- act as an advisor to the Saeima (Parliament) and Cabinet of Ministers of the Republic of Latvia on monetary policy issues and other issues related to the implementation of Latvijas Banka's tasks;
- issue licences to legal persons listed in the Register of Enterprises of the Republic of Latvia, except credit institutions, for the purchase and sale of foreign currency as a commercial activity.

On 1 January 2023, the new Law on Latvijas Banka, adopted on 23 September 2021, entered into force and provides for the FCMC's incorporation in Latvijas Banka. According to that Latvijas Banka has the following additional tasks:

- define and implement the macroprudential policy;
- regulate and supervise the operation of the financial market and its participants;
- perform the tasks of a resolution authority;
- ensure the operation of the Deposit Guarantee Fund, the operation of the Fund for the Protection of the Insured and the disbursement of compensations to investors.

Latvijas Banka neither seeks nor takes instructions from the government of Latvia and other EU Member States, EU institutions and other national, foreign or international institutions and their entities. Latvijas Banka is independent in setting and implementing policy under its legal mandate. Latvijas Banka's activities are overseen by the Saeima of the Republic of Latvia.

Latvijas Banka's execution of operating activities is mainly financed from income received from its investment management and monetary policy operations.

The Head Office of Latvijas Banka is situated at K. Valdemāra iela 2A, Riga. Latvijas Banka manages the storage and processing of cash through its branch in Bezdēlīgu Street 3, Riga.

2. Principal accounting policies

2.1 Basis of preparation

These financial statements have been prepared in accordance with the Guideline of the ECB of 3 November 2016 on the legal framework for accounting and financial reporting in the European System of Central Banks (recast) (ECB/2016/34), Financial Accounting Policy of Latvijas Banka approved by the 'Council of Latvijas Banka, and the requirements of the Law on Latvijas Banka governing financial reporting.

2.2 Basis of measurement

Gold, participating interest in the BIS, and securities are measured at fair value, except held-to-maturity debt securities and securities held for monetary policy purposes that are measured at amortised cost. Securities held to maturity are securities with fixed or determinable payments and fixed maturity which Latvijas Banka intends to hold to maturity. The participating interest in the ECB is measured according to the procedure referred to in Note 13.1.

Derivatives are accounted for at fair value, except forward exchange rate contracts and currency swap arrangements that are measured according to the principles described in Note 2.4 and 2.10.

Loans to credit institutions, deposits and similar financial claims and financial liabilities are recorded at nominal value on the balance sheet.

Euro banknotes and coins issued are recorded at nominal value on the balance sheet. The lats banknotes and coins issued by Latvijas Banka which have not yet been exchanged for the euro banknotes and coins are recognised on the balance sheet as liabilities, considering the exchange probability of such lats banknotes and coins within 20 years from the euro changeover. Euro collector coins, lats gold circulation coins and lats collector coins are not recognised on the balance sheet (see also Note 22.1 and 45).

Fixed assets and intangible assets are reported on the balance sheet at cost less the accumulated depreciation and amortisation.

Other assets and liabilities are measured in accordance with the historical cost basis of accounting.

2.3 Fair value of financial assets and financial liabilities

Fair value is the price at which a financial asset could be sold or a financial liability could be transferred in an orderly transaction between market participants at the measurement date.

The fair value of financial instruments is determined by Latvijas Banka using quoted prices in active markets, other financial market information sources or discounted cash flows, except for the fair value of the BIS shares: the method of its estimation is 70% of the BIS net asset value (see also Note 14.2). The discounted cash flows are modelled using money market interest rates. The breakdown of assets measured at fair value as well as of financial instruments that have not been measured at their fair value but whose estimated fair value is different from their book value, taking into account the hierarchy of fair value determination, is provided in Note 5.

2.4 Foreign currency and gold translation

For foreign currency translation Latvijas Banka applies foreign exchange rates published by the ECB. The exchange rate of the SDR is set on the basis of the weights of currencies in the SDR basket published by the IMF and the exchange rates of the respective currencies published by the ECB. The price of gold is set on the basis of the quoted gold market price in US dollars and the exchange rate of the US dollar against the euro published by the ECB.

Transactions denominated in foreign currencies are recorded in euro at the respective exchange rates on the day of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into euro at the exchange rates prevailing at the end of the reporting period. Non-monetary assets and liabilities, measured at cost or amortised cost, are translated into euro at the exchange rate for the respective foreign currency prevailing on the day of the transaction.

Transactions in foreign currencies are included in the calculation of net foreign currency position of the respective currency. Forward exchange rate contracts, currency swap arrangements, and spot exchange rate contracts are included in the net position of the respective currency on the transaction day at the spot rate of the transaction and are recorded on the balance sheet in euro at the exchange rate of the respective currency prevailing at the end of the reporting period. The principles for valuation and recording of transactions denominated in foreign currencies are also applied to gold.

The exchange rates of major foreign currencies (currency units per euro) and gold price (euro per troy ounce) in euro used in the preparation of the balance sheet for the year ended 31 December 2022 and the year ended 31 December 2021 are as follows:

(at the end of the year)

	2022	2021	Changes (%)
US dollar (USD)	1.0666	1.1326	-5.8
Japanese yen (JPY)	140.66	130.38	7.9
Canadian dollar (CAD)	1.4440	1.4393	0.3
British pound sterling (GBP)	0.88693	0.84028	5.6
Gold (XAU)	1706.075	1609.483	6.0

2.5 Reverse and other collateralised transactions

Securities that are pledged for the benefit of Latvijas Banka or purchased under reverse transactions are not reported on Latvijas Banka's balance sheet. Securities that are lent, pledged for the benefit of a counterparty or sold under reverse transactions are reported on Latvijas Banka's balance sheet along with other securities that are not pledged in such transactions. Any cash paid or received in reverse or collateralised transactions is reported on Latvijas Banka's balance sheet as loans or deposits respectively.

2.6 Fixed and intangible assets

Fixed and intangible assets are long-term assets with the useful life of over one year. The capitalisation limit of fixed and intangible assets in 2022 and 2021 was 1000 euro, except for the costs related to real estate improvements and replacement of fixed asset parts for which the Council of Latvijas Banka has set a higher capitalisation limit depending on their significance.

Depreciation and amortisation are recognised using the straight-line method over the estimated useful life of the fixed or intangible asset. Buildings and structures are accounted for by separate components, with individual useful life set for each such component.

In 2021, the useful lives set for fixed and intangible assets were not changed. In 2022 and 2021, the useful lives set were as follows:

(years)

	2022	2021
Buildings and their components, improvements to the territory, incl. structures	5-100	5-100
finishing, equipment and engineering communications	100	100
Transport vehicles	5-20	5-20
Office equipment and tools	10-15	10-15
Cash processing, verifying and storage equipment	5-25	5-25
Computer and telecommunications equipment	5-15	5-15
Other fixed assets	2-5	2-5
Intangible assets	5-15	5-15
	1-10	1-10

2.7 Use of estimates and assumptions

The major estimates and assumptions in the preparation of the financial statements have been made with respect to the following: the accounting policy for securities held to maturity (see Note 2.2), the useful life of fixed assets and intangible assets (see Note 2.6), impairment of assets (see Note 2.8), the exchange probability of those lats banknotes and coins that have not been yet exchanged for euro banknotes and coins (see Note 2.2), the repurchasing probability of collector coins (see Note 45), provisions for market risk and credit risk (see Note 36), the breakdown of fair value determination (see Note 5), the method for establishing the fair value of the BIS shares (see Note 14.2).

2.8 Impairment of assets

An asset is impaired when its carrying amount exceeds its recoverable amount. Upon detecting any indications of impairment of an asset, the recoverable amount of the respective asset is estimated. If the recoverable amount is less than the carrying amount of the respective asset, adequate impairment allowances for the respective asset are made. Such impairment allowances are recognised in the profit and loss statement with a respective reduction in the asset's carrying amount.

The ECB carries out impairment assessment of securities held for monetary policy purposes, identifying any potential changes in future cash flows and any other factors encumbering the fulfilment of the liabilities by the securities issuer. Assets are impaired when the carrying amount of securities held for monetary policy purposes exceeds their recoverable amount, e.g. a significant deterioration of the credit quality or event of default. The latter is defined as the present value of a future cash flow estimate. The Governing Council of the ECB approves the results of the asset impairment assessment carried out by the ECB (see Note 36).

2.9 Recognition of gains and losses on financial instruments, foreign currency and gold positions

Gains and losses on financial instruments, foreign currency and gold positions are recognised in accordance with the following principles provided by the ECB's legal framework for accounting and financial reporting:

- a) realised gains and losses shall be recognised in the profit and loss statement;
- b) unrealised gains shall be recognised in the balance sheet item "Capital and reserves" as the revaluation reserve;
- c) unrealised losses recognised in the balance sheet item "Capital and reserves" as the revaluation reserve at the end of the reporting year shall be transferred to the profit and loss statement if they exceed the previous revaluation gain on the respective financial instrument, foreign currency or gold position;
- d) unrealised losses recognised in the profit and loss statement at the end of the reporting year shall not be reversed and offset by unrealised gains of the respective financial instrument, foreign currency or gold position in the subsequent years;
- e) there shall be no netting of unrealised losses in a financial instrument, foreign currency or gold position against unrealised gains in another financial instrument, foreign currency or gold position;
- f) the average cost method shall be used to calculate the realised and unrealised gains and losses arising from a financial instrument, foreign currency or gold position;
- g) the average cost of a financial instrument, foreign currency or gold position shall be increased or reduced by unrealised losses that are recognised in the profit and loss statement at year-end;
- h) When recognising income from equity securities, the income recognition principles are applied to the investment portfolio rather than individual securities, where externally managed investments in equity securities replicate the structure of an index-linked equity fund.

Dividends on equity securities and participating interest are recognised in the profit and loss statement when the right to receive payment is established.

2.10 Interest income and expense

Interest income and expense are recognised in the profit and loss statement on an accrual basis.

Interest on securities also includes premium and discount, which are amortised over the remaining life of the respective securities using the straight-line method.

The spot and forward currency exchange rate spread of forward exchange rate contracts and currency swap arrangements, is recognised in the profit and loss statement as interest income or interest expense over the term of the agreement.

2.11 Other expenses and income

Banknote and coin acquisition costs are charged to the profit and loss statement at the time of banknote and coin acquisition.

Proceeds from sales of collector coins are recognised in the profit and loss statement when incurred.

Latvijas Banka's other operating expenses and income are recognised in the profit and loss statement on an accrual basis. The amount of accrued expenses and income for the reporting period is calculated in accordance with the volume of services received or rendered in the reporting period. Lease payments are recognised in the profit and loss statement proportionally over the term of the respective agreement.

3. Summary of the financial position and financial performance of Latvijas Banka

3.1 Financial position

In 2022, Latvijas Banka's assets grew by 676.3 million euro, reaching 25.8 billion euro.

Foreign currency claims on non-euro area residents fell by 707.1 million euro as a result of changes in the volume and revaluations of these investments.

The balance sheet item "Securities held for monetary policy purposes" increased by 1444.0 million euro due to asset purchases made by Latvijas Banka under the PEPP and PSPP. At the end of 2022, Latvijas Banka held securities purchased for monetary policy purposes amounting to 13.1 billion. euro, of which Latvian government securities – 4.2 billion. euro.

The amount of loans granted to credit institutions by Latvijas Banka as a result of longer-term refinancing operations decreased by 93.7 million euro as a result of their repayment (see also Note 10.2).

Other claims related to other operational requirements within the Eurosystem grew by 56.6 million euro, mostly due to a rise in claims on banknote allocation in the Eurosystem (see also Note 13.4).

Banknotes in circulation increased by 99.1 million euro, in line with the pickup in the overall amount of banknotes in circulation of the euro area NCBs.

The decrease of 329.5 million euro under the balance sheet item "Other liabilities to euro area credit institutions denominated in euro", decrease of 888.2 million euro under the balance sheet item "Liabilities to euro area residents denominated in foreign currency" respectively, as well as a decrease of 653.7 million euro under the balance sheet item "Liabilities to non-euro area residents denominated in foreign currency" are mostly related to the decrease of repurchase agreements and gold swaps arrangements.

Credit institution deposits, reported under the balance sheet item "Liabilities to euro area credit institutions related to monetary policy operations denominated in euro", decreased by 1189.5 million euro.

As a result of cross-border payments, liabilities to the ECB for the settlement result in TARGET2, reported under the balance sheet item "Intra-Eurosystem liabilities", increased by 5047.5 million euro.

The capital and reserves of Latvijas Banka decreased by 321.8 million euro due to net decrease in the financial instruments revaluation account balance (307.1 million euro) and the share of profits earned in 2021 and remitted to the state budget (14.6 million euro).

3.2 Financial performance

Latvijas Banka ended 2022 with a neutral financial result in the amount of 0 euro (20.9 million euro in 2021). In 2022, there was uncertainty and the global economy was particularly negatively affected by the war waged by Russian against Ukraine. With the economies important for Latvijas Banka's investments recovering after the lifting of Covid-19 restrictions and the supply chain bottlenecks intensifying and energy and food prices rising at the same time, inflation hit record highs. To curb inflation, central banks began to sharply raise base interest rates, leading to a decrease in the market value of investments. At the same time, income from Eurosystem monetary policy operations also declined, with the ECB raising interest rates.

Net interest income reached the amount of 47.0 million euro (124.0 million euro in 2021). This mainly resulted from a 46.0 million euro increase in interest income and a 122.9 million euro increase in interest expense due to higher interest income on securities, lower interest income on deposits received, higher

interest income on intra-Eurosystem requirements, higher currency hedging costs, and higher interest expense on intra-Eurosystem liabilities as a result of rising interest rates.

The realised gains on financial operations amounted to 39.7 million euro (0.4 million euro in 2021), which was positively affected by realised gains from the developed markets equity securities portfolio, but recognition of the negative revaluation result on financial assets and positions in the profit and loss statement increased to stand at 341.7 million euro (36.6 million euro in 2021), mostly on account of decreasing market value of debt securities due to rising yields.

Taking into account the negative result of revaluation of financial assets and positions as a result of the increase in interest rates, Latvijas Banka used the established provisions for financial risks amounting to 280.6 million euro (in 2021, the respective provisions were increased by 14.0 million euro).

Income from equity securities and participating interest amounted to 14.8 million euro (14.6 million euro in 2021).

Pursuant to the Statute of the ESCB and of the ECB, the income generated by euro area NCBs through the implementation of the single monetary policy of the Eurosystem is allocated to euro area NCBs in proportion to their shares in the ECB's capital. Latvijas Banka's net result of pooling of monetary income was negative 6.2 million euro (negative 34.3 million euro in 2021).

Other operating income stood at 5.8 million euro (3.5 million euro in 2021). Income increased primarily on account of a revaluation of liabilities for the issued lats banknotes and coins.

The bank's operating expenses amounted to 35.5 million euro (32.7 million euro in 2021) and they mainly consisted of remuneration costs, which increased by 0.6% in 2022.

The total recognised financial result, including changes in the financial instruments revaluation account balance, decreased by 441.0 million euro in comparison with 2021 and reached -307.1 million euro on account of a decrease of 725.3 million euro in the result of revaluation and a 305.1 million euro rise in the negative result on revaluation of financial assets and positions in the profit and loss statement.

In the future, Latvijas Banka's financial performance will mostly be affected by the monetary policy pursued by the Eurosystem and by the interest rate and capital market developments in the financial markets of the euro area and the US since Latvijas Banka is exposed to interest rate risk.

4. Financial investment policy

Investments are managed in compliance with the basic principles set by the Council of Latvijas Banka – preserving the value of investments, ensuring their liquidity and earning income within the framework of acceptable risk in the medium term, as well as respecting the sustainability principle without contradicting the monetary policy implemented by the Eurosystem.

Investments include assets reported under the balance sheet items “Gold and gold receivables”, “Claims on non-euro area residents denominated in foreign currency”, “Claims on euro area residents denominated in foreign currency”, “Claims on non-euro area residents denominated in euro”, “Other claims on euro area credit institutions denominated in euro” and “Other securities”, as well as accrued income on debt securities reported under the balance sheet item of other assets “Accrued interest on other securities” and derivative financial instruments and spot exchange rate contracts whose book value is reported under relevant balance sheet items of other assets or other liabilities.

Investments are managed by classifying them into different investment portfolios by investment strategy and source of funding. The portfolio of borrowed funds includes investments which correspond to Latvijas Banka’s liabilities in foreign currencies to government or government deposits. Investments that are not included in the portfolio of borrowed funds are included in the portfolios of 1–10 year fixed income securities, mortgage-backed securities, developed markets equity securities, long-term fixed income securities, global fixed income securities, emerging markets equity securities, emerging markets fixed income securities, Latvian government securities, and gold. The developed markets equity securities portfolio, the mortgage-backed securities portfolios and the global fixed income securities portfolio are managed by external managers.

The parameters for a benchmark reflecting the acceptable level of financial risks and expected return are set out for the 1–10 year fixed income securities portfolio, mortgage-backed securities portfolios, the portfolio of borrowed funds, the developed markets equity securities portfolio, the global fixed income securities portfolio, the emerging markets equity securities portfolio and emerging markets fixed income securities portfolio.

The breakdown of investments by type of investment portfolio at the end of 2022 and 2021 was as follows:

	Book value (in thousands of euro)		Proportion (%)	
	2022	2021	2022	2021
1–10 year fixed income securities portfolios	2 790 364	3 209 547	46.8	47.9
Mortgage-backed securities portfolios	1 052 437	1 186 537	17.7	17.7
The portfolio of borrowed funds	551 032	544 413	9.2	8.1
Developed markets equity securities portfolio	509 656	793 702	8.5	11.8
Gold portfolio	364 821	344 166	6.1	5.1
Emerging markets fixed income securities portfolio	301 579	325 212	5.0	4.9
Long-term fixed income securities portfolio	168 320	168 246	2.8	2.5
Global fixed income securities portfolio	138 623	–	2.3	–
Emerging markets equity securities portfolio	59 002	94 391	1.0	1.4
Latvian government securities portfolio	36 416	39 167	0.6	0.6
Total	5 972 250	6 705 381	100.0	100.0

In 2022 the developed markets equity securities portfolio and the emerging markets equity securities portfolio were reduced, and the global fixed income securities portfolio was separated from the 1-10 year fixed income securities portfolio.

