

LATVIJAS BANKA: ANNUAL REPORT 2015



In Charts, the dots indicate the actual data, and the lines reflect the smoothing approximation of the data. The smoothing approximation of the daily data is more distinguished than the curve of the actual data.

Details may not add because of rounding-off.

- no transactions or no outstanding amounts in the period.*
- x no data available or no computation of indicators possible.*
- 0; 0.0 magnitude less than half of the unit employed.*

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CONTENTS

Foreword of the Governor of Latvijas Banka	5
Statement of Vision, Mission and Values of Latvijas Banka	8
Economic Environment	9
Global and Euro Area Economic Environment	10
<i>Currency and Financial Markets</i>	10
<i>Real Sector</i>	12
Latvia's Economic Environment	14
<i>Inflation and Prices</i>	14
<i>Gross Domestic Product</i>	16
<i>Labour Market</i>	19
<i>Foreign Trade, Balance of Payments and External Debt</i>	20
<i>Fiscal Developments</i>	22
<i>Credit Institution Developments</i>	24
<i>Money Supply</i>	25
<i>Lending and Deposit Rates</i>	29
<i>Foreign Exchange and Interbank Market</i>	30
<i>Securities Market</i>	33
Operations and Activities of Latvijas Banka	34
Legal Framework and Functions. Latvijas Banka in the Eurosystem and Institutions of the European Union	35
Development, Adoption and Implementation of the Eurosystem's Monetary Policy	36
Investment Management	41
Currency in Circulation	42
Payment and Settlement Systems	46
Financial Stability	49
Operation of the Credit Register	50
Statistics	51
Providing Financial Services to the Government	53
Advisory Activities and Information to the Public	53
Cooperation with International Organisations and Foreign Central Banks	57
Management and Organisation of Latvijas Banka	59
Organisational Structure of Latvijas Banka	60
Management Principles and Development	62
Resource Management	62
Risk Management	65
Internal and External Audit	66
Financial Statements of Latvijas Banka for the Year Ended 31 December 2015	68
Independent Auditors' Report	115
Appendices	117
1. Monetary Indicators in 2015	118
2. Month-End Balance Sheets of Latvijas Banka for 2015	119
3. Organisational Units of Latvijas Banka at the End of 2015	121
4. Participation of Latvijas Banka in the Eurosystem and the European System of Central Banks	123
5. Representation of Latvijas Banka in International Organisations	125
6. Latvijas Banka Publications and Major Publications by the Experts of Latvijas Banka in 2015	126
7. Highlights of Eurosystem's Monetary Policy and Other Important Tasks in 2015	128
8. 2015 Highlights of Regulatory Documents Adopted in Pursuit of the Main Tasks of Latvijas Banka	134
9. Glossary	135

ABBREVIATIONS

ABSPP	asset-backed securities purchase programme
BIS	Bank for International Settlements
CBPP3	third covered bond purchase programme
CPI	Consumer Price Index
CSB	Central Statistical Bureau of Latvia
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
EEA	European Economic Area
EFC	Economic and Financial Committee
EKS	Electronic Clearing System of Latvijas Banka
ESA 2010	European System of Accounts 2010
ESCB	European System of Central Banks
ESRB	European Systemic Risk Board
EU	European Union
EURIBOR	Euro Interbank Offered Rate
Eurostat	Statistical Bureau of the EU
expanded APP	expanded asset purchase programme
FCMC	Financial and Capital Market Commission
FRS	US Federal Reserve System
GDP	gross domestic product
G20	19 major world economies and the EU
HICP	Harmonised Index of Consumer Prices
IMF	International Monetary Fund
IT	information technologies
JSC	joint stock company
LCD	Latvian Central Depository
Ltd.	limited liability company
LTRO	longer-term refinancing operations
M1	narrow monetary aggregate
M2	intermediate monetary aggregate
M3	broad monetary aggregate
MFI	monetary financial institution
NCB	national central bank
OECD	Organisation for Economic Co-operation and Development
OFIs	other financial intermediaries and financial auxiliaries, insurance corporations and pension funds
OPEC	Organization of Petroleum Exporting Countries
OTC	over-the-counter trading
PSPP	public sector asset purchase programme
SDR	Special Drawing Rights
SEPA	Single Euro Payments Area
SSM	Single Supervisory Mechanism
TLTRO	targeted longer-term refinancing operations
UK	United Kingdom
US	United States of America
VAT	Value Added Tax

FOREWORD OF THE GOVERNOR OF LATVIJAS BANKA



The second year after the euro introduction is now over, yet it seems at times as if we had been living with the single European currency much longer. We have successfully integrated into the Eurosystem and are not only benefiting from the advantages brought by the euro's stability, but also participating actively in developing euro area monetary policy and initiating reforms in order to be ready for new and important challenges.

Latvian society overall has also accepted the euro and appreciated its stabilising role in the context of complicated economic conditions. Now the issue of Latvia's future competitiveness is gaining prominence: we have completed the "mandatory minimum", yet our goal is to achieve the average level of the EU living standards and it is becoming ever clearer that it cannot be accomplished by means of monetary policy alone, barring significant changes in education, the labour market, healthcare and business environment.

The situation in the world economy in 2015 made the leading central banks reorganise their activity, strategy and monetary policy instruments, adjusting to life in the period of low interest rates. At the same time, this is the time of opportunity when well thought out and strategic decisions can lay the foundations of competitiveness and successful development of the country.

The accommodative monetary policy measures implemented in the euro area strengthened its economy but did not achieve all the intended goals. Credit institutions and other financial market participants still hold large amounts of liquidity that is not invested in the real economy, thus making it more difficult to achieve the medium-term price stability objective. This sets a new and important task for economic policy makers: to locate and eliminate the obstacles for the inflows of money into the economy. This is one of the most important common problems of the euro area, but every country has its own specifics and homework to be done.

In 2015, the rate of economic growth in the euro area remained low; global economic growth forecasts were revised downwards on several occasions, and the falling oil prices prevented the euro area from achieving its inflation target. In these conditions, the Eurosystem continued with monetary easing, implementing several important additional non-standard monetary policy measures, including further interest rate cuts and the expanded asset purchase programme involving 60 billion euro worth of monthly purchases of securities issued by central governments, agencies and European institutions as well as covered bonds and asset-backed securities. The amount of securities purchased by Latvijas Banka within the framework of the programme approaches 2 billion euro, reducing the government debt service costs even further and freeing up budgetary resources for development and social needs.

Latvia's GDP growth remained moderate in 2015 (2.6%), which, given the external environment, can be considered a satisfactory result. At the same time, it is obvious that the GDP growth is slowing with each passing year on account of both external developments and domestic structural problems.

Currently, Latvia's economic growth is driven mostly by private consumption, i.e. household spending. Looking by sector, the main contributors are manufacturing, trade, public services and, to a smaller extent, private services. The part of the economic growth potential, which was based on contracting unemployment, has shrunk considerably.

External environment remains complicated. The forecasts of Russia's economic development indicators have turned out to be fairly accurate, yet analysts are increasingly concerned that recovery may not be as fast as previously expected. At the same time, the euro area growth remains fragile. The latest published data on the US economy have been moderate, with the doubt about a further raising of interest rates remaining. External demand is also impacted by the economic problems of China.

Turning to the activities of Latvijas Banka in 2015, I must conclude that our functioning in the Eurosystem was active and successful. The first year after the euro introduction could still be characterised as a transitory period, whereas now we fully and actively participate in the implementation of various Eurosystem's functions.

Latvijas Banka experts made a significant contribution to the work of the Governing Council of the ECB. They became active participants of the team formulating the euro area monetary policy and implementing the complex decisions. Here, the function of economic research and analysis was of great importance, facilitating the adoption of high quality economic policy decisions. The role of research became even more prominent after Latvia joined the euro area, for monetary policy decisions require an in-depth study and quantitative analysis of the economies of Latvia, the euro area as a whole and other individual euro area economies.