The 1-10 year fixed income securities portfolio benchmark comprised the weighted 1-10 year government securities index of the UK and euro area countries, and the 1-3 year government securities index of the US and Canada.

The mortgage-backed securities portfolio benchmark is the US mortgage-backed securities index.

The benchmark for the portfolio of borrowed funds is formed in compliance with the parameters of respective liabilities.

The developed markets equity securities portfolio benchmark is the equity securities index comprised of issuers from developed countries. In 2022 restrictions were imposed on this portfolio considering the climate and sustainability performance targets set by Latvijas Banka.

The gold portfolio comprises the gold of Latvijas Banka and the related financial instruments.

The emerging markets fixed income securities portfolio benchmark is the public sector issuer index of emerging market countries with an investment grade rating by international credit rating agencies.

The long-term fixed income securities portfolio comprises euro area government securities denominated in euro, with term to maturity of 10 years at the time of acquisition.

In 2022, Latvijas Banka established a global fixed income securities portfolio for which benchmark is a global fixed income securities index.

The emerging markets equity securities portfolio benchmark is the equity securities index comprised of issuers from emerging market countries.

The Latvian government securities portfolio comprises euro denominated Latvian government bonds with term to maturity of 5-10 years at the time of acquisition.

The benchmark currency of Latvijas Banka's investment portfolios is the euro, except for the portfolio of borrowed funds, the equity securities portfolio, developed markets equity securities portfolio, global fixed income securities portfolio, emerging markets equity securities portfolio and the gold portfolio (limiting the currency risk). For the portfolio of borrowed funds, the benchmark currency structure is formed considering the currency of the respective liabilities.

The description of the main methods used in financial risk management is provided in Note 25.1.

Balance sheet notes

5. Fair value measurement

The fair value of Latvijas Banka's assets is determined using the following hierarchy (see also Note 2.3):

- quoted market price. The fair value is determined using quoted prices for identical financial instruments in active markets;
- observable data. The fair value is determined using quoted prices for similar financial instruments in active markets, quoted prices for identical or similar financial instruments in inactive markets or using models where all significant inputs are observable;
- non-observable data. The fair value is determined using a model where significant inputs are non-observable.

At the end of 2022 and 2021, Latvijas Banka's assets carried at fair value were generally valued on the basis of a quoted market price in active markets.

At the end of 2022 and 2021, the participating interest in the BIS was assessed using non-observable data. The assessment was conducted using the 70% net asset value method (see also Note 14.2).

At the end of 2022 and 2021, the breakdown of financial instruments and gold carried at fair value and of the financial instruments whose fair value is different from their book value, according to the fair value hierarchy, was as follows:

(in thousands of euro)

	Book value	Fair value			2022	2021
		Quoted market price	Observable data	Non-observable data	Total fair value	Difference between fair value and book value
As at 31 December 2021						
Gold	344 166	344 166	-	-	344 166	-
Securities in investment portfolios	5 741 342	5 014 198	741 456	-	5 755 654	14 312
Forward exchange rate contracts	-5 850	-	-6 314	-	-6 314	-464
Interest rate swap arrangements	1	1	-	-	1	-
Securities held for monetary policy purposes	11 761 724	12 096 792	-	-	12 096 792	335 068
Participating interest in the Bank for International Settlements	37 309	-	-	37 309	37 309	-
Total	17 878 692	17 455 157	735 142	37 309	18 227 608	348 916
As at 31 December 2022						
Gold	364 821	364 821	-	-	364 821	-
Securities in investment portfolios	4 815 309	4 165 042	638 344	-	4 803 386	-11 923
Forward exchange rate contracts	171 694	-	170 486	-	170 486	-1 208
Securities held for monetary policy purposes	13 212 490	10 985 608	-	-	10 985 608	-2 226 882
Participating interest in the Bank for International Settlements	37 119	-	-	37 119	37 119	-
Total	18 601 433	15 515 471	808 830	37 119	16 361 420	-2 240 013

The securities, including accrued interest on the above securities, are reported under the balance sheet items "Claims on non-euro area residents denominated in foreign currency", "Claims on euro area residents denominated in foreign currency", "Claims on non-euro area residents denominated in euro", "Securities of euro area residents denominated in euro", "Other assets" and "Other liabilities".

The book value of forward exchange rate contracts is reported under the balance sheet items "Other assets" or "Other liabilities", while the present Note discloses the total net book value.

The average market prices on the last trading day of the reporting year are obtained from the electronic information systems Bloomberg and Refinitiv (quoted market price if the market of the respective financial instrument is active; observable data if the market is inactive). Where the above quoted price for a financial instrument is absent in the electronic information systems and the market for the financial instrument is inactive, the price provided by a market participant or the discounted cash flow is used for evaluating the financial instrument (observable data).

6. Gold and gold receivables

	Troy ounces	In thousands of euro
As at 31 December 2020	213 836	330 139
During 2021		
Net change resulting from gold swaps arrangements	x	14 027
As at 31 December 2021	213 836	344 166
During 2022		
Increase in gold market value	x	20 655
As at 31 December 2022	213 836	364 821

The revaluation result of gold is recognised under the balance sheet item "Capital and reserves" as the revaluation result.

To limit the gold maintenance costs and ensure return on gold investments, gold may be involved in gold swaps arrangements (at the end of 2022 Latvijas Banka had not concluded gold swaps arrangements; at the end of 2021, all gold in the amount of 344 166 thousand euro was involved in gold swaps arrangements (see also Notes 21 and 43)). Gold swaps arrangements are treated as repurchase agreements.

At the end of 2022 and 2021, Latvijas Banka had no gold receivables.

7. Claims on non-euro area residents denominated in foreign currency

7.1 Receivables from the International Monetary Fund

Pursuant to the Law on the Republic of Latvia Joining the International Monetary Fund, Latvijas Banka serves as a depository for the IMF and services the IMF accounts in the member state currency without compensation. The IMF holdings in euro comprise a promissory note issued by the Latvian government, Account No. 1 used for financial transactions with the IMF, and Account No. 2 used for the IMF administrative expenditure and receipts.

Latvia's claims on the IMF include SDR and Latvia's quota in the IMF. SDR is an international reserve asset created by the IMF and used in transactions between the IMF and its members. The quota in the IMF reflects the subscription in the IMF of respective members. Latvia's quota in the IMF is secured by the Latvian government promissory note issued to the IMF and denominated in SDR.

Latvia's liabilities to the IMF are made up of the IMF holdings in euro and IMF allocations.

At the end of 2022, the receivables from the IMF in SDR as recorded on Latvijas Banka's balance sheet were equivalent to 549 961 thousand euro (542 959 thousand euro at the end of 2021), whereas the liabilities to the IMF were made up of funds at the disposal of the IMF in the amount of 1449 thousand euro (1436 thousand euro at the end of 2021) held on its Accounts No. 1 and No. 2 (see also Note 19).

At the end of 2022 and 2021, Latvia's net receivables from the IMF were as follows:

	(in thousands of euro)		(in thousands of SDR)	
	2022	2021	2022	2021
Latvia's quota in the International Monetary Fund	415 940	410 690	332 300	332 300
International Monetary Fund holdings in euro	-394 586	-410 621	-315 239	-332 244
Promissory note of the Latvian government	-393 137	-409 185	-314 082	-331 082
Account No. 1	-1 040	-1 027	-831	-831
Account No. 2	-409	-409	-326	-331
Reserve position in the International Monetary Fund	21 763	478	17 387	387
incl. financing of the Financial Transaction Plan	21 279	-	17 000	-
SDR	549 961	542 959	439 372	439 323
General allocation	-516 316	-509 799	-412 493	-412 493
Special allocation	-33 576	-33 152	-26 824	-26 824
Latvia's net receivables from the International Monetary Fund	21 832	486	17 442	393

The reserve position in the IMF is the difference between Latvia's quota in the IMF and the IMF holdings in euro, excluding the balance on Account No. 2. In 2022, considering Latvia's sufficiently strong economic development and following the policies and procedures of membership of the IMF, Latvia was included in the IMF's Financial Transaction Plan. The countries included in the plan participate in the financing of the IMF's lending operations, not exceeding the amount of the national quota, receiving interest payments in return.

7.2 Balances with credit institutions and security investments, external loans and other external assets

(in thousands of euro)

	2022	2021
Securities	3 182 643	3 881 610
Demand deposits	44 939	70 594
Reverse repurchase agreements	10 407	-
Foreign currency in cash	94	18
Total	3 238 083	3 952 222

8. Claims on euro area residents denominated in foreign currency

(in thousands of euro)

	2022	2021
Securities	521 132	527 531
Demand deposits	907	897
Total	522 039	528 428

9. Claims on non-euro area residents denominated in euro

(in thousands of euro)

	2022	2021
Securities	148 569	167 048
Demand deposits	7 814	7 033
Total	156 383	174 081

10. Lending to euro area credit institutions related to monetary policy operations denominated in euro

At the end of 2022, the total amount of Eurosystem loans in monetary policy operations reached 1 324 347 million euro (2 201 882 million euro at the end of 2021), including 522.9 million euro (616.6 million euro at the end of 2021) of loans granted by Latvijas Banka. Pursuant to the Statute of the ESCB and of the ECB, the risks associated with the implementation of monetary policy (if any materialise) are allocated among euro area NCBs in proportion to their share in the ECB's capital. Losses from Eurosystem lending related to monetary policy operations might only be incurred where the counterparty defaults on its obligations and the funds recovered as a result of the disposal of the collateral provided by the counterparty are not sufficient (see also Note 25.1.2).

10.1 Main refinancing operations

Main refinancing operations are open market operations executed through liquidity providing reverse transactions, conducted through weekly standard tenders with a maturity of one week. These operations play a key role in steering interest rates, managing market liquidity and signalling the monetary policy stance. At the end of 2022 and 2021, Latvijas Banka had granted no loans in main refinancing operations.

10.2 Longer-term refinancing operations

Longer-term refinancing operations are open market operations, executed through reverse transactions with the aim to provide credit institutions with additional longer-term refinancing. Such operations are conducted through monthly standard tenders with maturities between 3 and 48 months. In addition, following the decision of the Governing Council of the ECB, TLTROs were launched in 2014. They are liquidity providing reverse operations providing longer-term liquidity to credit institutions on attractive terms, so that they can continue easing the terms and conditions of lending to the private sector and to encourage their lending to the real economy. In 2016, the Governing Council of the ECB introduced a new series of four targeted longer-term refinancing operations (TLTRO II). These operations had a four-year maturity, with a possibility of early repayment after two years. In 2021, the operations were discontinued. Additionally, in 2019, the Governing Council of the ECB introduced a new series of seven targeted longer-term refinancing operations (TLTRO III). These operations have a three-year maturity, with a possibility of early repayment after two years and since September 2021 – after one year. In 2020, the Governing

Council of the ECB added three further operations to this series, which were conducted in 2021 and have a three-year maturity, with a possibility of early repayment. According to the initial decisions, the interest rate applicable to TLTRO III operations could be as low as the average interest rate on the deposit facility. In response to the impact of the COVID-19 pandemic, in 2020 the Governing Council of the ECB decided to lower this rate, establishing that for the period between 24 June 2020 and 23 June 2022 the interest rate applicable can be as low as 50 basis points below the average interest rate on the deposit facility, but in any case may not become less negative than -1%. In addition, on 27 October 2022, the Governing Council of the ECB decided that, from 23 November 2022 until the maturity date or early repayment date of each respective outstanding TLTRO III operation, the interest rate on TLTRO III operations will be indexed to the average applicable key ECB interest rates over this period. On the same date, the Governing Council of the ECB decided to introduce three additional voluntary early repayment dates to provide TLTRO III participants with additional opportunities to partly, or fully, repay their respective TLTRO III borrowings before their maturity. The Governing Council of the ECB launched four additional pandemic emergency longer-term refinancing operations (PELTROs) in 2021 (three matured in the course of 2022 and one was maturing in January 2023). These operations provide further liquidity support after the expiry of the bridge longer-term refinancing operations (LTROs) that have been conducted since March 2020. In 2022, Latvijas Banka received 93 700 thousand euro as repayment of loans granted to credit institutions. At the end of 2022, the balance of the TLTROs conducted by Latvijas Banka stood at 522 900 thousand euro (at the end of 2021, the balance was 616 600 thousand euro).

11. Other claims on euro area credit institutions denominated in euro

Other claims on euro area credit institutions denominated in euro mostly include Latvijas Banka's demand deposits in euro with euro area credit institutions (6304 thousand euro at the end of 2022; 4255 thousand euro at the end of 2021).

12. Securities of euro area residents denominated in euro

At the end of 2022, the amount of securities held by the Eurosystem for monetary policy purposes totalled 4 937 179.2 million euro (4 713 403.5 million euro at the end of 2021). Of them, Latvijas Banka held 13 135 million euro (11 691 million euro at the end of 2021). Pursuant to the Statute of the ESCB and of the ECB, any income and losses, if any materialise, are allocated among euro area NCBs in proportion to their share in the ECB's capital, except any risks associated with the purchases of government securities carried out by Latvijas Banka and other euro area NCBs under the PSPP and PEPP. Of the total amount of securities held by the Eurosystem for monetary policy purposes, at the end of 2022, the amount of government securities purchased by the euro area NCBs under the PSPP totalled 2067 billion euro (1989 billion euro at the end of 2021); of them, Latvijas Banka held Latvian government securities in the amount of 2758 million euro (2307 million euro at the end of 2021). At the end of 2022, the amount of government securities purchased by the euro area NCBs under the PEPP totalled 1318 billion euro (1244 billion euro at the end of 2021); of them, the amount of Latvian government securities held by Latvijas Banka was 1450 million euro (1242 million euro at the end of 2021).

During the first quarter of 2022, the Eurosystem's purchases of securities under the APP continued at a monthly net pace of 20 billion euro. In March 2022, the Governing Council of the ECB decided to revise the net purchase amounts to 40 billion euro in April, 30 billion euro in May and 20 billion euro in June. The Governing Council of the ECB decided to end net asset purchases under the APP as of 1 July 2022. In response to the COVID-19 pandemic and the related potential risks to the monetary policy transmission mechanism and the euro area economic outlook, in March 2020, the Governing Council of the ECB launched a new asset purchase programme, the PEPP, whereby net asset purchases continued until March 2022. The Governing Council of the ECB intends to reinvest the principal payments from maturing securities purchased until the end of 2024.

(in thousands of euro)

	2022	2021
Securities held for monetary policy purposes	13 134 812	11 690 783
Latvian government securities	4 207 501	3 548 199
PSPP government securities	2 757 748	2 306 559
PEPP government securities	1 449 753	1 241 640
Debt securities issued by international institutions	8 927 311	8 142 584
PSPP debt securities issued by international institutions	7 034 553	6 564 407
PEPP debt securities issued by international institutions	1 892 758	1 578 177
Other securities	946 794	1 149 213
Securities not held to maturity	778 474	980 967
Securities held to maturity	168 320	168 246
Total	14 081 606	12 839 996

13. Intra-eurosystem claims/liabilities (-)

(in thousands of euro)

	Note	2022	2021
Participating interest in the European Central Bank	13.1.	118 849	116 472
Claims in respect of foreign reserves transferred to the European Central Bank	13.2.	157 202	157 202
Claims related to the allocation of banknotes in the Eurosystem	13.4.	5 650 608	5 593 565
Claims related to other operational requirements within the Eurosystem	13.5.	300	769
Total intra-Eurosystem claims		5 926 959	5 868 008
Liabilities related to TARGET2 and national central bank correspondent accounts (net)	13.3.	-10 370 127	-5 322 638
Other liabilities within the Eurosystem	13.5.	-6 237	-34 342
Total intra-Eurosystem liabilities		-10 376 364	-5 356 980
Intra-Eurosystem claims		-4 449 405	511 028

13.1 Participating interest in the European Central Bank

With Latvia's accession to the EU, Latvijas Banka became a subscriber to the capital of the ECB. In accordance with the Statute of the ESCB and of the ECB, the weighting assigned to Latvijas Banka in the ECB capital subscription key is calculated on the basis of the share of Latvia's population and gross domestic product in the EU. The weightings assigned to the NCBs in the ECB's capital subscription key are adjusted every five years or at shorter intervals depending on changes in the number of the EU NCBs that contribute to the ECB's capital. The ECB's capital subscription key was last adjusted in 2020 because of the departure of the United Kingdom from the European Union and the subsequent withdrawal of the Bank of England from the ESCB. The Bank of England's share in the ECB's subscribed capital (14.3374%) was reallocated among other NCBs; hence the capital key of Latvijas Banka increased from 0.2731% to 0.3169%, equivalent to 34 304 thousand euro.

The Statute of the ESCB and of the ECB stipulates that a euro area NCB shall pay up its subscribed share in the ECB's capital in full, as well as contribute to the ECB's reserve capital, to those provisions equivalent to reserves and to the revaluation account for financial instruments in proportion to its share in the ECB's capital. Following the withdrawal of the Bank of England from the ESCB, the ECB's total paid-up capital

increased by 1221 million euro, as the subscriptions of the euro area NCB's (subscribed capital paid up in full) in the ECB's subscribed capital grew and the subscriptions of non-euro area NCB's (pay up 3.75% of their subscriptions) in the ECB's subscribed capital decreased accordingly. The Governing Council of the ECB decided that the euro area NCB's were to pay up their subscriptions fully; therefore, their subscribed capital would increase in two instalments, at the end of 2021 and 2022 respectively.