The forecasting infrastructure at Latvijas Banka has been upgraded for successful participation in the forecasting procedures of the Eurosystem both by developing the macroeconomic forecasts for the Latvian economy and by participating in the discussion of forecasts of other euro area countries in Eurosystem's institutions. In cooperation with other central banks of the Eurosystem, employees of Latvijas Banka also participate in the everyday analytic work, preparing substantiation for the monetary policy decisions at the Governing Council of the ECB and conducting research of the developments in the Latvian economy.

Year 2015 was a special year for Latvia which, for the first six months, was the presiding country of the Council of the EU. Specialists from Latvijas Banka also took an active part in this process. Our experts made an important contribution to the progress of the EU legal initiatives in the areas of payment services, financial services, financial market regulation, statistics and other areas, as well as ensured the representation of EU interests at the G20. Latvijas Banka was also represented on 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 accounting, as well as others.

An important function of Latvijas Banka is the handling of currency, which has been further improved after joining the Eurosystem. A new 20 euro banknote of the Europa series was released in 2015 with a view to further improving the security features and design of euro area currency. Preparations for this event which was important to businesses and the general public involved extensive public awareness campaigns as well as various technical adjustments and tests. Those allowed for the new banknote to be introduced smoothly and without any problems.

Latvijas Banka continues its tradition of issuing collector coins and commemorative coins which help to tell Europe and the world about matters important to our country. Latvijas Banka coins continued to fetch prizes at international competitions in 2015 as well, for instance, the collector coin "Baltic Way" issued in 2014 won in the category "Best Contemporary Event" of the "Coin of the Year" awards.

The lifeline of the financial system is the interbank payment systems, maintained and further developed by Latvijas Banka. The trans-European interbank system TARGET2 was further elaborated in 2015 to ensure securities settlements on the TARGET2-Securities (T2S) platform of the Eurosystem. As part of modernising its EKS system, Latvijas Banka supplemented EKS settlements with the so-called night-time clearing cycle in May 2015, which enabled Latvia's credit institutions, EKS participants, to substantially speed up the transfer of customer payments submitted at the end of a business day. The upgrading of the existing payments infrastructure also continued with the goal of introducing the instant payment service in the EKS system in 2017; it will be a significant stimulus for the development of innovative payment instruments in Latvia.

In 2015, Latvijas Banka undertook important tasks in the area of public communication, inter alia informing the public about the Eurosystem's historic monetary policy decisions and the participation of Latvijas Banka in their implementation. Latvijas Banka also energetically set forth its position in the context of Latvia's economic problems, reminding, for instance, of the importance of prudent fiscal policies in ensuring the macroeconomic balance.

European and national level policy makers, economists, opinion leaders, entrepreneurs and representatives of academia as well as Latvian and global mass media come together once a year for an economic conference organised by Latvijas Banka. The theme of the forum held in autumn 2015 was the impact of a high debt level on economic growth. Discussions of the national level took place during the traditional experts' roundtables which, in 2015, were dedicated to two important themes: reforms and ways in which a country with a medium income level could make a quality leap in the development of its economy, as well as to the fiscal discipline in the euro area.

In the spring of 2015, the new version of Latvijas Banka website www.bank.lv was launched, improving public access to information about the activities of Latvijas Banka and economic developments. Even though central banks tend to be conservative institutions, Latvijas Banka has been increasingly active in using modern technologies, including social networks and infographics, in its communication.

Substantial upgrading took place also in other spheres of activity of Latvijas Banka, for instance, the functionality of the Credit Register was improved and the collection, aggregation and publication of various statistical data was developed further.

These are unique, historically unusual times and so it is even more gratifying that we are not just observing from the sidelines but actively participating in addressing the issues common to the euro area. Our contribution has been appreciated at the level of the Eurosystem. With this in mind, I would like to use this opportunity to thank each and every one of Latvijas Banka employees for successful work in 2015.



Ilmārs Rimšēvičs
Governor of Latvijas Banka
Riga, 11 March 2016

STATEMENT OF VISION, MISSION AND VALUES OF LATVIJAS BANKA

VISION OF LATVIJAS BANKA

Latvijas Banka is a participant of the Eurosystem and a full-fledged member of the European System of Central Banks. It makes a significant contribution to stable and sustainable economic development of Latvia and the euro area. Latvijas Banka is an independent entity that carries out its tasks for public benefit and with a high sense of professional responsibility. Latvijas Banka is a reliable cooperation partner and the economic competence centre in Latvia.

MISSION OF LATVIJAS BANKA

The primary operational objective of Latvijas Banka as the central bank and a participant of the Eurosystem is the maintenance of price stability to promote long-term economic growth. The principal tasks of Latvijas Banka are as follows:

- participate in the formulation and implementation of the euro area's monetary policy;
- manage financial investment;
- ensure currency circulation in Latvia and participate in shaping currency circulation in the euro area;
- participate in promoting smooth operation of payment systems in the Eurosystem;
- prepare and publish statistical information in compliance with the provisions of the EU legislation.

Latvijas Banka performs the tasks entrusted to it in a professional and continuous manner, ensuring high-quality work and efficiency.

Latvijas Banka contributes to the general public's knowledge of economics and is an active participant of the Eurosystem.

VALUES

Our values reflect our attitude towards work, colleagues and society.

Competence:

- we have in-depth knowledge and excellent skills;
- we learn from best practices of others and serve as a model to others;
- we are committed to finding quality and effective solutions.

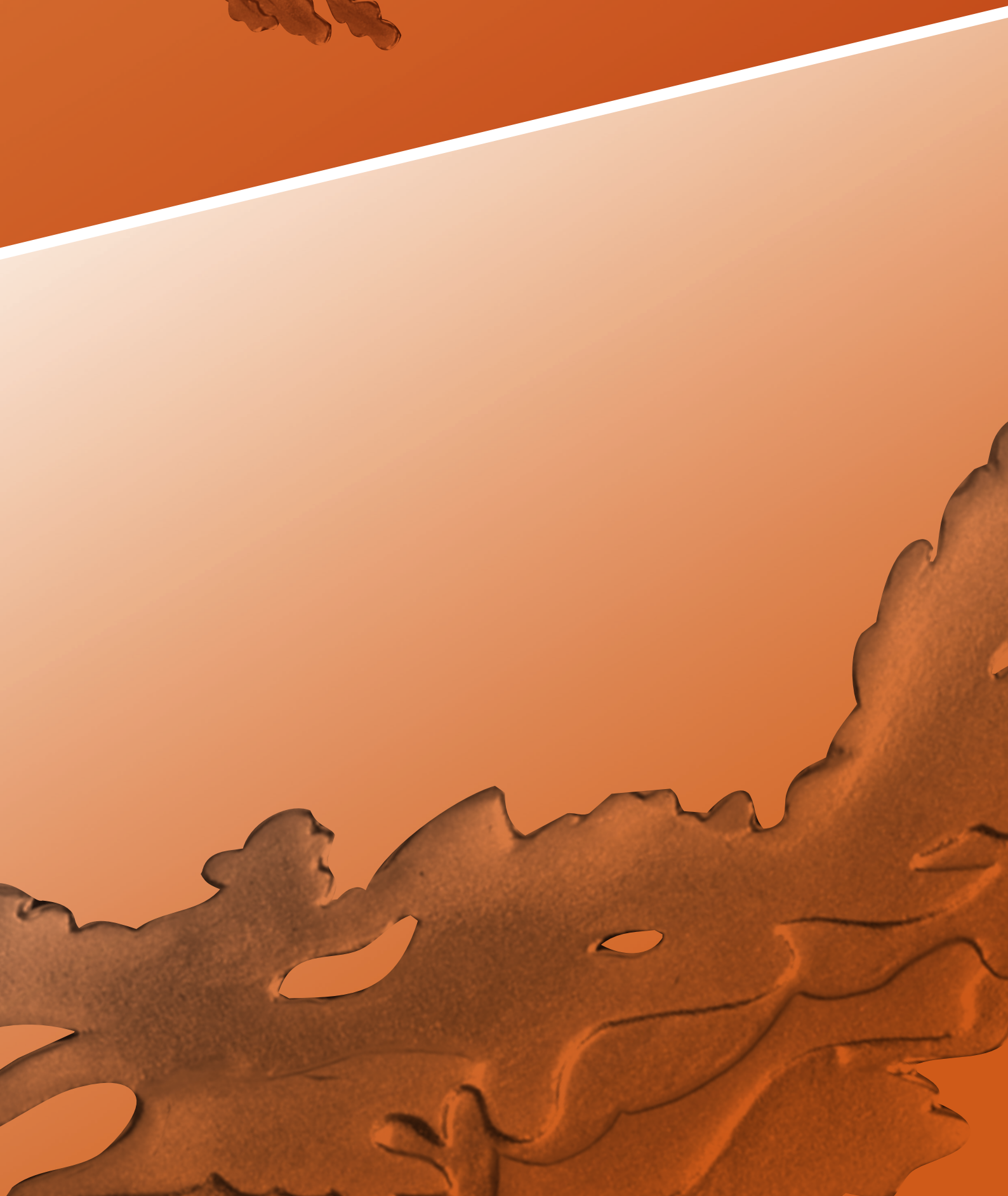
Credibility:

- we work for public benefit, and we are interested in public opinion;
- we act in a responsible and predictable manner;
- our operations and activities are transparent – we act openly and explain our action.

Cooperation:

- we work as a team;
- we are responsive and open to new ideas;
- we listen to recommendations and maintain good long-term partnerships;
- we are result-oriented.

ECONOMIC ENVIRONMENT



CURRENCY AND FINANCIAL MARKETS

Overall, the dynamics of the global economic growth in 2015 was similar to the previous year. The global economic recovery continued though at a more subdued pace than before. A modest pickup in economic activity in advanced countries was coupled with somewhat slower growth in emerging market and developing economies. Global financial conditions continued to be generally favourable. In order to support the economy, the ECB and the Bank of Japan proceeded with their accommodative monetary policies; the Bank of England maintained its previous monetary policy stance, while the FRS, which had pursued monetary easing throughout almost the entire 2015, raised the federal funds rate in December. Financial market turbulence had been moderate for most of the year, whereas stock market corrections in China resulted in somewhat increasing volatility. Market concerns about sustainability of economic growth in emerging market economies triggered notable currency depreciations and capital outflows. The growth in global imports of goods and services continued to decelerate in the first half of the year, to recover gradually afterwards. Similar to moves in GDP growth, the weakness of global trade primarily depended on emerging market economies, where the pace of growth was subdued by growing uncertainty and tighter conditions of external financing. Lower commodity prices slowed down the growth in commodity-exporting countries. Nevertheless, declining commodity prices in general had a positive effect on global demand. In 2015, the downward shift in global headline inflation was supported by lower commodity prices, energy in particular.

Notwithstanding the fact that several central banks of advanced economies proceeded with their expansionary monetary policies in 2015, their ability to stimulate the economy with additional financing was quite limited due to already low interest rates and massive asset purchase programmes carried out during the year. In contrast to the fast stock market advance observed in 2014, stock market indices in advanced countries either slightly increased or, e.g. in the UK and the US, went down somewhat. During the year, inflation did not record somewhat notable rise in any of them, basically with oil and other commodity price falls accounting for it. At the close of 2015, the oil price slid down to the level last recorded during the 2008 global economic crisis. Likewise, a further drop in the price of gold in US dollar terms was observed in 2015.

Overall economic activity in the US continued to be resilient, and real GDP growth remained almost unchanged from the previous year primarily due to private consumption. After some deterioration early in the year which was determined by bad weather conditions and port traffic disruptions, GDP growth, primarily driven by domestic demand, was rather robust in the second and third quarters, while the contribution from net exports was negative. Under the impact of appreciating US dollar and declining stock prices, the economic activity weakened again in the fourth quarter. Private consumption was spurred by positive financing conditions, lower oil prices, and improving household balance sheets and consumer confidence. The underlying labour market developments remained stable, and, within the year, the unemployment rate declined from 5.6% to 5.0%. Amid falling energy prices and appreciating US dollar, annual inflation was very low (0.1% on average; 1.6% in 2014) throughout 2015. The FRS monetary policy remained very accommodative during almost the entire 2015, while in December the decision to raise the target range of federal funds rate to 0.25%–0.50% was taken; this was the first rate increase in more than nine years.