In 2022, Latvijas Banka made the second of two payments in the amount of 2377 thousand euro. At the end of 2021, Latvijas Banka's participating interest in the ECB consisted of the paid-up shares in the amount of 34 304 thousand euro in the ECB's capital, transfers to the financial instrument revaluation account amounted to 42 752 thousand euro and the difference between the market value of the foreign reserves transferred to the ECB and the value of the corresponding euro-denominated claim amounted to 41 793 thousand euro (see also Note 13.2).

The total subscribed capital of the ECB remained unchanged in 2022. The accession of the Croatian central bank to the Eurosystem on 1 January 2023 did not change the amount of the ECB's total subscribed capital, but generated an increase in the ECB's total paid-up capital of 68 714 thousand euro. The ECB's capital shares are not traded in the public securities market, and Latvijas Banka's participating interest in the ECB can be increased or decreased only in the cases referred to in this Note.

(in thousands of euro)

	2022	2021
Total amount of the European Central Bank's subscribed capital	10 825 007	10 825 007
The subscribed share of Latvijas Banka in the European Central Bank's capital	34 304	34 304
The paid-up share of Latvijas Banka in the European Central Bank's capital	34 304	31 927
The percentage share of Latvijas Banka in the European Central Bank's capital (capital key; %)	0.3169	0.3169

13.2 Claims equivalent to the transfer of foreign reserves to the European Central Bank

Pursuant to the Statute of the ESCB and of the ECB, euro area NCBs shall transfer a definite amount of their foreign reserves to the ECB. The amount of foreign reserves to be transferred is fixed in proportion to the capital key weighting of each euro area NCB in the ECB's capital. In exchange for the foreign reserves transferred to the ECB, Latvijas Banka received a euro-denominated claim on the ECB in proportion to the value of the respective claims of other euro area NCBs. At the end of 2022 and of 2021, this claim amounted to 157 202 thousand euro. The difference between the market value of the foreign reserves transferred to the ECB and the value of the corresponding euro-denominated claim in the amount of 41 793 thousand euro is reported as participating interest in the ECB (see also Note 13.1). The interest rate on the main refinancing operations set by the ECB is applied to the claims equivalent to the transfer of foreign reserves to the ECB (see also Note 33).

13.3 Claims/liabilities related to TARGET2 and national central bank correspondent accounts (net)

TARGET2 is a real-time gross settlement system for large value payments in euro. Claims and liabilities related to TARGET2 settlements originate as a result of cross-border payments settled in the central bank money. The above settlements result in bilateral claims and liabilities in the TARGET2 accounts held by NCBs. The net positions for the bilateral balances are attributed to the ECB and calculated on a daily basis, leaving each NCB with a single net position vis-à-vis the ECB. This is reported on the NCB's balance sheet as net claims or liabilities related to TARGET2 settlements.

In 2022, the liabilities related to TARGET2 and national central bank correspondent accounts (net) increased as a result of the cross-border payments effected by credit institutions and Latvijas Banka.

The interest rate on the main refinancing operations set by the ECB is applied to the above claims and liabilities.

13.4 Claims related to the allocation of banknotes within the Eurosystem

In view of the fact that euro banknotes are issued by all euro area NCBs and the ECB, they report a definite share of the total amount of euro banknotes issued by the Eurosystem on their balance sheets. Of the total amount of euro banknotes issued, the share allocated to Latvijas Banka is larger than the net amount of euro banknotes it has actually issued (see Note 15). In view of the above, the adjustment related to banknotes in circulation results in corresponding claims on the ECB for the allocation of banknotes, reported under the balance sheet item "Claims related to other operational requirements within the Eurosystem".

13.5 Claims/liabilities related to other operational requirements within the Eurosystem

Claims/liabilities related to other operational requirements within the Eurosystem comprise claims for the ECB's interim profit distribution and other claims on and liabilities to the ECB associated with the net result of pooling of monetary income.

Monetary income to be pooled by Latvijas Banka in 2021 was higher than monetary income to be received. This resulted in a liability to the ECB associated with the net result of pooling of monetary income, standing at 6 237 thousand euro at the end of 2022 (34 342 thousand euro liability at the end of 2021; see also Notes 38).

Claims for the ECB's interim profit distribution are set as per Latvijas Banka's percentage share in the ECB's capital (0 euro at the end of 2022; 584 thousand euro at the end of 2021; see also Note 37). Taking into account the overall financial result of the ECB for 2022, the Governing Council of the ECB decided not to distribute interim profit in 2022.

14. Other assets

(in thousands of euro)

	Note	2022	2021
OTC financial derivative contracts and spot exchange rate contracts	24	189 050	7 203
Accrued interest on securities held for monetary policy purposes		77 678	70 941
Participating interest in the Bank for International Settlements	14.2	37 119	37 309
Fixed assets	14.1	28 852	30 825
Other accrued income		26 532	1 634
Accrued interest on other securities		17 234	15 111
Intangible assets	14.1	2 941	2 039
Prepaid expenses		1 610	1 070
Claims on collateral for the use of the instant payment service		-	37 022
Other		622	560
Total		381 638	203 714

14.1 Fixed assets and intangible assets

(in thousands of euro)

	Buildings, improvement of territory, and land	Furniture and office equipment	Computer and telecommunication equipment	Cash processing and storage equipment	Other fixed assets	Total fixed assets	Intangible assets
As at 31 December 2020							
Cost	58 643	6 127	5 049	5 920	8 488	84 227	8 592
Accumulated depreciation/amortisation	-32 497	-4 348	-4 075	-3 196	-6 521	-50 637	-6 432
Net book value	26 146	1 779	974	2 724	1 967	33 590	2 160
During 2021							
Additions	174	-	171	38	215	598	432
Change in classification	-	-	-	-	-145	-145	145
Disposals and write-offs	-	-72	-240	-665	-421	-1 398	-34
Net change in cost	174	-72	-69	-627	-351	-945	543
Depreciation/amortisation charge	-1 952	-234	-398	-279	-420	-3 283	-519
Change in classification	-	-	-	-	145	145	-145
Accumulated depreciation/amortisation on disposals and write-offs	-	72	240	662	344	1 318	-
Net change in accumulated depreciation/amortisation	-1 952	-162	-158	383	69	-1 820	-664
As at 31 December 2021							
Cost	58 817	6 055	4 980	5 293	8 137	83 282	9 135
Accumulated depreciation/amortisation	-34 449	-4 510	-4 233	-2 813	-6 452	-52 457	-7 096
Net book value	24 368	1 545	747	2 480	1 685	30 825	2 039
During 2022							
Additions	411	31	406	113	229	1 190	1 383
Change in classification	-	-	9	-	-9	-	-
Disposals and write-offs	-	-	-468	-1	-702	-1 171	-208
Net change in cost	411	31	-53	112	-482	19	1 175
Depreciation/amortisation charge	-1 884	-223	-378	-281	-397	-3 163	-478
Accumulated depreciation/amortisation on disposals and write-offs	-	-	468	1	702	1 171	205
Net change in accumulated depreciation/amortisation	-1 884	-223	90	-280	305	-1 992	-273
As at 31 December 2022							
Cost	59 228	6 086	4 927	5 405	7 655	83 301	10 310
Accumulated depreciation/amortisation	-36 333	-4 733	-4 143	-3 093	-6 147	-54 449	-7 369
Net book value	22 895	1 353	784	2 312	1 508	28 852	2 941

At the end of 2022, Latvijas Banka's contractual commitments related to acquisition of fixed assets were 480 thousand euro (128 thousand euro at the end of 2021).

14.2 Participating interest in the Bank for International Settlements

At the end of 2022 and 2021, Latvijas Banka owned 1070 shares in the BIS, which corresponded to 0.19% of the total subscribed and paid-up BIS capital.

The total nominal value of Latvijas Banka's shareholding in the BIS is SDR 5350 thousand (the nominal value per share is SDR 5 thousand), paid up in the amount of SDR 1338 thousand or 25% (see also Note 45). At the end of 2022 and 2021, the BIS shareholding is reported in Latvijas Banka's balance sheet at fair value. The shares in the BIS are not traded in the public securities market. In the opinion of Latvijas Banka, the most appropriate method for establishing the fair value of the BIS shares is the use of 70% of the BIS net asset value based on the latest published financial statements of the BIS. Pursuant to the Statutes of the BIS, only central banks can be shareholders in the BIS. At the end of 2022, the estimated fair value of BIS shares was 37 119 thousand euro (37 309 thousand euro at the end of 2021).

15. Banknotes in circulation

(in thousands of euro)

	2022	2021
Euro banknotes	5 635 738	5 536 624
Net issuance of euro banknotes by Latvijas Banka	-14 870	-56 941
Adjustment for banknote allocation in the Eurosystem	5 650 608	5 593 565
Total	5 635 738	5 536 624

In view of the fact that euro banknotes are issued by all euro area NCBs and the ECB, they report a certain share of the total amount of euro banknotes issued by the Eurosystem on their balance sheets. The ECB's share is 8% of the total amount of euro banknotes issued by the Eurosystem; the remaining 92% are allocated to the Eurosystem NCBs in proportion to their respective shares in the ECB's capital and reported under the balance sheet item "Banknotes in circulation". Of the total amount of euro banknotes issued by the Eurosystem, the share allocated to Latvijas Banka is larger than the actual net amount of euro banknotes it has issued (see Note 15); consequently, claims on the ECB related to the allocation of banknotes within the Eurosystem are reported under the balance sheet item "Intra-Eurosystem claims".

The euro coins issued by Latvijas Banka are reported under the balance sheet item "Other liabilities" (see also Note 22).

Cross-border flows of euro banknotes in 2022 decreased, reducing the difference between the amount of banknotes deposited with Latvijas Banka and the amount of banknotes withdrawn from Latvijas Banka; consequently, the negative net issuance of euro banknotes by Latvijas Banka reached 14 870 thousand euro. At the end of 2022, the total amount of euro banknotes in circulation in the Eurosystem grew to 1572 billion euro (1544 billion euro at the end of 2021); as a result, an increase in the adjustment for banknote allocation in the Eurosystem was reported on the balance sheet of Latvijas Banka.

16. Liabilities to euro area credit institutions related to monetary policy operations denominated in euro

16.1 Current accounts (covering the minimum reserve system)

Current accounts contain the credit balances on the transaction accounts of credit institutions that are required to hold minimum reserves. The latest available interest rate used by the Eurosystem in its tenders for main refinancing operations is applied to the balances held on those accounts within the framework of the reserve requirements. Since June 2014, the lower rate of either 0% or the ECB's deposit facility rate has been applied to the reserves held in excess of the minimum requirements. On

12 September 2019, the Governing Council of the ECB decided to introduce a two-tier system for reserve remuneration, which exempts part of credit institutions' excess liquidity holdings (i.e. reserve holdings in excess of minimum reserve requirements) from the negative remuneration rate applicable on the deposit facility. Following the raising of the ECB's deposit facility rate to above zero as of 14 September 2022, the Governing Council of the ECB decided to suspend the two-tier system by setting the multiplier to zero as this system for the remuneration of the excess reserves was no longer necessary.

At the end of 2022, the balance on the current accounts with Latvijas Banka was 5 217 165 thousand euro (6 406 673 thousand euro at the end of 2021), including the minimum reserves in the amount of 200 197 thousand euro (183 129 thousand euro at the end of 2021).

16.2 Deposit facility

Deposit facility is a standing facility of the Eurosystem used by credit institutions to place their overnight deposits at a pre-specified rate. No such deposits were placed with Latvijas Banka at the end of 2021 because the ECB deposit facility interest rate was negative. In turn, in the second half of 2022, credit institutions resumed using the deposit facility, as the ECB deposit facility interest rate turned positive.

17. Other liabilities to euro area credit institutions denominated in euro

(in thousands of euro)

	2022	2021
Liabilities for repurchase agreements	210 805	612 898
Liabilities for collateral for forward exchange rate contracts	58 067	-
Collateral received for the use of the instant payment service	51 401	36 848
Total	320 273	649 746

18. Liabilities to other euro area residents denominated in euro

Liabilities to other euro area residents denominated in euro comprise demand deposits by the Latvian government and other financial institutions. Government deposits comprise the Treasury demand deposits received by Latvijas Banka acting as the financial agent of the Latvian government.

19. Liabilities to non-euro area residents denominated in euro

Liabilities to other financial institutions mostly comprise funds received from European Commission and under repurchase agreements.

(in thousands of euro)

	2022	2021
European Commission	112 249	10
Other financial institutions	57 990	56 509
International Monetary Fund	1 449	1 436
Total	171 688	57 955

20. Liabilities to euro area residents denominated in foreign currency

(in thousands of euro)

	2022	2021
Demand deposits of the Latvian government	551 032	544 413
Liabilities for repurchase agreements	155 006	1 049 849
Total	706 038	1 594 262

21. Liabilities to non-euro area residents denominated in foreign currency

(in thousands of euro)

	2022	2021
Liabilities for collateral for financial derivative instruments	34 512	-
Demand deposits	189	-
Liabilities for repurchase agreements	-	347 148
Liabilities for gold swap arrangements	-	341 211
Total	34 701	688 359

22. Other liabilities

(in thousands of euro)

	Note	2022	2021
Euro coins in circulation	22.1	90 555	86 274
Accrued expense and similar liabilities		41 694	15 353
OTC financial derivative contracts	24	18 419	12 257
Provisions for market risk and credit risk	36	15 051	295 697
Lats banknotes in circulation	22.1	14 746	19 264
Lats coins in circulation	22.1	1 920	2 631
Tax liabilities		129	703
Other		2 226	4 204
Total		184 740	436 383

22.1 Banknotes and coins in circulation

Euro coins in circulation include the euro coins issued by Latvijas Banka in circulation, except collector coins. The extent of liabilities regarding the lats banknotes and coins in circulation has been estimated, considering the probability of exchanging the lats banknotes and coins in a period of 20 years following the euro changeover (see also Note 2.2).

Apart from the lats and euro circulation coins issued by Latvijas Banka and recognised on the balance sheet, euro collector coins, lats collector coins and precious metal circulation coins were also in circulation with the total nominal value of 7187 thousand euro at the end of 2022 (7096 thousand euro at the end of 2021). The above coins in circulation have not been reported under the balance sheet item "Other liabilities" (see also Notes 45).

Issued lats banknotes and coins with a low probability of exchange in the amount of 102 080 thousand euro (lats banknotes in the amount of 41 675 thousand euro and lats coins in the amount of 60 405 thousand euro at the end of 2022; 97 980 thousand euro at the end of 2021, including lats banknotes in the amount of 38 189 thousand euro and lats coins in the amount of 59 791 thousand euro) have not been reported as a liability on the balance sheet at the end of 2022 (see also Note 45). The exchange probability of the lats banknotes and coins is assessed annually on the basis of the actual exchange data of the above banknotes and coins.

23. Capital and reserves

(in thousands of euro)

	Nominal capital	Reserve capital	Revaluation account	Profit for the year	Capital and reserves
As at 31 December 2020	100 000	248 879	417 873	26 646	793 398
During 2021					
Net result of revaluation, realisation, and revaluation result recognition in profit and loss statement	x	x	113 001	x	113 001
Profit appropriated to the state budget	x	x	x	-18 652	-18 652
Profit transferred to the reserve capital	x	7 994	x	-7 994	-
Profit for the year	x	x	x	20 908	20 908
As at 31 December 2021	100 000	256 873	530 874	20 908	908 655
During 2022					
Net result of revaluation, realisation, and revaluation result recognition in profit and loss statement	x	x	-307 137	x	-307 137
Profit appropriated to the state budget	x	x	x	-14 635	-14 635
Profit transferred to the reserve capital	x	6 273	x	-6 273	-
Profit for the year	x	x	x	-	-
As at 31 December 2022	100 000	263 146	223 737	-	586 883

The capital and reserves of Latvijas Banka comprise the nominal capital, reserve capital and the revaluation account, as well as the undistributed profit for the reporting year.

The legal framework does not provide for any capital adequacy requirements for Latvijas Banka; nevertheless, the amount of its capital should be adequate to promote credibility of the monetary policy implemented by Latvijas Banka, and to ensure implementation of its operations and financial independence when performing the tasks set forth by the Statute of the ESCB and of the ECB and the Law on Latvijas Banka. The implementation of the monetary policy as well as exposure to financial and operational risks may adversely affect Latvijas Banka's income or result in losses to be covered from the capital and reserves of Latvijas Banka.

The nominal capital of Latvijas Banka has historically been comprised of the state-allotted resources, transfers from the reserve capital and Latvijas Banka's profit allocations.

The Law on Latvijas Banka stipulates that Latvijas Banka shall transfer to the state basic budget the part of the profit earned in the reporting year, which is calculated by multiplying the profit earned in the reporting year, which has remained after covering the losses accumulated in the previous years (if any), by the enterprise income tax rate specified in the Enterprise Income Tax Law, and makes a payment for the usage of the state capital in the amount of 50% of the profit earned in the reporting year, remaining after covering losses (if any) accumulated in the previous years. The Council of Latvijas Banka, upon approving the annual report, may make a decision on reducing the percentage share of the payment for the usage of state capital, where it is necessary for increasing the reserve capital of Latvijas Banka in relation to the financial risks Latvijas Banka is exposed to when executing its tasks. At the end of 2022 and 2021, the corporate income tax rate was 20%. In 2022, the financial result of Latvijas Banka's activities was 0 euro therefore Latvijas Banka will not make transfers to the state budget in 2023. 14 636 thousand euro were transferred to the state budget in 2022 and 18 652 thousand euro in 2021.

After making the above deductions, the remaining profit of Latvijas Banka shall be transferred to the reserve capital as prescribed by the Law on Latvijas Banka. The reserve capital shall be formed to cover potential losses. The part of the losses for the covering of which there is not enough reserve capital has to be covered from the profit of subsequent periods of Latvijas Banka.