Real GDP growth in Japan was not steady. The strong pickup at the beginning of the year was followed by a downslide in economic activity in the second quarter, which turned into subdued growth again in the second half of the year. The recovery was supported by improving private consumption and exports. Unemployment lingered low in Japan.

In 2015, real GDP increased by 0.7% on average, and annual inflation dropped to 0.8% on average (2.7% in 2014). The Bank of Japan went on implementing expansionary monetary policy by using, among other things, also non-standard policy solutions, which were aimed at providing maximum liquidity in financial markets in hope to revive lending and facilitate economic growth. Nevertheless, despite the continuing quantitative and qualitative monetary easing programme implemented by the Bank of Japan, inflation was still well below the bank's target of 2%.

In the UK, economic activity moderated slightly in 2015, and annual GDP growth rate slowed down to 2.3% (2.9% in 2014). Year-on-year, the labour market situation continued on an upward trend, and unemployment rate slid down to the lowest level in the last 10 years. The spike in housing investment moderated. The low inflation triggered an increase in disposable income of households, thus pushing up private consumption and GDP growth. Inflation went down and rested at around 0% during the year on account of low energy and food prices as well as the appreciation of the British pound sterling. Despite the start-of-the-year projections by most analysts that the Bank of England might return to raising the base rate, the ongoing economic development allowed the Bank of England to maintain its base rate unchanged. In 2015, the Bank of England pursued accommodative monetary policy, keeping the policy rate at 0.5% and proceeding with the asset purchase programme.

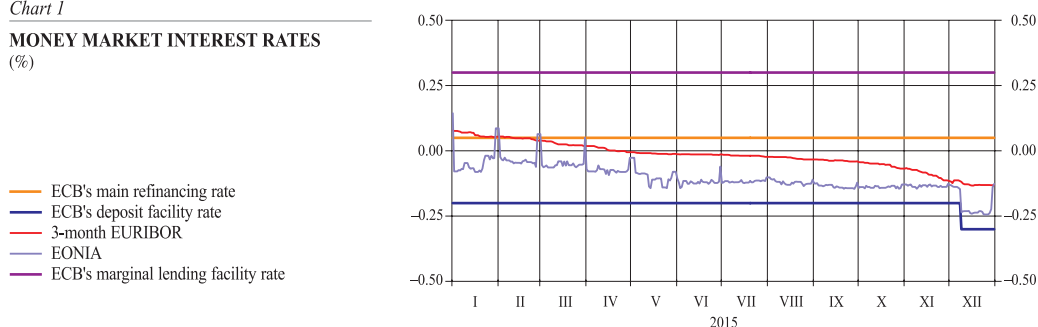
In 2015, GDP growth in China decelerated from 7.3% in 2014 to 6.8% due to slower investment growth and weaker exports. In summer, the Chinese stock market underwent radical corrections, albeit their effects on macroeconomic and financial stability were relatively limited. Annual inflation declined from 2.0% in 2014 to 1.5% in 2015. In order to promote stabilisation of growth, the People's Bank of China implemented several cuts of benchmark and reserve requirement rates in 2015 and introduced reforms to strengthen the market role in setting the exchange rate. Consequently, China's renminbi rate against the US dollar depreciated, and stock market volatility returned.

The euro area economy showed some moderate year-on-year progress in 2015, albeit unemployment rate therein was high, lending scope modest, and sovereign debt of some of its economies extremely elevated. Policy decisions by the ECB, regarding implementation of the expanded APP in particular, markedly affected euro area financial developments. Money market interest rates, government bond yields, and external financing costs of non-financial corporations continued to go down, and the financial situation of households improved. However, the situation was not uniform across all countries of the single European currency area. In contrast to Germany's excellent economic situation and significant improvements attained by Spain, in the middle of July Greece faced a pressing issue of staying within the euro area due to the sovereign debt crisis. The geopolitical situation incurred in 2015 did not enhance confidence in the euro area region either. Complementing the already frozen armed conflict in Eastern Europe, the yet-unsolved refugee crisis in Europe, terror attacks in Paris and the global Volkswagen carmaker emissions scandal negatively affected investor sentiment and undermined market participants' confidence in the euro.