The revaluation account comprises the positive result on revaluation of the financial instruments and gold. The accounting policy, harmonised with the principal accounting policies established by the ECB's legal framework for accounting and financial reporting and described in Note 2 stipulates that only the realised gains are recognised in the profit and loss statement, while unrealised gains are recorded under the balance sheet item "Capital and reserves" as the revaluation reserve, thus facilitating preservation of capital in the circumstances of adverse changes in prices of financial instruments and gold.

In 2022 and 2021, the changes in the revaluation account were as follows:

(in thousands of euro)

	2022	Recognition in profit and loss statement	Revaluation	Realisation	2021
Revaluation reserve for participating interest	34 610	-	-190	-	34 800
Result on revaluation of foreign currencies and gold	177 452	5 184	7 962	-175	164 481
Result on revaluation of securities	11 675	336 531	-458 045	-198 404	331 593
Total	223 737	341 715	-450 273	-198 579	530 874

	2021	Recognition in profit and loss statement	Revaluation	Realisation	2020
Revaluation reserve for participating interest	34 800	-	1 349	-	33 451
Result on revaluation of foreign currencies and gold	164 481	935	31 864	-1	131 683
Result on revaluation of interest rate swap arrangements	-	21	-21	-	-
Result on revaluation of securities	331 593	35 662	86 478	-43 286	252 739
Total	530 874	36 618	119 670	-43 287	417 873

The revaluation reserve for participating interest has been established to account for the result on revaluation of the BIS shares. The result on revaluation of the BIS shares is not recognised in the profit and loss statement.

24. Derivative financial instruments and spot exchange rate contracts

Latvijas Banka enters into forward and spot exchange rate contracts, currency and interest rate swap arrangements, forward transactions in securities, and interest rate and currency future contracts in order to manage interest rate and currency risks associated with Latvijas Banka's investments. At the end of 2021 and 2020, the contract or notional amounts and book value of the above transactions were as follows:

(in thousands of euro)

	Contract or notional amount		Book value			
			Assets		Liabilities	
	2022	2021	2022	2021	2022	2021
OTC financial derivative and spot exchange rate contracts						
Forward exchange rate contracts and currency swap arrangements	3 662 071	2 477 704	186 562	4 091	15 052	11 604
Spot exchange rate contracts	345 480	403 020	184	1 663	-	-
Forward transactions in securities	1 817 672	1 817 672	2 304	1 448	3 367	618
Interest rate swap arrangements	52 685	37 696	-	1	-	35
Total	x	x	189 050	7 203	18 419	12 257
Derivative OTC gold swap arrangements	341 211	341 211	364 821	344 166	339 203	339 203
Traded financial derivative contracts						
Interest rate future contracts	1 655 421	869 374	x	x	x	x

The book value of the OTC financial derivative contracts and spot exchange rate contracts is reported under the balance sheet items "Other assets" or "Other liabilities" (see also Notes 14 and 22). Since a settlement is made for the daily changes in the fair value of traded financial derivative contracts, the changes are reported as demand deposits under the respective balance sheet asset item.

To limit the gold maintenance costs and increase return on financial investments, Latvijas Banka engages in gold swap arrangements (see also Notes 6 and 21).

Major risks and principles for their management

25. Risk management

Financial and operational risks are the main risks associated with the activities of Latvijas Banka. Latvijas Banka's risk management is organised and implemented according to the Risk Management Policy of Latvijas Banka approved by the Council of Latvijas Banka.

Risk management at Latvijas Banka is carried out as part of a systemic process that includes identifying, analysing and assessing risks, developing and implementing relevant risk mitigating measures, and overseeing and reviewing risks on a regular basis. This allows to identify in advance, assess and efficiently manage risks that are likely to have a negative effect on Latvijas Banka's financial position and financial performance, and on Latvijas Banka's capability to perform in a quality and efficient manner the tasks set out in the legislation, including participation in the implementation of the ESCB functions.

The risk management process is organised in compliance with the international principles of best practice in risk management, in view of the aims and tasks of Latvijas Banka and the external environment developments, as well as in compliance with the requirements of the ECB.

25.1 Financial risks

Market risk (price, interest rate and currency risks), credit risk and liquidity risk are the most significant financial risks Latvijas Banka is exposed to in its daily activities. Financial risks are managed to mitigate a potential negative impact on Latvijas Banka's financial position and financial performance that might arise from adverse changes in financial market factors or a counterparty default. When managing financial risks, acceptable types of risks and their parameters are taken into consideration to preserve the value of investments ensuring the required liquidity and income earning in the long term, as well as the compliance with sustainability principles.

Latvijas Banka manages financial risks related to its investments in line with the Procedure adopted by the Council of Latvijas Banka; the basic principles of the investment policy are described in Note 4. Investments are managed by classifying them into different investment portfolios. The parameters for a benchmark reflecting the acceptable level of financial risks and expected return are set out for each financial instrument portfolio. The Risk Management Division of the Market Operations Department monitors the compliance of investments with the established requirements and, in case of any departure from the provisions of the Procedure established by the Council of Latvijas Banka, duly notifies the Council of Latvijas Banka in accordance with the procedure adopted by the Council of Latvijas Banka.

For the purpose of investment management, including management of the related financial risks, the Investment Committee of Latvijas Banka develops an investment management strategy, approves tactical decisions and sets detailed limits for financial risks, as well as oversees the operation of the external managers. The Investment Committee of Latvijas Banka reviews the investment strategy once a quarter, and on a weekly basis receives and reviews reports on and forecasts for the developments in financial markets prepared by financial investment portfolio managers, receives and reviews reports by financial risk managers, and approves the investment management tactical decisions for the forthcoming week. The Market Operations Department informs the Council of Latvijas Banka about the results of investment management on a regular basis.

Latvijas Banka purchases assets under the PSPP and PEPP in accordance with the decisions of the Governing Council of the ECB. Latvijas Banka makes the purchases and manages financial risks in line with the guidelines of the Governing Council of the ECB and the procedure adopted Council of Latvijas Banka. Financial risks arising from the implementation of monetary policy are shared among the euro area NCBs in proportion to their shares in the ECB's capital, except risks associated with the purchases of Latvian government securities carried out by Latvijas Banka under the PSPP.

25.1.1 Market risk

Market risk is the exposure to losses due to adverse changes in financial markets.

Latvijas Banka is exposed to interest rate risk due to investing in foreign debt securities and interest rate derivatives that are subject to interest rate fluctuations and have been purchased within the course of investment management. Latvijas Banka manages interest rate risk by using the effective duration and deviation limits set individually for each investment portfolio. As a result of the implementation of monetary policy, the interest rate risk arises due to imbalances in the assets and liabilities associated with monetary policy operations that are subject to changes in interest rates. The materialisation of this risk is subject to monetary policy decisions resulting from the implementation of the Eurosystem's core tasks therefore Latvijas Banka cannot limit this risk.

Latvijas Banka's exposure to currency risk is determined by its investment structure. Latvijas Banka manages currency risk by establishing that the benchmark currency is the euro, thus hedging the currency risk (except for the portfolio of borrowed funds where the currency structure is built considering the currency of the respective liabilities, the global fixed income securities portfolio whose currency structure is formed by the benchmark portfolio structure, as well as the gold portfolio and the equity securities portfolios where investments are made in the stock denomination currencies of the respective equity securities index), and using tracking error limits in relation to the respective benchmark. Tracking error is calculated as the expected annualised standard deviation of the difference in return between the investment portfolio and the respective benchmark. The aggregate market risk of 1–10 year fixed income securities portfolio, the global fixed income securities portfolio, mortgage-backed securities portfolios, and the developed markets equity securities portfolio (see Note 4) is managed by determining the tracking error limit. The tracking error in 2022 and 2021 is disclosed in Note 28.

Deviations from the benchmark currency structure give rise to the open currency position. In order to achieve the compliance of open foreign currency positions with the set limits, Latvijas Banka hedges the currency risk by using forward exchange rate contracts, currency swap arrangements and currency future contracts.

Equity securities portfolios are exposed to the market price risk (a risk that the value of an investment could decrease due to price changes). As the equity securities portfolios are highly diversified, they are mainly exposed to a systematic stock volatility risk.

The Risk Management Division of the Market Operations Department monitors the compliance of the effective duration, tracking error, and open currency positions with the Procedure adopted by the Council of Latvijas Banka and the related resolutions passed by the Investment Committee of Latvijas Banka.

Latvijas Banka's exposure to market risk (as at the end of 2022 and 2021) is disclosed in Notes 26–28.

25.1.2 Credit risk

Credit risk is the exposure to losses resulting from a counterparty default. Latvijas Banka's exposure to credit risk results mainly from investments in foreign financial instruments and from monetary policy operations. Pursuant to the Statute of the ESCB and of the ECB, the risks associated with the implementation of monetary policy (if any materialise) are shared among the euro area NCBs in proportion to their share in the ECB's capital, except for the risks associated with the purchases of Latvian government securities carried out by Latvijas Banka under the PSPP.

Latvijas Banka manages exposure to credit risk related to investments made in foreign financial instruments by establishing limits on investments of different credit quality. Credit quality is evaluated on the basis of ratings assigned by the international credit rating agencies Fitch Ratings, Moody's Investors Service, Standard & Poor's, and DBRS. Limits are also set on the maximum investment in financial instruments of the same class and counterparty as well as in financial instruments of one issuer. Forward transactions in mortgage-backed securities are partly secured with short-term financial instruments. To hedge the credit risk associated with OTC derivative counterparties, Latvijas Banka and the respective

counterparties enter into Master Agreements of International Swaps and Derivatives Association, Inc. (ISDA Master Agreement) with Credit Support Annex. To hedge the credit risk associated with the counterparties of repurchase agreements and reverse repurchase agreements, Latvijas Banka and the respective counterparties enter into Global Master Repurchase Agreements of Securities Industry and Financial Markets Association (SIFMA) and International Capital Market Association (ICMA), whereas the external managers of mortgage-backed securities portfolios enter with their counterparties into Treasury Market Practices Group (TMPG) Master Securities Forward Transaction Agreements. In order to monitor Latvijas Banka's credit risk exposure associated with its investments, the Risk Management Division of the Market Operations Department monitors the compliance with the Procedure adopted by the Council of Latvijas Banka.

In 2022 and 2021, loans granted to credit institutions in monetary policy operations were secured by securities collateral in compliance with the ECB requirements. The Market Operations Department monitors the adequacy of collateral of the respective loans and its eligibility and compliance with the ECB's requirements on a regular basis, as well as maintains a list of securities eligible for monetary policy operations issued and held in the Republic of Latvia.

Latvijas Banka's exposure to credit risk (as at the end of 2022 and 2021) is disclosed in Notes 30–32.

25.1.3 Liquidity risk

Liquidity risk is associated with a failure to dispose of investments in a short time and at a competitive market price. Since Latvia joined the euro area, the need for liquidity and the risk associated with a failure to meet liabilities in a timely manner have considerably decreased. In compliance with its investment strategy, Latvijas Banka manages liquidity risk by investing a certain amount of its investments in liquid debt securities issued by international institutions, foreign governments and the corporate sector, in short-term deposits with foreign financial institutions and in other financial instruments. The liquidity structure of Latvijas Banka's assets and liabilities as at the end of 2022 and 2021 is disclosed in Note 29.

Liquidity risk can be limited by investment diversification. Latvijas Banka manages liquidity risk also by setting limits on the maximum investment in financial instruments of the same class and in financial instruments of the same issuer.

25.2 Operational risks

Operational risks are managed to ensure that processes are implemented in a continuous, adequate and safe manner and that the processes and projects are completed efficiently and to a high standard in order to mitigate any potential negative impact on Latvijas Banka's financial performance, financial position, reputation or capability to accomplish its tasks. Such impact could be triggered by inadequate or defective performance of Latvijas Banka's processes, an act or omission by an employee or unavailability of staff, as well as by inadequate operation or unavailability of Latvijas Banka's information systems, information systems infrastructure or other infrastructure, or by external events.

Latvijas Banka's operational risks are managed under a uniform operational risk management framework, with the major operational risks being compliance risks (inter alia in preventing conflicts of interest, anti-corruption control, personal data protection, prevention of money laundering and terrorism financing, and ensuring workplace environment protection), risks related to business continuity, physical security, information security and information systems (including cyber security).

Latvijas Banka's operational risks are managed through processes and projects by classifying the processes and risks, evaluating the impact of risks on the results of the processes or projects and, depending on the risk classification, defining and implementing the most appropriate actions to ensure adequate risk management. The Operational Risk Management Department is in charge of maintaining a common operational risk management framework, organising incident management as well as providing regular information on operational risk management pursuant to the legal acts of Latvijas Banka. The risk management process is based on the best practice in the field of risk management and concentrates

the resources allocated to operational risk management, thereby ensuring the effectiveness of this management model. Operational risk management is coordinated by the Operational Risk Committee of Latvijas Banka.

Compliance risks are managed to ensure the compliance of Latvijas Banka's operation with legislative acts.

The risks related to Latvijas Banka's business continuity are managed to mitigate a potential negative impact on the execution of critical processes, where their discontinuity may cause negative consequences for the Latvian financial system or adversely affect the implementation of Latvijas Banka's tasks. The risks are managed, inter alia, by ensuring efficient incident management and the continuity or recovery of the critical processes as soon as possible and to a full extent in the event of a disruption or failure.

Risks related to physical security, inter alia, risks associated with fire safety and civil protection are managed to mitigate a potential negative impact on the physical security of persons, the premises of Latvijas Banka, the transportation of its valuables and other events, with a priority focus on protecting the life and health of individuals.

Risks related to information security are managed to prevent unauthorised disclosure or use of confidential information, classifying it by its degree of confidentiality and ensuring appropriate protection, at the same time taking care that the protective measures do not prevent Latvijas Banka from providing non-classified information to its cooperation partners and general public.

Risks related to information systems, including cyber security risks are managed to prevent a potential negative impact on the availability, security and integrity of the information systems and infrastructure of Latvijas Banka. Information systems at Latvijas Banka are classified based on their importance for implementing Latvijas Banka's tasks and on the basis of the confidentiality, integrity and availability requirements for the data to be processed, establishing appropriate physical and logical protection for each level of classification.

Latvijas Banka provides risk management training for its employees, inter alia, to maintain appropriate level of their know-how and skills, and conducts, on a regular basis, training sessions and tests in risk management for employees.

In 2022, the main focus of operational risk management had been focused on managing risks related to the changes in the operational risk management framework resulting from the integration of the FCMC, as well as the changes in the physical security framework. Operational risks were appropriately managed in 2022 and the risk mitigation measures limited those risks to acceptable levels.

26. Currency structure

(in thousands of euro)

	EUR	USD	CAD	GBP	Gold	Other	Total
As at 31 December 2022							
Total assets	21 226 504	3 231 603	287 411	404 647	364 821	235 708	25 750 694
Total liabilities	24 927 618	291 007	383	195 901	-	335 785	25 750 694
Net position on balance sheet	-3 701 114	2 940 596	287 028	208 746	364 821	-100 077	0
Net position on financial instruments' off-balance sheet accounts	3 190 118	-2 556 638	-263 906	-184 474	-	-14 469	170 631
Net position on balance sheet and off-balance sheet accounts	-510 996	383 958	23 122	24 272	364 821	-114 546	170 631
Net position on balance sheet and off-balance sheet accounts to total assets (%)	-2.0	1.5	0.1	0.1	1.4	-0.4	0.7
As at 31 December 2021							
Total assets	19 865 163	3 795 589	359 253	439 453	344 166	270 805	25 074 429
Total liabilities	22 989 156	1 487 248	302 731	207 936	-	87 358	25 074 429
Net position on balance sheet	-3 123 993	2 308 341	56 522	231 517	344 166	183 447	-
Net position on financial instruments' off-balance sheet accounts	2 018 068	-1 759 042	-29 245	-199 913	-	-34 922	-5 054
Net position on balance sheet and off-balance sheet accounts	-1 105 925	549 299	27 277	31 604	344 166	148 525	-5 054
Net position on balance sheet and off-balance sheet accounts to total assets (%)	-4.4	2.2	0.1	0.1	1.4	0.6	0

27. Repricing maturity

The table below reflects the sensitivity of Latvijas Banka's assets, liabilities and off-balance sheet accounts to interest rate changes. The items reported in this table are stated at carrying amounts, except for interest rate and currency future contracts and forward transactions in securities, which are stated at notional amounts and included in the off-balance sheet accounts. The nearest contractual interest repricing or residual maturity date to 31 December of the reporting year is used for categorising the items sensitive to interest rates changes reported in this table.

(in thousands of euro)

	Up to 3 months	3-12 months	1-3 years	3-5 years	Over 5 years	Non- interest bearing items	Total
As at 31 December 2022							
Gold and gold receivables	-	-	-	-	-	364 821	364 821
Claims on non-euro area residents denominated in foreign currency	602 235	45 962	180 991	420 060	2 084 836	453 960	3 788 044
Claims on euro area residents denominated in foreign currency	907	-	36 764	94 536	100 909	288 923	522 039
Claims on non-euro area residents denominated in euro	7 568	-	895	1 319	146 355	246	156 383
Lending to euro area credit institutions related to monetary policy operations denominated in euro	-	-	522 900	-	-	-	522 900
Other claims on euro area credit institutions denominated in euro	6 304	-	-	-	-	-	6 304
Securities of euro area residents denominated in euro	-	-	288 279	373 686	13 419 641	-	14 081 606
Intra-Eurosystem claims	5 808 110	-	-	-	-	118 849	5 926 959
Other assets	2	-	1 054	3 333	90 082	287 167	381 638
Total assets	6 425 126	45 962	1 030 883	892 934	15 841 823	1 513 966	25 750 694
Banknotes in circulation	-	-	-	-	-	5 635 738	5 635 738
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	4 982 193	-	-	-	-	234 972	5 217 165
Other liabilities to euro area credit institutions denominated in euro	320 273	-	-	-	-	-	320 273
Liabilities to other euro area residents denominated in euro	2 517 104	-	-	-	-	-	2 517 104
Liabilities to non-euro area residents denominated in euro	59 440	-	-	-	-	112 248	171 688
Liabilities to euro area residents denominated in foreign currency	155 539	-	-	-	-	550 499	706 038
Liabilities to non-euro area residents denominated in foreign currency	34 701	-	-	-	-	-	34 701
Intra-Eurosystem liabilities	10 376 364	-	-	-	-	-	10 376 364
Other liabilities	886	-	-	-	-	183 854	184 740
Capital and reserves	-	-	-	-	-	586 883	586 883
Total liabilities	18 446 500	-	-	-	-	7 304 194	25 750 694
Net position on balance sheet	-12 021 374	45 962	1 030 883	892 934	15 841 823	-5 790 228	-
Assets on financial instruments' off-balance sheet accounts	765 385	5 752	3 410 527	123 289	2 007 300	-	6 312 253
Liabilities on financial instruments' off-balance sheet accounts	5 387 367	5 738	100 506	127 407	520 604	-	6 141 622
Net position on balance sheet and off-balance sheet accounts	-16 643 356	45 976	4 340 904	888 816	17 328 519	-5 790 228	170 631

	Up to 3 months	3-12 months	1-3 years	3-5 years	Over 5 years	Non- interest bearing items	Total
As at 31 December 2021							
Gold and gold receivables	-	-	-	-	-	344 166	344 166
Claims on non-euro area residents denominated in foreign currency	14 124	272 185	99 584	462 493	2 327 595	1 319 200	4 495 181
Claims on euro area residents denominated in foreign currency	-	-	17 775	87 739	83 817	339 097	528 428
Claims on non-euro area residents denominated in euro	1 230	-	-	1 623	164 471	6 757	174 081
Lending to euro area credit institutions related to monetary policy operations denominated in euro	-	-	616 600	-	-	-	616 600
Other claims on euro area credit institutions denominated in euro	4 138	-	-	-	-	117	4 255
Securities of euro area residents denominated in euro	-	-	261 894	180 054	12 398 048	-	12 839 996
Intra-Eurosystem claims	5 750 951	-	-	-	-	117 057	5 868 008
Other assets	5	34	426	2 650	82 203	118 396	203 714
Total assets	5 770 448	272 219	996 279	734 559	15 056 134	2 244 790	25 074 429
Banknotes in circulation	-	-	-	-	-	5 536 624	5 536 624
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	6 406 673	-	-	-	-	-	6 406 673
Other liabilities to euro area credit institutions denominated in euro	649 746	-	-	-	-	-	649 746
Liabilities to other euro area residents denominated in euro	3 438 792	-	-	-	-	-	3 438 792
Liabilities to non-euro area residents denominated in euro	56 519	-	-	-	-	1 436	57 955
Liabilities to euro area residents denominated in foreign currency	1 594 262	-	-	-	-	-	1 594 262
Liabilities to non-euro area residents denominated in foreign currency	688 359	-	-	-	-	-	688 359
Intra-Eurosystem liabilities	5 322 638	-	-	-	-	34 342	5 356 980
Other liabilities	24 198	-	-	-	-	412 185	436 383
Capital and reserves	-	-	-	-	-	908 655	908 655
Total liabilities	18 181 187	-	-	-	-	6 893 242	25 074 429
Net position on balance sheet	-12 410 739	272 219	996 279	734 559	15 056 134	-4 648 452	-
Assets on financial instruments' off-balance sheet accounts	4 423 728	33 551	180 823	42 681	886 285	-	5 567 068
Liabilities on financial instruments' off-balance sheet accounts	4 031 948	-	146 151	133 672	1 260 351	-	5 572 122
Net position on balance sheet and off-balance sheet accounts	-12 018 959	305 770	1 030 951	643 568	14 682 068	-4 648 452	-5 054

28. Tracking error

The exposure to aggregate market risk and credit risk of investments, included in the 1–10 year government fixed income securities portfolio, mortgage-backed securities portfolios, the global fixed income securities portfolio, and the developed markets equity securities portfolio is characterised by the tracking error, which is measured as the expected annualised standard deviation of the difference in return between the investment portfolio and the respective benchmark (see also Note 25.1). At the end of 2022 and 2021, the actual (ex-post) tracking error was as follows:

(basis points)

	2022	2021
1–10 year fixed income securities portfolio	83	34
Mortgage-backed securities portfolios	98	102
Developed markets equity securities portfolio	26	14
Global fixed income securities portfolio	108	-

The expected (ex-ante) tracking error of the developed markets equity securities portfolio did not exceed 30 basis points during the year and the compliance with this limit is monitored by the respective external manager. The expected (ex-ante) tracking error in the 1–10 year government fixed income securities portfolios and mortgage-backed securities portfolios lay within the following basis point intervals during the year:

	Book value (at the end of the year; in thousands of euro)	Expected tracking error (number of business days)				
		10–39	40–69	70–99	100–139	140–179
During 2022						
1–10 year fixed income securities portfolio	2 790 364	126	126	-	-	-
Mortgage-backed securities portfolios	1 052 437	-	206	46	-	-
Global fixed income securities portfolio	138 623	70	134	5	-	-
During 2021						
1–10 year fixed income securities portfolio	3 209 547	107	145	-	-	-
Mortgage-backed securities portfolios	1 186 537	-	143	106	3	-

29. Liquidity structure

In the liquidity structure, asset items are reported on the basis of Latvijas Banka's capability to convert them into cash. Liabilities items are reported by their expected settlement date.

(in thousands of euro)

	Up to 3 months	Over 3 months	No fixed maturity	Total
As at 31 December 2022				
Assets				
Gold and gold receivables	364 821	-	-	364 821
Claims on non-euro area residents denominated in foreign currency	3 788 044	-	-	3 788 044
Claims on euro area residents denominated in foreign currency	522 039	-	-	522 039
Claims on non-euro area residents denominated in euro	156 383	-	-	156 383
Lending to euro area credit institutions related to monetary policy operations denominated in euro	-	522 900	-	522 900
Other claims on euro area credit institutions denominated in euro	6 304	-	-	6 304
Securities of euro area residents denominated in euro	13 913 286	168 320	-	14 081 606
Intra-Eurosystem claims	300	-	5 926 659	5 926 959
Other assets	310 494	-	71 144	381 638
Total assets	19 061 671	691 220	5 997 803	25 750 694
Liabilities				
Banknotes in circulation	-	-	5 635 738	5 635 738
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	5 217 165	-	-	5 217 165
Other liabilities to euro area credit institutions denominated in euro	320 273	-	-	320 273
Liabilities to other euro area residents denominated in euro	2 517 104	-	-	2 517 104
Liabilities to non-euro area residents denominated in euro	171 688	-	-	171 688
Liabilities to euro area residents denominated in foreign currency	706 038	-	-	706 038
Liabilities to non-euro area residents denominated in foreign currency	34 701	-	-	34 701
Intra-Eurosystem liabilities	10 376 364	-	-	10 376 364
Other liabilities	77 502	-	107 238	184 740
Total liabilities	19 420 835	-	5 742 976	25 163 811
Net position	-359 164	691 220	254 827	x

(continued)
(in thousands of euro)

	Up to 3 months	Over 3 months	No fixed maturity	Total
As at 31 December 2021				
Assets				
Gold and gold receivables	344 166	-	-	344 166
Claims on non-euro area residents denominated in foreign currency	4 495 181	-	-	4 495 181
Claims on euro area residents denominated in foreign currency	528 428	-	-	528 428
Claims on non-euro area residents denominated in euro	174 081	-	-	174 081
Lending to euro area credit institutions related to monetary policy operations denominated in euro	-	616 600	-	616 600
Other claims on euro area credit institutions denominated in euro	4 255	-	-	4 255
Securities of euro area residents denominated in euro	12 671 750	168 246	-	12 839 996
Intra-Eurosystem claims	769	-	5 867 239	5 868 008
Other assets	131 911	-	71 803	203 714
Total assets	18 350 541	784 846	5 939 042	25 074 429
Liabilities				
Banknotes in circulation	-	-	5 536 624	5 536 624
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	6 406 673	-	-	6 406 673
Other liabilities to euro area credit institutions denominated in euro	649 746	-	-	649 746
Liabilities to other euro area residents denominated in euro	3 438 792	-	-	3 438 792
Liabilities to non-euro area residents denominated in euro	57 955	-	-	57 955
Liabilities to euro area residents denominated in foreign currency	1 594 262	-	-	1 594 262
Liabilities to non-euro area residents denominated in foreign currency	688 359	-	-	688 359
Intra-Eurosystem liabilities	5 356 980	-	-	5 356 980
Other liabilities	328 191	-	108 192	436 383
Total liabilities	18 520 958	-	5 644 816	24 165 774
Net position	-170 417	784 846	294 226	x

30. Sectoral structure of assets

	Amount (in thousands of euro)		Proportion (%)	
	2022	2021	2022	2021
Investment operations	5 990 669	6 717 638	23.3	26.8
Central governments and other governmental institutions	2 084 544	2 533 137	8.1	10.2
Other financial institutions	1 820 689	1 861 846	7.1	7.4
Central banks and credit institutions	803 443	680 415	3.1	2.7
International institutions	684 134	713 453	2.7	2.8
Non-financial corporations	424 373	695 528	1.6	2.8
Local governments	173 487	233 067	0.7	0.9
Unclassified assets	-	192	0	0
Monetary policy operations	13 735 390	12 378 324	53.3	49.4
International institutions	8 977 665	8 191 153	34.9	32.7
Central governments and other governmental institutions	4 234 825	3 570 571	16.4	14.2
Credit institutions	522 900	616 600	2.0	2.5
Other operations	6 024 635	5 978 467	23.4	23.8
Intra-Eurosystem claims	5 926 959	5 868 008	23.0	23.4
International institutions	37 119	74 331	0.1	0.3
Unclassified assets	60 557	36 128	0.3	0.1
Total	25 750 694	25 074 429	100.0	100.0

31. Assets by their location or the counterparty's domicile

	Amount (in thousands of euro)		Proportion (%)	
	2022	2021	2022	2021
Investment operations	5 990 669	6 717 638	23.3	26.8
US	1 651 157	2 381 318	6.3	9.5
Euro area countries	1 638 969	1 688 507	6.4	6.7
UK	892 279	780 426	3.5	3.1
International institutions	684 134	713 453	2.7	2.8
Canada	546 800	691 395	2.1	2.8
Japan	145 185	141 048	0.6	0.6
Other EU countries	143 159	68 137	0.6	0.3
Other countries	288 986	253 354	1.1	1.0
Monetary policy operations	13 735 390	12 378 324	53.3	49.4
International institutions	8 977 665	8 191 153	34.9	32.7
Euro area countries	4 757 725	4 187 171	18.4	16.7
Other operations	6 024 635	5 978 467	23.4	23.8
Intra-Eurosystem claims	5 926 959	5 868 008	23.0	23.4
International institutions	37 119	74 331	0.1	0.3
Unclassified assets	60 557	36 128	0.3	0.1
Total	25 750 694	25 074 429	100.0	100.0

32. Assets by credit rating assigned to the counterparty

	Amount (in thousands of euro)		Proportion (%)	
	2022	2021	2022	2021
Investment operations	5 990 669	6 717 638	23.3	26.8
AAA	3 280 166	3 592 177	12.8	14.4
AA	1 178 470	1 137 779	4.6	4.5
A	413 085	422 964	1.6	1.7
BBB	552 610	668 350	2.1	2.7
Assets without counterparty credit rating	60 000	10 587	0.2	0
Assets not exposed to credit risk	506 338	885 781	2.0	3.5
Monetary policy operations	13 735 390	12 378 324	53.3	49.4
AAA	8 052 698	6 024 560	31.3	24.1
AA	924 967	2 166 593	3.6	8.6
A	4 234 825	3 570 571	16.4	14.2
Assets without counterparty credit rating	522 900	616 600	2.0	2.5
Other operations	6 024 635	5 978 467	23.4	23.8
Intra-Eurosystem claims	5 926 959	5 868 008	23.0	23.4
Unclassified assets	65 883	77 595	0.3	0.3
Assets not exposed to credit risk	31 793	32 864	0.1	0.1
Total	25 750 694	25 074 429	100.0	100.0

Based on the credit ratings assigned by international credit rating agencies Fitch Ratings, Standard & Poor's, Moody's Investors Service and DBRS to the counterparties and securities issuers, the above table shows the breakdown of Latvijas Banka's assets as at the end of the reporting period. "AAA" rating is the highest possible long-term creditworthiness rating, which indicates an extremely strong capacity of the counterparty to meet its financial commitments; "AA" rating indicates very strong capacity, while "A" rating — strong capacity. "BBB" is a medium rating considered to be the lowest level of investment-grade rating.

Assets without counterparty credit rating mostly comprise securities purchased in longer-term refinancing operations with Latvian credit institutions. Assets not exposed to credit risk mostly comprise securities in the developed markets equity securities portfolio, participating interest in the BIS, fixed assets and intangible assets.

Profit and loss statement notes

33. Net interest income

(in thousands of euro)

	2022	2021
Interest income	211 229	165 248
Interest on investments	92 817	78 780
Interest on customer deposits	11 912	15 481
Interest on monetary policy operations	72 795	70 987
Interest on intra-Eurosystem claims	33 705	-
Interest expense	-164 208	-41 267
Interest on investments	-63 098	-21 082
Interest on customer deposits	-9 997	-
Interest on monetary policy operations	-31 374	-20 185
Interest on intra-Eurosystem liabilities	-59 739	-
Net interest income	47 021	123 981

Interest income on investments was mainly derived from interest on debt securities, and its growth in 2022 was driven by higher average securities yields. Interest expense on investments largely consisted of interest on repurchase transactions and interest on OTC forward exchange rate contracts. The increase in interest expense was driven by an rising currency hedging costs, as money market interest rates on the US dollar, Canadian dollar and pound sterling rose more than the euro money market interest rate in 2022.

Interest income and interest expense on deposits received was shaped by interest on deposits from the government and other financial institutions. The application of interest on deposits is stipulated in Guideline (EU) 2019/671 of the ECB of 9 April 2019 on domestic asset and liability management operations by the national central banks (recast) (ECB/2019/7). Pursuant to this Guideline, to the Treasury's deposits in euro up to 200 million euro Latvijas Banka applies the euro short-term interest rate EuroSTR (it was 1.89% at the end of 2022; in 2021, the euro overnight index average EONIA was applied, which was negative -0.495%). Regarding the total amount of the Treasury's settlement account balances in euro and foreign currencies exceeding 200 million euro, Latvijas Banka applies the ECB's deposit facility rate or the euro short-term interest rate EuroSTR, whichever is lower (on 31 December 2022 the ECB's deposit facility rate was 2.0%; at the end of 2021, it was negative -0.5%). The Governing Council of the ECB raised euro interest rates several times in 2022, and the euro money market rate turned from negative at the beginning of 2022 to positive at the end of 2022. As a result, instead of negative interest on the received euro deposits (interest income), Latvijas Banka incurred interest expenses.

Interest income on monetary policy operations in 2022 primarily consisted of interest on PSPP and PEPP securities. Interest expense on monetary policy operations consisted mainly of interest on deposit facility transactions and negative interest on PSPP and PEPP securities. The increase in interest expense was largely driven by an increase in the ECB's deposit facility rate from -0.5% at the beginning of 2022 to 2.0% at the end of 2022, which led to a rise in interest expense on deposit facility transactions.

Interest income from and interest expense on the intra-Eurosystem claims and liabilities are remunerated by applying the ECB's main refinancing operations interest rate and include income from foreign reserves transferred to the ECB and claims related to the allocation of banknotes in the Eurosystem, as well as expense on liabilities related to TARGET2 settlements. As the ECB's main refinancing operations interest rate increased from 0% to 2.5% in 2022, Latvijas Banka earned interest income on intra-Eurosystem claims and had interest expense on intra-Eurosystem liabilities (in 2021 the interest rate on the ECB's main refinancing operations was 0% therefore Latvijas Banka had no such interest income and interest expenses).

34. Realised gains/losses arising from financial operations

(in thousands of euro)

	2022	2021
Foreign exchange transactions	36 794	10 063
Securities	32 332	-2 203
Derivative financial instruments	-29 394	-7 503
Total	39 732	357

In 2022, the realised gains on foreign exchange transactions were 26 731 thousand euro larger than in 2021 and that was positively affected by realised profit on the developed markets equity securities portfolio.

The result of the disposal of securities increased by 34 535 thousand euro in comparison with 2021. The realised gains from the developed markets equity securities portfolio had a positive impact. The decrease of market value of debt securities had a negative effect due to rising interest rates.

The result on derivative financial instruments decreased by 21 891 thousand euro in comparison with 2021. This was mostly on account of the negative result on interest rate future contracts due to rising interest rates in the course of 2022.

35. Recognition of revaluation result on financial assets and positions in the profit and loss statement

(in thousands of euro)

	2022	2021
Securities	-336 530	-35 662
Foreign currency positions	-5 185	-935
Interest rate swap arrangements	-	-21
Total	-341 715	-36 618

The revaluation result of several debt securities, foreign currency positions, and interest rate swap arrangements at the end of 2022 and 2021 was negative and has been recognised in the profit and loss statement. The positive result on the revaluation of debt securities, equity securities, foreign currency positions, and interest rate swap arrangements has been reported under the balance sheet item "Capital and reserves" as the revaluation result of securities, foreign currency, and interest rate swap arrangements respectively (see also Note 23).

The increase in the negative result on securities revaluation is related to a rise in market yields. In 2022, there was a lot of uncertainty, and the global economy was particularly negatively affected by the war in Ukraine waged by Russia. With the economies significant for Latvijas Banka's investments recovering after the lifting of Covid-19 restrictions and supply chain bottlenecks intensifying and energy and food prices soaring at the same time, inflation hit record highs. To curb inflation, central banks began to sharply raise base interest rates, which led to a decrease in the market value of investments.