Throughout the year, the ECB held the interest rate on the main refinancing operations at a record low level (0.05%; see Chart 1), and, towards the end of the year, cut the deposit facility rate further (from -0.20% to -0.30%). Falling oil and other commodity prices as well as decelerating economic growth rates in emerging market economies gave rise to concerns that even the record low interest rates and Eurosystem's securities purchases from financial market participants would be unlikely to secure the return of inflation to levels below, but close to, 2%.

During 2015, the nominal effective exchange rate of the euro was depreciating. These exchange rate developments mirrored the differing cyclical positions and monetary

Chart 1

MONEY MARKET INTEREST RATES (%)

policy stances of major economies. Prior to the ECB announcement about the expanded APP, the euro depreciated markedly in the first quarter. In the second quarter, the euro stabilised, notwithstanding the fluctuations driven by the results of negotiations between Greece and international lenders as well as by changes in market expectations about the timing of eventual policy rate hikes in the US. In summer, the euro appreciated notably on the back of stronger risk aversion and uncertainties related to developments in China and other emerging market economies; in the fourth quarter, the euro depreciated overall again, as expectations about changes in the US monetary policy stance re-emerged.

In 2015, the euro depreciated against the US dollar by 10.2% (from 1.2098 to 1.0862 at the end of 2014 and 2015 respectively), reaching a high (1.2109) on 1 January, and a low (1.0458) on 16 March. The appreciation of the US dollar was driven by relatively higher interest rates, commodity price falls, labour market improvements and a better geopolitical situation in the US vis-à-vis Europe and Asia. This appreciation of the US dollar against the euro was steeper in the first quarter, whereas in the following quarters when market participants' hopes for a radical interest rate hike in the US cooled down, the euro exchange rate against the US dollar stabilised, and the market did not see any pronounced strengthening of one or the other currency. In 2015, the US dollar appreciated also against the British pound sterling. It happened on account of relatively stronger growth of the US economy, oil price falls, benefits from comparatively higher US interest rates, and conditionally sounder geopolitical situation vis-à-vis Europe and Asia.

The US dollar appreciated only slightly against the Japanese yen (from 119.78 to 120.22 at the end of 2014 and 2015 respectively; an increase of 0.4%), reaching a high (125.86) on 5 June and a low (115.86) on 16 January. At the beginning of 2015, the expansionary monetary policy, aimed at doing away with long-persisting deflation, together with much higher interest rates in the US underpinned a further depreciation of the Japanese yen. In the second half of the year, declining GDP growth rates in a number of Japan's export market countries, together with growing market scepticism about the effectiveness of the Bank of Japan's expansionary monetary policy, triggered the appreciation of the Japanese yen against the US dollar. Uncertainty about the economic and political situation in the UK facilitated a decline in the value of the British pound sterling against the US dollar. The Bank of England took the time and did not raise interest rates, as GDP growth was inconclusive, inflation low, and voting in a referendum on whether the UK should remain or leave the EU was looming ahead. During the year, the British pound sterling depreciated against the US dollar by 5.4% (from 1.5577 to 1.4736 at the end of 2014 and 2015 respectively), reaching a high (1.5930) on 18 June and a low (1.4566) on 13 April.

REAL SECTOR

The global economic growth remained moderate in 2015, with the GDP growth rate slightly slowing vis-à-vis the previous year (3.1% and 3.4% respectively). Similar to previous years, the developed world countries continued to advance at a slow pace, while growth in the developing countries was on a downward trend for the fifth consecutive year.