36. Provisions for market risk and credit risk

On the basis of reasonable risk estimates and in accordance with the legal framework for accounting and financial reporting in the ESCB, the Council of Latvijas Banka takes decisions on making provisions for market risk (price, interest rate and currency risks) and credit risk associated with Latvijas Banka's investment management and other financial transactions as well as on the use of these provisions should the above risks materialise.

Latvijas Banka's financial risks relate primarily to investments in financial instruments and to the implementation of the single monetary policy operations associated with Latvijas Banka's participation in the Eurosystem and sharing of the related risks and financial results. Latvijas Banka's financial assets are mostly exposed to market risk and credit risk.

The level of Latvijas Banka's financial risks for monetary policy operations and investment portfolio credit risk has been assessed in compliance with the ECB's common methodology for Eurosystem financial risk assessment, whereas for investment portfolio market risk — in compliance with the risk assessment methodology used by Latvijas Banka in its financial risk management system; in both cases, the Expected Shortfall (ES) measure with a confidence level of 99% for a risk horizon of one year is used: it describes the losses determined by the average value of 1% of the most unfavourable simulated profitability scenarios. When assessing the level of financial risks, various market risk and credit risk factors, assumptions defined by the Eurosystem/ESCB's Risk Management Committee and assumptions used in the financial risk management system are taken into account, as well as historical data and assumptions concerning the development of adverse financial market factors, e.g. an increase in interest rates, widening interest rate spreads, euro appreciation, and credit rating downgrades.

In 2022, the level of financial risks has been estimated at 993.4 million euro (1048.4 million euro in 2021). In 2022, the level of financial risks decreased mainly on account of the contraction of the equity portfolio.

Provisions for market risk and credit risk are established during a longer period in the amount of 25%–75% of the positive total financial performance result included in the profit and loss statement of the reporting year before establishing provisions for financial risks, not exceeding the level of financial risks. Provisions for market risk and credit risk are used if the financial risks materialise and their negative result is not covered by other income, or the balance of the provisions considerably exceeds the level of financial risks and this excess is of permanent nature.

(in thousands of euro)

	2022	2021
Level of financial risks	993 400	1 048 400
Provisions for the market risk and credit risk	15 051	295 697
Provisions for the market risk and credit risk against the level of financial risks (%)	2	28

In 2022, due to the significant increase in interest rates in the most important investment markets of Latvijas Banka, the result of the revaluation of debt securities, which should be recognised in the profit and loss statement at the end of the year, was negative (see also Note 35). Therefore, the Council of Latvijas Banka decided to use the provisions for financial risks in 2022 associated with investment management and other financial transactions managed by Latvijas Banka. Taking into account the significant weakening of the ratio of provisions for the market risk and credit risk against the level of financial risks, provisions for the financial risks have been used until the result included in the profit and loss statement reached 0 euro, reducing the provisions by a total of 280 646 thousand euro (in 2021, the respective provisions were increased by 13 974 thousand euro). Latvijas Banka had no provisions for credit risk associated with the Eurosystem monetary policy operations at the end of 2022 and at the end of 2021, as the assessment of the impairment of the assets concerned indicated that there were no signs of impairment.

37. Income from equity securities and participating interest

Income from equity securities comprises dividends of the equity securities portfolio in the amount of 14 218 thousand euro (11 828 thousand euro in 2021).

Income from participating interest comprises dividends received from the participating interest in the BIS 374 thousand euro (670 thousand euro in 2021; see also Note 14.2) and income from the ECB's interim profit distribution for the reporting year, the remainder of the ECB's annual profit for the previous year in the amount of 163 thousand euro (2077 thousand euro in 2021). The ECB did not distribute profits for 2022, because the financial result of its activities was 0.

Pursuant to the decision of the Governing Council of the ECB, the income gained by the ECB on the claims related to the allocation of banknotes within the Eurosystem, and from the Securities Markets Programme, the asset-backed securities purchase programme, the third covered bond purchase programme, the PSPP and the PEPP shall be distributed as interim profit for the reporting year in which it accrues. The Governing Council of the ECB decides on the interim profit distribution in January of the following year; however, it may resolve not to do so in cases when the ECB's net profit for the reporting year is less than its income included in the ECB's interim profit distribution, as well as in the event the Governing Council of the ECB decides to establish provisions for financial risks.

After the approval of the ECB's Annual Accounts, the Governing Council of the ECB distributes the remainder of the ECB's annual profit for the reporting year to euro area NCBs in proportion to their shares in the ECB's capital (see Note 13.1).

38. Net result of pooling of monetary income

(in thousands of euro)

	2022	2021
Monetary income pooled	-34 212	-39 502
Monetary income received	27 975	5 160
Net result of pooling of monetary income	-6 237	-34 342

Pursuant to the Statute of the ESCB and of the ECB, euro area NCBs gain income from the implementation of the single monetary policy of the Eurosystem. Total monetary income of the Eurosystem equals the income on assets arising from the issue of euro banknotes and receiving deposits from credit institutions. The income is allocated to euro area NCBs in proportion to their shares in the capital of the ECB.

The monetary income pooled by Latvijas Banka includes the income derived from earmarkable assets of Latvijas Banka, reduced by expenses for the monetary liabilities of Latvijas Banka. The earmarkable assets of Latvijas Banka for the allocation of monetary income include gold, assets acquired as a result of monetary policy operations, intra-Eurosystem claims as well as other assets in the amount necessary to fully cover the monetary liabilities. The monetary liabilities of Latvijas Banka include banknotes in circulation, deposits of credit institutions resulting from monetary policy operations and intra-Eurosystem liabilities.

Latvijas Banka's monetary income received comprises Latvijas Banka's share in the Eurosystem's total monetary income set on the basis of Latvijas Banka's share in the ECB's capital.

The increase in the net result of pooling of monetary income was driven by higher monetary income received. The monetary income received was affected positively by higher interest rates on TLTRO III, driven by an increase in the ECB's deposit facility rate and a change in the conditions for the application of TLTRO III interest rate by the Governing Council of the ECB, as well as higher interest rate on PSPP and PEPP government securities, which climbed as a result of the increase in the interest rate on the ECB's main refinancing operations. Monetary income received was negatively affected mainly by the increase in interest expense on bank deposit facility transactions, which mounted as a result of the rise in the ECB's deposit facility rate.

39. Other operating income

(in thousands of euro)

	2022	2021
Revaluation of liabilities for the issued lats banknotes and coins	4 100	2 380
Income from sale of numismatic products	1 014	627
Other	652	584
Total	5 766	3 591

The issued lats banknotes and coins with a low exchange probability are not reported on the balance sheet pursuant to the "Financial Accounting Policy of Latvijas Banka" (see also Note 2.2). In 2022, with the exchange of the lats banknotes and coins decelerating, the valuation of liabilities for the issued lats banknotes and coins decreased (see also Note 22.1) and the corresponding income was recognised.

40. Remuneration, social security costs, and solidarity tax

(in thousands of euro)

	2022	2021
Remuneration		
Remuneration for performance of duties of the Council and the Board	-592	-728
Remuneration of other personnel	-15 910	-15 675
Total remuneration	-16 502	-16 403
Social security costs and solidarity tax	-3 653	-3 582
Total remuneration, social security costs, and solidarity tax	-20 155	-19 985

At the end of 2022, the number of employees was 376 (380 at the end of 2021), representing 374 full-time equivalents at the end of 2022 (400 at the end of 2021).

Introducing a single-tier top management model by Latvijas Banka as of 1 June 2021, the Board of Latvijas Banka discontinued its operation.

41. Banknote and coin acquisition costs

(in thousands of euro)

	2022	2021
Acquisition of banknotes	-1 688	-1 363
Acquisition of collector coins	-739	-380
Acquisition of circulation coins	-191	-88
Total	-2 618	-1 831

42. Other operating expenses

(in thousands of euro)

	2022	2021
Maintenance and operation of information systems	-4 588	-4 116
Municipal services	-1 158	-771
Public education and information	-623	-289
Maintenance of buildings, territory and equipment	-508	-335
Business travel	-288	-26
Security services	-269	-
Acquisition of low value office supplies	-261	-360
Telecommunication services and system maintenance	-209	-190
Personnel training	-203	-126
Tax on real estate	-172	-217
Event services	-132	-10
Risk insurance	-92	-134
Other	-610	-519
Total	-9 113	-7 093

Other operating expenses also comprise remuneration in the amount of 33 thousand euro paid to SIA ERNST & YOUNG BALTIC for the audit of 2022 financial statements of Latvijas Banka (33 thousand euro in 2021).

Other notes

43. Pledged assets

Debt securities, other financial instruments and gold purchased by Latvijas Banka with the total market value of 364 618 thousand euro as at the end of 2022 (2 503 139 thousand euro at the end of 2021) have been pledged to provide repurchase agreement deals, collateral for gold swap arrangements, forward exchange rate contracts, interest rate and currency future contracts, and to ensure the operation of payment systems. At the end of 2022, the pledged assets mostly consisted of securities pledged under repurchase agreements in the amount of 358 360 thousand euro (2 135 996 thousand euro at the end of 2021).

44. Securities lending

On behalf of Latvijas Banka, its agents conclude securities lending transactions, as part of an automated security lending programme, where securities held by Latvijas Banka are lent against cash or other securities collateral. Securities lending transactions provide additional income without any material impact on investment liquidity as the securities lent are readily available to Latvijas Banka. The above agents administer the securities lending transactions and monitor the eligibility of the securities lending transactions and related collateral. The fair value of collateral provided in securities lending transactions is higher than that of the securities lent.

At the end of 2022, the fair value of the securities lent, determined using quoted prices in an active market, was 1 571 469 thousand euro (1 273 821 thousand euro at the end of 2021); inter alia, the fair value of securities purchased and lent under the PSPP and PEPP stood at 1 473 321 thousand euro at the end of 2022 (1 269 053 thousand euro at the end of 2021). The increase in the volume of securities lent was affected by the lack of collateral for high-quality liquid securities in the reverse transactions market. Monetary policy measures of the ECB, including asset purchase programmes and targeted longer-term refinancing operations have reduced the supply of high-quality liquid securities available on the market. In order to alleviate the resulting securities shortages and promote the liquidity of the securities market, Latvijas Banka, together with other euro area NCBs, lends securities purchased under the PSPP and the PEPP, and Latvijas Banka does so within the framework of the automated securities lending programme.

Foreign currency cash or securities received in the agent account of Latvijas Banka's automated security lending programme as collateral for securities lending transactions are not recognised in Latvijas Banka's balance sheet.

45. Contingent liabilities and commitments

The uncalled portion of the BIS shares held by Latvijas Banka is 75% of their nominal value; these shares are callable following a respective decision of the BIS Board. At the end of 2022, the uncalled portion of the BIS shareholding was 4012 thousand SDR (5022 thousand euro; 4012 thousand SDR (4958 thousand euro) at the end of 2021; see also Note 14.2).

At the end of 2022, Latvijas Banka had issued euro collector coins, lats collector coins and precious metal circulation coins in the nominal value of 7187 thousand euro (7096 thousand euro at the end of 2021). These coins may be represented to Latvijas Banka at a nominal value. In the opinion of Latvijas Banka's management, the probability that Latvijas Banka will be required to repurchase these coins from their holders is considered low, since the value of the precious metal contained in them exceeds their nominal value.

At the end of 2022, Latvijas Banka had issued lats banknotes and coins with the face value of 118 746 thousand euro (119 875 thousand euro at the end of 2021), reported on the balance sheet in the amount of 16 666 thousand euro (21 895 thousand euro at the end of 2021). Pursuant to the Law on the Procedure for Introducing the Euro, the period for exchanging the lats cash to the euro at Latvijas Banka is unlimited. In the opinion of Latvijas Banka's management, the probability that Latvijas Banka would be required to exchange lats banknotes and coins in the amount of 102 080 thousand euro (97 980 thousand euro at the end of 2021) at face value is low.

46. Events after the reporting year

On 1 January 2023, the new Law on Latvijas Banka, adopted on 23 September 2021, entered into force and provides for incorporation of the FCMC's in Latvijas Banka. In accordance with the transitional provisions of the aforementioned Law, Latvijas Banka is the successor of the FCMC's property, financial resources, rights and liabilities. Thus, as of 1 January 2023, the assets and liabilities reflected on the FCMC's balance sheet as at 31 December 2022 are included in the Latvijas Banka's balance sheet. As of 1 January 2023, Latvijas Banka also manages the Deposit Guarantee Fund, the Fund for the Protection of the Insured and the National Resolution Fund. Since the assets of the aforementioned funds each constitute a distinct set of assets and are managed separately, the respective assets and liabilities are not shown on Latvijas Banka's balance sheet.

The impact of the FCMC's incorporation in Latvijas Banka on the opening balances of Latvijas Banka's balance sheet items (according to unaudited data) as at 1 January 2023 was as follows.

(in thousands of euro)

	As at 31 December 2022	Impact of incorpora- tion of the FCMC	As at 1 January 2023
Gold and gold receivables	364 821		364 821
Claims on non-euro area residents denominated in foreign currency	3 788 044		3 788 044
Claims on euro area residents denominated in foreign currency	522 039		522 039
Claims on non-euro area residents denominated in euro	156 383		156 383
Lending to euro area credit institutions related to monetary policy operations denominated in euro	522 900		522 900
Other claims on euro area credit institutions denominated in euro	6 304	5	6 309
Securities of euro area residents denominated in euro	14 081 606		14 081 606
Intra-Eurosystem claims	5 926 959		5 926 959
Other assets	381 638	3 531	385 169
Total assets	25 750 694	3 536	25 754 230
Banknotes in circulation	5 635 738		5 635 738
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	5 217 165		5 217 165
Other liabilities to euro area credit institutions denominated in euro	320 273		320 273
Liabilities to other euro area residents denominated in euro	2 527 104	-6 138	2 510 966
Liabilities to non-euro area residents denominated in euro	171 688		171 688
Liabilities to euro area residents denominated in foreign currency	706 038		706 038
Liabilities to non-euro area residents denominated in foreign currency	34 701		34 701
Intra-Eurosystem liabilities	10 376 364		10 376 364
Other liabilities	184 740	9 674	194 414
Capital and reserves	586 883		586 883
Total liabilities	25 750 694	3 536	25 754 230

There have been no other events requiring adjustments to these financial statements or disclosure in these financial statements from the last day of the reporting year to the date of signing these financial statements.

Independent Auditors' Report

Translation from Latvian

09.03.2023

To the Council of Latvijas Banka

Opinion

We have audited the accompanying financial statements of Latvijas Banka (the Bank) set out on pages 3 to 44, which comprise the balance sheet as at 31 December 2022 and the statement of profit and loss and the statement of total recognised gains and losses for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Latvijas Banka as at 31 December 2022, and of its financial performance for the year then ended in accordance with the Guideline (EU) 2016/2249 of the European Central Bank of 3 November 2016 on the legal framework for accounting and financial reporting in the European System of Central Banks (ECB/2016/34) and its amendments, the Financial Accounting Policy of Latvijas Banka approved by the Council of the Bank, and the requirements of the Law on Latvijas Banka.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the independence requirements included in the Law on Audit Services of Republic of Latvia that are relevant to our audit of the financial statements in the Republic of Latvia. We have fulfilled our other ethical responsibilities in accordance with the Law on Audit Services of Republic of Latvia and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Council and Those Charged with Governance for the Financial Statements

The Council of the Bank is responsible for the preparation of the financial statements that give a true and fair view in accordance with the Guideline (EU) 2016/2249 of the European Central Bank of 3 November 2016 on the legal framework for accounting and financial reporting in the European System of Central Banks (ECB/2016/34) and its amendments, the Financial Accounting Policy of Latvijas Banka approved by the Council of the Bank, and the requirements of the Law on Latvijas Banka. The Council of the Bank is responsible for such internal control as the Council of the Bank determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Council of the Bank is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Council of the Bank.
- Conclude on the appropriateness of Council's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

ERNST & YOUNG BALTIC SIA
License No. 17
Diāna Krišjāne
Chairperson of the Board
Latvian Certified Auditor
Certificate No. 124

Riga,

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

Appendix 1. Monetary Indicators in 2022

(at the end of the period; millions of euro)

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Latvijas Banka												
Latvia's contribution to the euro area monetary base	11 139.8	11 295.6	11 549.3	11 335.8	11 236.0	11 308.5	11 244.4	11 204.9	11 568.1	10 483.1	10 397.0	10 943.4
Currency in circulation	5 605.0	5 634.8	5 730.5	5 778.2	5 802.1	5 834.3	5 828.7	5 740.1	5 704.5	5 694.0	5 676.8	5 726.3
Current accounts of credit institutions	5 534.8	5 660.8	5 818.8	5 557.6	5 433.9	5 474.2	5 415.7	5 464.8	450.8	307.4	351.8	343.8
Deposit facility and other liabilities related to monetary policy operations	0	0	0	0	0	0	0	0	5 412.8	4 481.7	4 368.4	4 873.3
Foreign assets outside the euro area	12 196.6	12 300.6	12 401.6	12 666.1	12 585.8	12 636.2	12 767.1	12 731.8	12 676.0	12 268.7	12 290.5	12 323.0
Foreign liabilities outside the euro area	756.0	772.5	771.8	795.5	773.0	787.5	649.8	327.3	31.2	44.9	176.3	206.4
Credit	6 979.5	7 017.6	7 167.2	7 254.6	7 298.5	7 227.0	7 256.8	7 227.7	7 144.7	7 121.9	7 103.4	7 119.1
To MFIs in the euro area	790.3	794.9	807.1	803.8	802.5	751.0	771.4	769.0	787.3	754.0	705.9	707.0
To the general government sector in the euro area	5 259.2	5 309.2	5 445.2	5 533.3	5 590.7	5 583.5	5 587.1	5 563.8	5 522.8	5 537.7	5 561.3	5 583.3
To other euro area residents	930.0	913.5	914.9	917.5	905.3	892.5	898.3	894.9	834.6	830.2	836.2	828.8
MFI												
Overnight deposits (Latvia's contribution to M1 of the euro area)	17 260.2	17 448.8	17 649.5	17 589.3	17 665.0	17 839.8	17 788.4	17 907.4	17 916.3	18 111.6	17 961.3	18 501.6
Deposits with an agreed maturity of up to 2 years	739.7	679.8	656.2	658.8	619.2	586.8	572.4	554.8	564.1	663.1	798.8	853.1
Deposits redeemable at notice of up to 3 months	687.9	688.9	684.9	694.8	694.5	693.6	694.3	700.0	703.2	697.2	689.2	686.4
Latvia's contribution to M2 of the euro area	18 687.8	18 817.4	18 990.6	18 943.0	18 978.7	19 120.2	19 055.1	19 162.2	19 183.6	19 471.9	19 449.3	20 041.1
Repo transactions	219.3	215.8	215.7	214.8	177.7	175.9	179.5	155.9	0	0	0	0
Money market fund shares and units	0	0	0	0	0	0	0	0	0	0	0	0
Debt securities with a maturity of up to 2 years	0	0	0	0	0	0	0	0	0	0	0	0
Latvia's contribution to M3 of the euro area	18 907.0	19 033.2	19 206.3	19 157.8	19 156.4	19 296.1	19 234.6	19 318.1	19 183.6	19 471.9	19 449.3	20 041.1
Net foreign assets outside the euro area	12 319.7	12 248.9	12 375.5	12 727.3	12 745.1	12 721.3	12 976.6	12 941.8	13 219.2	13 938.0	13 892.4	14 029.7
Credit to euro area financial institutions, non-financial corporations and households	13 558.8	13 567.3	13 615.6	13 672.8	13 747.1	13 942.3	14 131.8	14 472.1	14 555.5	14 700.6	14 740.1	14 526.1
Loans to resident financial institutions, non-financial corporations and households	12 373.6	12 407.2	12 473.2	12 539.5	12 616.1	12 800.8	12 998.8	13 340.5	13 369.5	13 517.0	13 568.2	13 390.0
Deposits by resident financial institutions, non-financial corporations and households	16 335.0	16 492.8	16 673.4	16 680.3	16 727.0	16 957.1	16 950.2	17 046.4	17 223.7	17 452.8	17 363.9	17 997.3
Interest rates												
Interest rate on the main refinancing operations (at the end of the period; %)	0.00	0.00	0.00	0.00	0.00	0.00	0.50	0.50	1.25	1.25	2.00	2.50
Weighted average interest rates on transactions in euro (%)												
Interbank loans	-0.03	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	0.00	0.27	0.42	0.81	0.95
Loans to non-financial corporations and households with a floating interest rate and an initial rate fixation of up to 1 year (new business)	2.9	2.8	2.7	2.5	2.2	2.8	2.9	3.4	3.6	3.8	3.9	5.2
Time deposits by non-financial corporations and households (new business)	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.2	0.4	0.4	0.8	1.0

Appendix 2. Month-End Balance Sheets of Latvijas Banka for 2022

(at the end of the month; thousands of euro)

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
ASSETS	25 248 910	25 335 437	25 597 906	25 972 136	26 004 085	26 017 016	26 199 159	26 102 703	26 071 101	25 457 388	25 595 512	25 750 694
Gold and gold receivables	343 258	364 891	371 868	388 801	369 668	371 831	368 615	366 323	364 792	353 054	362 869	364 821
Claims on non-euro area residents denominated in foreign currency	4 436 089	4 407 448	4 359 466	4 421 212	4 262 488	4 260 318	4 372 859	4 354 131	4 051 462	3 927 659	3 851 481	3 788 044
Receivables from the International Monetary Fund	548 055	547 221	547 133	559 873	553 672	561 360	569 092	572 143	576 454	568 282	556 859	549 961
Balances with credit institutions and security investments, external loans and other external assets	3 888 034	3 860 227	3 812 333	3 861 339	3 708 816	3 698 958	3 803 767	3 781 988	3 475 008	3 359 377	3 294 622	3 238 083
Claims on euro area residents denominated in foreign currency	541 905	530 869	526 589	535 528	504 993	498 990	540 992	520 433	544 960	533 855	525 808	522 039
Claims on non-euro area residents denominated in euro	179 601	163 108	176 275	174 719	163 459	162 475	176 821	160 125	351 266	152 195	155 264	156 383
Lending to euro area credit institutions related to monetary policy operations denominated in euro	616 600	616 600	616 600	616 600	656 600	596 600	596 600	596 600	575 600	575 600	532 900	522 900
Main refinancing operations	-	-	-	-	-	-	-	-	-	-	-	-
Longer-term refinancing operations	616 600	616 600	616 600	616 600	616 600	596 600	596 600	596 600	575 600	575 600	532 900	522 900
Fine-tuning reverse operations	-	-	-	-	-	-	-	-	-	-	-	-
Structural reverse operations	-	-	-	-	-	-	-	-	-	-	-	-
Marginal lending facility	-	-	-	-	40 000	-	-	-	-	-	-	-
Credits related to margin calls	-	-	-	-	-	-	-	-	-	-	-	-
Other claims on euro area credit institutions denominated in euro	8 791	16 960	29 120	20 413	2 829	14 120	9 337	29 003	30 601	11	15	6 304
Securities of euro area residents denominated in euro	13 049 858	13 218 299	13 488 772	13 763 380	13 924 192	13 958 930	13 958 693	13 932 884	13 902 001	13 848 163	13 965 604	14 081 606
Securities held for monetary policy purposes	11 910 813	12 086 475	12 371 065	12 650 790	12 820 311	12 874 852	12 879 098	12 919 289	12 966 047	12 906 514	13 010 713	13 134 812
Other securities	1 139 045	1 131 824	1 117 707	1 112 590	1 103 881	1 084 078	1 079 595	1 013 595	935 954	941 649	954 891	946 794
Intra-Eurosystem claims	5 873 662	5 825 474	5 817 033	5 844 954	5 886 773	5 941 849	5 946 425	5 906 582	5 874 903	5 867 810	5 874 335	5 926 959
Participating interest in the European Central Bank	116 472	116 472	116 472	116 472	116 472	116 472	116 472	116 472	116 472	116 472	116 472	118 849
Claims equivalent to the transfer of foreign reserves to the European Central Bank	157 202	157 202	157 202	157 202	157 202	157 202	157 202	157 202	157 202	157 202	157 202	157 202
Claims related to TARGET2 and national central bank correspondent accounts (net)	-	-	-	-	-	-	-	-	-	-	-	-
Claims related to other operational requirements within the Eurosystem	5 599 988	5 551 800	5 543 359	5 571 280	5 613 099	5 668 175	5 672 751	5 632 908	5 601 229	5 594 136	5 600 661	5 650 908
Pending settlements	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	199 146	191 788	212 183	206 529	233 083	211 903	228 817	236 622	375 516	199 041	327 236	381 638

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
LIABILITIES	25 248 910	25 335 437	25 597 906	25 972 136	26 004 085	26 017 016	26 199 159	26 102 703	26 071 101	25 457 388	25 595 512	25 750 694
Banknotes in circulation	5 519 118	5 548 888	5 644 332	5 691 119	5 714 504	5 745 522	5 739 126	5 649 713	5 614 153	5 604 015	5 586 430	5 635 738
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	5 534 791	5 660 766	5 818 782	5 557 560	5 433 876	5 474 152	5 415 671	5 464 815	5 863 597	4 789 120	4 720 218	5 217 165
Current accounts (covering the minimum reserve system)	5 534 791	5 660 766	5 818 782	5 557 560	5 433 876	5 474 152	5 415 671	5 464 815	450 814	307 421	351 833	343 816
Deposit facility	-	-	-	-	-	-	-	-	5 412 783	4 481 699	4 368 385	4 873 349
Time deposits	-	-	-	-	-	-	-	-	-	-	-	-
Fine-tuning reverse operations	-	-	-	-	-	-	-	-	-	-	-	-
Deposits related to margin calls	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities to euro area credit institutions denominated in euro	642 483	750 118	735 631	728 444	738 324	733 501	680 843	261 543	53 335	87 101	100 673	320 273
Liabilities to other euro area residents denominated in euro	3 514 061	3 550 612	3 306 063	3 672 046	3 684 629	3 646 531	3 704 029	3 847 712	3 151 304	3 597 114	3 284 787	2 517 104
General government	1 845 340	1 881 708	1 592 936	2 007 979	2 038 619	2 041 646	2 121 924	2 286 009	1 856 172	2 305 381	1 993 471	1 157 761
Other liabilities	1 668 721	1 668 904	1 713 127	1 664 067	1 646 010	1 604 885	1 582 105	1 561 703	1 295 132	1 291 733	1 291 316	1 359 343
Liabilities to non-euro area residents denominated in euro	58 078	71 445	55 223	53 912	57 437	63 525	34 147	31 722	31 215	44 851	176 287	171 688
Liabilities to euro area residents denominated in foreign currency	1 592 909	1 627 662	1 598 660	1 625 732	1 483 242	1 505 135	1 531 659	1 158 350	672 830	614 752	557 702	706 038
Liabilities to non-euro area residents denominated in foreign currency	697 954	701 007	716 565	741 560	715 527	723 992	615 623	295 577	-	-	-	34 701
Intra-Eurosystem liabilities	6 407 924	6 200 780	6 519 321	6 722 509	7 120 298	7 148 571	7 377 503	8 364 061	9 819 512	9 912 216	10 333 554	10 376 364
Liabilities related to TARGET2 and national central bank correspondent accounts (net)	6 407 924	6 200 780	6 519 321	6 722 509	7 120 298	7 148 571	7 377 503	8 364 061	9 819 512	9 912 216	10 333 554	10 370 127
Liabilities related to other operational requirements within the Eurosystem	-	-	-	-	-	-	-	-	-	-	-	6 237
Pending settlements	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	470 797	454 115	470 770	539 038	449 351	496 189	480 237	504 432	542 843	508 615	484 549	184 740
Capital and reserves	810 795	770 044	732 559	640 216	606 897	479 898	620 321	524 778	322 312	299 604	351 312	586 883

Appendix 3. Balance Sheets of Latvijas Banka for the Years 2018–2022

(at the end of the year; thousands of euro)

	2018	2019	2020	2021	2022
ASSETS	18 247 147	18 745 509	23 045 742	25 074 429	25 750 694
Gold and gold receivables	239 195	289 043	330 139	344 166	364 821
Claims on non-euro area residents denominated in foreign currency	3 566 027	3 688 972	3 970 780	4 495 181	3 788 044
Receivables from the International Monetary Fund	146 833	149 082	142 411	542 959	549 961
Balances with credit institutions and security investments, external loans and other external assets	3 419 194	3 539 890	3 828 369	3 952 222	3 238 083
Claims on euro area residents denominated in foreign currency	326 308	460 415	333 706	528 428	522 039
Claims on non-euro area residents denominated in euro	101 837	90 139	119 143	174 081	156 383
Lending to euro area credit institutions related to monetary policy operations denominated in euro	38 750	12 250	1 260 000	616 600	522 900
Main refinancing operations	-	-	-	-	-
Longer-term refinancing operations	38 750	12 250	1 260 000	616 600	522 900
Fine-tuning reverse operations	-	-	-	-	-
Structural reverse operations	-	-	-	-	-
Marginal lending facility	-	-	-	-	-
Credits related to margin calls	-	-	-	-	-
Other claims on euro area credit institutions denominated in euro	488	8	120	4 255	6 304
Securities of euro area residents denominated in euro	8 813 038	8 721 137	11 129 440	12 839 996	14 081 606
Securities held for monetary policy purposes	7 423 080	7 636 472	10 008 456	11 690 783	13 134 812
Other securities	1 389 958	1 084 665	1 120 984	1 149 213	946 794
Intra-Eurosystem claims	4 952 780	5 277 483	5 673 974	5 868 008	5 926 959
Participating interest in the European Central Bank	115 082	114 108	114 095	116 472	118 849
Claims equivalent to the transfer of foreign reserves to the European Central Bank	163 480	158 264	157 202	157 202	157 202
Claims related to TARGET2 and national central bank correspondent accounts (net)	-	-	-	-	-
Claims related to other operational requirements within the Eurosystem	4 674 218	5 005 111	5 402 677	5 594 334	5 650 908
Pending settlements	-	-	-	-	-
Other assets	208 724	206 062	228 440	203 714	381 638

	2018	2019	2020	2021	2022
LIABILITIES	18 247 147	18 745 509	23 045 742	25 074 429	25 750 694
Banknotes in circulation	4 536 729	4 666 799	5 142 726	5 536 624	5 635 738
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	5 050 101	5 660 676	6 053 812	6 406 673	5 217 165
Current accounts (covering the minimum reserve system)	5 050 101	5 660 676	6 053 812	6 406 673	343 816
Deposit facility	-	-	-	-	4 873 349
Time deposits	-	-	-	-	-
Fine-tuning reverse operations	-	-	-	-	-
Deposits related to margin calls	-	-	-	-	-
Other liabilities to euro area credit institutions denominated in euro	13 847	11 871	577 746	649 746	320 273
Liabilities to other euro area residents denominated in euro	1 449 237	1 506 709	3 012 014	3 438 792	2 517 104
General government	129 113	442 044	1 588 192	1 803 339	1 157 761
Other liabilities	1 320 124	1 064 665	1 423 822	1 635 453	1 359 343
Liabilities to non-euro area residents denominated in euro	16 524	307 239	238 737	57 955	171 688
Liabilities to euro area residents denominated in foreign currency	150 535	153 351	615 986	1 594 262	706 038
Liabilities to non-euro area residents denominated in foreign currency	115 284	1 642 368	1 364 010	688 359	34 701
Intra-Eurosystem liabilities	6 212 645	3 833 540	4 837 613	5 356 980	10 376 364
Liabilities related to TARGET2 and national central bank correspondent accounts (net)	6 212 645	3 826 452	4 809 553	5 322 638	10 370 127
Liabilities related to other operational requirements within the Eurosystem	-	7 088	28 060	34 342	6 237
Pending settlements	-	-	-	-	-
Other liabilities	251 877	329 326	409 700	436 383	184 740
Capital and reserves	450 368	633 630	793 398	908 655	586 883

Appendix 4. Profit and Loss Statements of Latvijas Banka for the Years 2018–2022

(at the end of the year; thousands of euro)

	2018	2019	2020	2021	2022
Net interest income	79 494	95 946	139 537	123 981	47 021
Interest income	180 907	198 804	190 313	165 248	211 229
Interest expense	-101 413	-102 858	-50 776	-41 267	-164 208
Net result of financial operations, recognition of revaluation result in profit and loss statement and financial risk provisions	-42 387	-37 821	-68 947	-50 235	-21 337
Realised gains arising from financial operations	-49 690	46 253	44 471	357	39 732
Recognition of revaluation result on financial assets and positions in profit and loss statement	-47 903	-3 856	-35 237	-36 618	-341 715
Provisions for market risk and credit risk	55 206	-80 218	-78 181	-13 974	280 646
Net expense from fees and commissions	-2 783	-3 607	-3 394	-3 951	-4 441
Fees and commissions income	644	811	949	981	1 011
Fees and commissions expense	-3 427	-4 418	-4 343	-4 932	-5 452
Income from participating interest	6 922	14 884	18 605	14 575	14 755
Net result of pooling of monetary income	122	-6 801	-27 701	-34 342	-6 237
Other operating income	9 270	1 300	1 268	3 591	5 766
NET INCOME	50 638	63 901	59 368	53 619	35 527
Remuneration	-17 515	-17 660	-16 867	-16 403	-16 502
Social security costs and solidarity tax	-4 031	-3 941	-3 764	-3 582	-3 653
Banknote and coin acquisition costs	-2 104	-1 791	-1 546	-1 831	-2 618
Depreciation of fixed assets and amortisation of intangible assets	-4 189	-4 129	-3 851	-3 802	-3 641
Other operating expenses	-8 233	-9 225	-6 694	-7 093	-9 113
PROFIT OF THE REPORTING YEAR	14 566	27 155	26 646	20 908	0
Profit transferrable to the reserve capital	4 370	8 146	7 994	6 272	0
Profit transferrable to the state budget	10 196	19 009	18 652	14 636	0

Appendix 5. Latvijas Banka Publications and Major Publications by the Experts of Latvijas Banka in 2022

Working papers

BEŅKOVSKIS, Konstantīns, FADEJEVA, Ludmila. Chasing the Shadow: the Evaluation of Unreported Wage Payments in Latvia. Riga: Latvijas Banka. Working Paper No 1, 2022, p. 21. Available: https://datnes.latvijasbanka.lv/papers/wp_1_2022.pdf. The summary in Latvian "Ēnai pa pēdām: aplokšņu algu novērtējums Latvijā" is available on the website www.bank.lv.

BEŅKOVSKIS, Konstantīns, TKAČEVŠ, Oļegs, JARRET, Peter, KRILL, Ze'ev, YASHIRO, Naomitsu. The Survival of Latvian Products and Firms in Export Markets. Riga: Latvijas Banka. Working Paper No 2, 2022, p. 46. Available: https://datnes.latvijasbanka.lv/papers/wp_2_2022.pdf. The summary in Latvian "Latvijas uzņēmumu un to produkcijas izdzīvošana eksporta tirgos" is available on the website www.bank.lv.

GAUTIER, Erwan, CONFLITTI, Cristina, FABER, Riemer, FABO, Brian, FADEJEVA, Ludmila, JOUVANCEAU, Valetnin, MENZ, Jan-Oliver, MESSNER, Teresa, PETROULAS, Pavlos, ROLDAN-BLANCO, Pau, RUMLER, Fabio, SANTORO, Sergio, WIELAND, Elisabeth, ZIMMER, Hélène. New Facts on Consumer Price Rigidity in the Euro Area. Riga: Latvijas Banka Working Paper No 3, 2022, p. 99. Available: https://datnes.latvijasbanka.lv/papers/WP_3-2022.pdf. The summary in Latvian "Jauni fakti par patēriņa cenu mainību eiro zonā" is available on the website www.bank.lv.

MATVEJEVS, Oļegs, TKAČEVŠ, Oļegs. Public investment crowds in private investment – with ifs and buts. Riga: Latvijas Banka Working Paper No 4, 2022, p. 41. Available: https://datnes.latvijasbanka.lv/papers/wp_4_2022.pdf. The summary in Latvian "Vai valsts investīcijas veicina privātās investīcijas?" is available on the website www.bank.lv.

ZLOBINS, Andrejs. Into the Universe of Unconventional Monetary Policy: State-dependence, Interaction and Complementarities. Riga: Latvijas Banka Working Paper No 5, 2022, p. 37. Available: https://datnes.latvijasbanka.lv/papers/wp_5_2022.pdf. The summary in Latvian "Nestandarta monetārās politikas šķautnes: nelinearitāte, mijiedarbība un komplementaritāte" is available on the website www.bank.lv.

GRÜNING, Patrick. Fiscal, Environmental, and Bank Regulation Policies in a Small Open Economy for the Green Transition. Riga: Latvijas Banka Working Paper No 6, 2022, p. 94. Available: https://datnes.latvijasbanka.lv/papers/wp_6_2022.pdf. The summary in Latvian "Fiskālā, vides un banku regulējuma politika, nodrošinot pāreju uz zaļo ekonomiku mazā un atvērtā tautsaimniecībā" is available on the website www.bank.lv.

Discussion papers

BRINĶE, Anete, FADEJEVA, Ludmila, SILIVERSTOVŠ, Boriss, VILERTS, Kārlis. Consumer Spending in the Covid-19 Pandemic: Evidence from Card Transactions in Latvia. Riga: Latvijas Banka, Discussion Paper No 1, 2022, p. 30. Available: https://datnes.latvijasbanka.lv/papers/discussion/DP_1_2022.pdf. The summary in Latvian "Patēriņa paradumi Covid-19 pandēmijas laikā: Latvijas maksājumu karšu datu liecības" is available on the website www.bank.lv.

KRASNOPJOROVS, Oļegs. Ready for the next 820? Looking for the keys to paradise of Riga city. Riga: Latvijas Banka, Discussion Paper No 2, 2022, p. 106. Available: https://datnes.latvijasbanka.lv/diskusijas-materiali/DP_2_2022_Riga_12_04.pdf. The summary in Latvian "Vai Rīga ir gatava nākamajiem 820 gadiem? Rīgas paradīzes atslēgas meklējot" is available on the website www.bank.lv.

Publications

AJEVSKIS, Viktors. 2022. Generalized impulse response function as a perturbation of a global solution to DSGE models. *AIP Conference Proceedings* 2522, <https://doi.org/10.1063/5.0100888>.

FADEJEVA, Ludmila, TKAČEVŠ, Oļegs. 2022. The effectiveness of tax incentives to encourage private savings. *Baltic Journal of Economics* 22(2).

KRASNOPJOROVS, Oļegs. 2022. Whether Low-income Households and Retirees Face Higher Inflation? Evidence from Latvia. University of Latvia international scientific conference proceedings "New Challenges in Economic and Business Development – 2022: Responsible Growth" Available: https://www.bvef.lu.lv/fileadmin/user_upload/LU.LV/Apaksvietnes/Fakultates/www.bvef.lu.lv/Proceeding_of_Reports_2022.pdf.

Public wage and pension indexation in the euro area: an overview. *ECB Occasional Paper Series*, No 299 / August 2022. Available: <https://www.ecb.europa.eu/pub/pdf/scpops/ecb.op299~61d0565cfb.en.pdf>. Appendix "A.12 Latvia" prepared by Baiba Brusbārde (Latvijas Banka).

Appendix 6. Glossary

AnaCredit (analytical credit datasets): a common Eurosystem's granular analytical credit and credit risk database collecting data on loans granted to legal entities by the credit institutions of all euro area Member States based on harmonised ECB statistical reporting requirements.

Asset Purchase Programme (APP): part of a package of non-standard monetary policy measures approved by the Governing Council of the ECB, comprising corporate sector purchase programme (CSPP), public sector purchase programme (PSPP), asset-backed securities purchase programme (ABSPP) and the third covered bond purchase programme (CBPP3).

Balance of payments: a statistical statement summarising transactions between Latvia's residents and the residents of the rest of the world. It incorporates the current account, the capital account and the financial account.

Bank for International Settlements (BIS): an international financial organisation operating to facilitate international monetary and financial cooperation. The BIS acts as a bank for central banks.

Banking union: an EU-level framework for banking supervision and resolution operating based on a single rulebook applicable in the entire EU. Euro area countries and those EU countries outside the euro area opting to participate in the banking union are members of the banking union.

Clearing: the process of transmitting, processing and reconciling payment documents or securities transfer orders prior to settlement, resulting in the establishment of the net position of each settlement participant by netting all payment documents submitted by the settlement participants, i.e. establishing net cash liabilities to or claims on other settlement participants.

Collateral: assets that are pledged or otherwise transferred to secure the recovery of losses in the case of counterparty default or insolvency. The collateral used in the Eurosystem's reverse transactions must meet certain eligibility criteria.

Council of the EU (EU Council): the institution representing the governments of EU countries. The ministers of EU countries meet in the EU Council to adopt legislative acts and coordinate policies. The EU Council is an essential EU decision-maker. It is a single legal entity, but it meets in 10 different configurations, depending on the subject being discussed. The most significant tasks of the EU Council include negotiating and adopting legislative acts, developing common foreign and security policy of the EU, signing international agreements on behalf of the EU as well as adopting the EU budget together with the European Parliament.

Credit institution: a capital company whose business is to receive deposits or other repayable funds from the public and to grant credits on its own account and provide other financial services.

Debt security: a security representing an obligation on the part of the issuer to make one or more payment(s) to the holder of the security at a specified future date or dates. Such security usually carries a specific interest rate (the coupon) or is sold at a discount/premium to the amount that will be repaid at maturity.

Deposit facility: a standing facility of the Eurosystem which credit institutions registered in Latvia and branches in Latvia of credit institutions registered in other countries may use to make overnight deposits with Latvijas Banka at a pre-specified interest rate.

Deposits: funds placed on the accounts of MFIs for a specified or unspecified period of time, with or without earning interest.

Direct investment: investment by an investor (direct investor) made directly or indirectly (through subsidiaries or associated companies) to acquire a lasting interest (corresponding to at least 10% ownership of ordinary shares or voting rights) in an enterprise (direct investment enterprise). The components of direct investment are equity and debt instruments. Direct investment data are compiled both on an asset/liability basis (balance of payments and the international investment position data) and according to the directional principle – direct investment in Latvia and direct investment abroad.

E-commerce: trade of goods and services with the help of electronic communications.

Electronic Clearing System of Latvijas Banka (EKS): Latvijas Banka's payment system ensuring the processing of retail payment orders across the SEPA. The EKS provides two services: clearing service which is netting the payments and ensuring several clearing cycles per EKS business day for settlements in euro, and instant payment service which is processing payments within seconds, 24 hours a day, 7 days a week, 365 days a year.

Equities: securities representing ownership of a stake in a commercial company. They comprise shares and other forms of equity. Equities usually produce income in the form of dividends.

Euro area: EU countries which have adopted the euro as their single currency in accordance with the Treaty on the Functioning of the European Union and in which a single monetary policy is conducted under the responsibility of the Governing Council of the ECB. As at the end of 2022, the euro area comprised Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia and Spain.

European Banking Authority (EBA): an EU body with legal personality which forms part of the European System of Financial Supervision and works to ensure effective and consistent prudential regulation and supervision across the EU banking sector. Its overall objective is to maintain financial stability in the EU and to safeguard the integrity, efficiency and orderly functioning of the banking sector.

European Central Bank (ECB): the central institution of the ESCB and the Eurosystem having a legal personality under the EU law. The ECB implements the tasks conferred upon the Eurosystem and the ESCB pursuant to the Statute of the ESCB and the ECB in cooperation with the national central banks of the EU Member States.

European System of Central Banks (ESCB): includes the ECB and the national central banks of the EU Member States. The national central banks of those EU countries that have not yet adopted the euro implement an independent monetary policy according to their national law and are thus not involved in the conduct of the monetary policy of the Eurosystem.

European Systemic Risk Board (ESRB): an independent EU body which is a part of the European System of Financial Supervision and is responsible for the macro-prudential oversight of the financial system within the EU in order to contribute to the prevention or mitigation of systemic risks to financial stability in the EU that arise from developments within the financial system, taking into account macroeconomic developments, and to avoid periods of widespread financial distress. It contributes to the smooth functioning of the internal market and thereby ensures a sustainable contribution of the financial sector to economic growth.

Eurosystem: comprises the ECB and the national central banks of the Member States of the euro area. The decision-making bodies of the Eurosystem are the Governing Council and the Executive Board of the ECB.

External statistics: balance of payments statistics, international investment position, external debt and direct investments.

Financial stability: a condition of the financial system enabling it to withstand shocks, thereby mitigating the likelihood of disruptions in the financial intermediation process.

Financial vehicle corporation: an institutional unit other than an MFI that has been set up for the purpose of carrying out one or more securitisations. Latvijas Banka sets up, maintains and regularly updates the List of Financial Vehicle Corporations (see the Statistics section of Latvijas Banka's website www.bank.lv).

Fine-tuning operation: an open market operation executed by the Eurosystem in order to deal with unexpected liquidity fluctuations in the market. The frequency and maturity of these operations are not standardised.

General Council of the ECB: one of the decision-making bodies of the ECB, comprising the President and the Vice-President of the ECB and the Governors of the central banks of all EU countries.

General government: public institutional units engaged in the production of goods or provision of services intended for individual or collective consumption free of charge or at economically insignificant prices, primarily financed from the compulsory payments (taxes and duties) imposed on economic agents, as well as institutional units engaged in the redistribution of national income or wealth. General government in Latvia includes central government, local governments and social security funds.

Governing Council of the ECB: the main decision-making body of the ECB. It consists of members of the Executive Board of the ECB and the governors of the national central banks of the euro area.

Household: a natural person or group of natural persons in the capacity of a consumer and producer of goods and a provider of non-financial services for exclusively own final use; a sole proprietor which is an economic unit established by a natural person or a group of natural persons; this natural person or group of natural persons is liable for the settlement of the obligations of the economic unit with its entire property and the unit's accounting is organised in accordance with the single-entry system.

Instant payment: execution of payments of bank and other payment service provider customers within a matter of seconds, making cash transfers 24 hours a day, 7 days a week, 365 days a year, including on holidays and weekends.

Integrated Reporting Framework (IReF): an important initiative of the ESCB providing for maximum harmonisation of data requirements for the needs of statistics and supervision of credit institutions ensuring optimal data availability on the level of both granular and aggregate data. IReF envisages data collection from credit institutions' information systems and reporting based on the Bank's Integrated Reporting Dictionary (BIRD) and a data exchange standard.

International Monetary Fund (IMF): an international organisation operating to facilitate international monetary cooperation, exchange rate stability, national economic growth and employment growth, and provide short-term financial assistance to IMF member countries for balancing the payment flow.

Key ECB interest rates: the interest rates on the main refinancing operations, on the marginal lending facility and on the deposit facility set by the Governing Council of the ECB.

Local government: institutional units of the local public administration, whose competence only covers a local economic territory. The list of institutional units of the Latvian general government is prepared by the Central Statistical Bureau.

Longer-term refinancing operation (LTRO): an open market operation, executed through reverse transactions with the aim of providing credit institutions with additional longer-term financing.

Main refinancing operation: a regular open market operation executed by the Eurosystem in the form of reverse transactions. Such operations are carried out through a weekly standard tender and normally have a maturity of one week.

Marginal lending facility: a standing facility, offered by the Eurosystem, which credit institutions registered in the Republic of Latvia and branches, registered in Latvia, of credit institutions registered in other countries may use to receive overnight credit from Latvijas Banka at a pre-specified interest rate against marketable or non-marketable assets.

Market risk: the risk related to fluctuations of the fair value or cash flow of financial instruments on account of movements in market prices. Market risk reflects the interest rate risk, currency risk and price risk.

Monetary financial institution (MFI): a central bank, credit institution (except for a non-MFI credit institution), credit union, money market fund and other financial institution whose business is to receive deposits or close substitutes for deposits from customers other than MFIs and, on their own account, to grant credits and invest in securities, as well as an electronic money institution whose core business is to issue electronic money. MFIs in Latvia include Latvijas Banka, credit institutions registered in Latvia (except for non-MFI credit institutions), credit unions, electronic money institutions that have commenced the issue of electronic money, money market funds managed by investment management companies registered in a European Economic Area country, as well as branches of MFIs of other countries in Latvia. Latvijas Banka sets up, maintains and regularly updates the List of Monetary Financial Institutions of Latvia (see the Statistics section of Latvijas Banka's website www.bank.lv). The list is also available on the ECB website where the ECB publishes the list of MFIs of the EU Member States on a regular basis. As at the end of 2022, there were 48 MFIs in Latvia.

Monetary income: income accruing to the national central banks of the euro area in the process of the Eurosystem's monetary policy implementation, derived from assets earmarked in accordance with guidelines established by the Governing Council of the ECB and held against banknotes in circulation and credit institutions' deposits with central banks of the euro area.

Net issuance of banknotes and coins: amount of euro banknotes and coins issued (difference between withdrawals and deposits of euro banknotes and coins) by the national central bank. It is estimated as at a specific date or for a specific period of time, in amounts or numbers.

Non-financial corporation: an institutional unit whose principal activity is producing goods and providing non-financial services, including an economic unit established by a natural person or a group of natural persons; this natural person or group of natural persons is liable for the settlement of the obligations of the economic unit with its entire property and the unit's accounting is organised in accordance with the double-entry system; head offices, whose subsidiaries or their largest part are non-financial corporations.

Non-MFI credit institution: a credit institution that does not take deposits or other repayable funds from the public and does not grant credits for its own account, i.e. whose business activities are not the activities referred to in Article 4(1)(1)(a) of Regulation (EU) No 575/2013.

Official electronic address (e-address): a set of elements (a unique string of numbers or numbers and letters) that ensures the addressee's reachability in the electronic environment.

Open market operation: an operation executed in the financial market on the initiative of a central bank. With regard to their aims, regularity and procedures, Eurosystem's open market operations can be divided into four categories: main refinancing operations, longer-term refinancing operations, fine-tuning operations and structural operations.

Organisation for Economic Co-operation and Development (OECD): an intergovernmental organisation, a forum providing a platform for seeking answers to common problems, identifying good practices and stimulating policies that improve the economic and social well-being of persons.

Pandemic emergency asset purchase programme (PEPP): a non-standard monetary policy measure approved by the Governing Council of the ECB to counter the serious risks to the monetary policy transmission mechanism and the outlook for the euro area posed by the Covid-19 pandemic.

Price stability: the maintenance of price stability is the primary objective of the Eurosystem. The Governing Council of the ECB has also stated that, in the pursuit of price stability, it aims to maintain inflation rates at 2% in the medium term.

Proxy (instant link): a link between the customer's current account number and his/her mobile phone number or other identifier. The customers who have registered the links between their current account numbers and identifiers with the Proxy Registry "Instant Links" can also receive transfers when the payer indicates the phone number only.

Request to pay: a payment request sent by the payee to the payer; the payer just has to confirm the request for the initiator of the request to receive the requested amount. It is possible to initiate a request to pay also by indicating the payer's mobile phone number only.

Reserve requirement: a requirement for credit institutions and credit unions to hold their minimum reserves with the national central bank over the reserve maintenance period. Compliance with the requirement is determined on the basis of the average end-of-day balance on the reserve account over the reserve maintenance period.

Reverse transaction: a transaction whereby the Eurosystem buys or sells assets under a repurchase agreement or conducts credit operations against collateral.

Special Data Dissemination Standard Plus (SDDS Plus): the highest data dissemination standard of the IMF. Its purpose is to provide comprehensive, internationally comparable, timely, accessible, reliable and high-quality statistical data on population, financial, economic, fiscal and external sectors, including information on statistical data categories and responsible institutions in each country, as well as links to data and their clarification notes.

Structural operations: open market operations executed by the Eurosystem on a regular or non-regular basis whenever the ECB wishes to adjust the structural liquidity position of the Eurosystem vis-à-vis the financial sector.

Systemic risk: a risk of disruptions in the financial system with the potential to have significant negative consequences for the discharge of the functions of the financial system as a whole and the real economy.

TARGET: a new payment system that is being developed within the framework of TARGET2 and TARGET2-Securities consolidation project and whose T2 service replaced TARGET2 as of 20 March 2023.

TARGET2-Latvija: a component system of TARGET2 in Latvia.

TARGET2-Securities (T2S): the Eurosystem's single technical platform enabling central securities depositories and national central banks to provide borderless and neutral core securities settlement services in the central bank money in Europe.

TARGET2: a multiplicity of the TARGET2 component systems of all central banks. TARGET2 settles payments in euro in central bank money and functions on the basis of a single IT platform, to which all payment orders are submitted for processing. TARGET2 operation is ensured by Latvijas Banka in conjunction with the national central banks of the ESCB participating in TARGET2.

Targeted longer-term refinancing operation (TLTRO): a reverse operation of the Eurosystem providing longer-term liquidity to credit institutions on attractive terms, so that they can continue easing the terms and conditions of lending to the private sector and to encourage their lending to the real economy. It is part of a package of non-standard monetary policy measures approved by the Governing Council of the ECB.

The list of institutional units of the Latvian general government is prepared by the Central Statistical Bureau.

Travel: goods purchased and services received by travellers, except for international carriage of passengers.

Abbreviations

AS	joint stock company
ECB	European Central Bank
ESCB	European System of Central Banks
EU	European Union
FCMC	Financial and Capital Market Commission
IMF	International Monetary Fund
OECD	Organisation for Economic Co-operation and Development
UK	United Kingdom
USA	United States of America