The global economy was still affected by ongoing decreases of oil and other commodity prices, economic growth deceleration in China along with restructuring of the economy, and base rate hikes in the US. Oil prices recorded a particularly pronounced drop at the beginning of autumn 2015, when it became clear that the OPEC members did not intend to reduce oil production volumes despite the global demand not rising as fast as before. The low oil prices affected the global economy in two ways: first, they reduced import prices and energy costs in oil-importing countries, and, second, they dampened the pace of economic development in countries with their incomes depending on sales of produced oil and worsened their growth outlook. The decline of oil and other commodity prices, coupled with weaknesses in global manufacturing, weighed on prices, and, as a result, many developed countries retained low inflation in 2015.

The US economic growth rate in 2015 remained at the previous year's level (2.4%), thus demonstrating that effects of the financial crisis had not faded as yet. The US economy faced contracting foreign demand, which was largely due to subsiding economic growth in major export markets and rising prices of US goods (and thus becoming less attractive for some foreign buyers) along with the appreciation of the US dollar. Private consumption, supported by the improving labour market situation and strengthening of consumer confidence, was the main driver of the US economic development.

In 2015, the recovery of the euro area economy continued, albeit overall at a slow pace. Low fuel and automotive fuel prices increased the purchasing power of euro area inhabitants and pushed up private demand, which was the key growth driver in 2015. Likewise, growth was promoted by the implementation of expanded APP aimed to boost lending in the euro area. Euro area exporters were also encouraged by the depreciation of the euro against the US dollar and other major currencies that rendered euro area exports more-foreign-market-competitive. However, exports expanded rather moderately, as in many regions of the globe, particularly in developing countries, growth decelerated and demand for Europe-produced output weakened.

Germany's GDP picked up 1.7% in 2015. Strong domestic demand was the primary driver behind it. Private consumption was augmenting steadily on account of increased purchasing power of households; it was also supported by low inflation and favourable developments in the labour market with a positive impact on real wages. At the same time, a substantial investment expansion was not observed. Although exports grew in general and in the first half of the year in particular, on the back of the stable strengthening of private consumption the import growth was faster, and the contribution from net exports to GDP was negative.

As to France and Italy, their economic growth in 2015 was slow vis-à-vis the other euro area countries yet brisker than in the previous year. GDP growth in France picked up 1.2% in 2015, an improvement vis-à-vis three last years when the average GDP growth had been 0.4% per year. The growth was determined by a more stable private demand, while investing remained sluggish even amid government attempts to improve the investment environment. The impact of net exports on growth was neutral, with imports expanding at the same pace. Unemployment in France was still soaring and figured as one of the factors weighing on the country's growth perspective. The year 2015 was the first year since the financial crisis with a positive GDP growth rate in Italy, yet the momentum was still subdued (0.8%). Also in Italy, the growth was primarily spurred by stronger private consumption, while investment hikes were still absent, even though lending conditions in Italy (like in the euro area as a whole) in 2015 were more favourable because of the Eurosystem's accommodative monetary policy.

Spain posted a 3.2% GDP growth, which was driven by private consumption, reflecting the contribution from low oil prices and beneficial financial conditions as well as from improvements in the labour market situation and high confidence levels of economic

agents. Investment in the Spanish economy expanded and exports increased, even though import growth outpaced that of exports; the contribution from net exports to GDP was negative. Previously launched structural reforms helped improve the efficiency of labour and product markets and boosted their resilience.

Growth in the Baltic States was hindered by substantially smaller foreign trade turnover with Russia and a decrease in transit which plays an important role in the economies of these countries. After a surplus in the previous two years, Lithuania's balance of trade turned negative again; it was driven by contractions in exports to Russia along with the expansion in imports due to large domestic demand. Despite private consumption increasing at a faster pace than projected, GDP in Lithuania augmented at a slower pace in 2015 than in 2014 (by 1.6% and 3.0% respectively). In Estonia, GDP increased by 1.1% in 2015, i.e. at a much more sluggish pace than in the previous year. Due to a weaker demand from Russia, exports contracted markedly; import volumes remained massive amid the stable private demand boosted by wage hikes, low inflation and the income tax rate reduction. Overall, the Baltic States managed to partly redirect their goods exports from Russia to other countries within and outside the EU.

Economic growth in Poland remained robust in 2015, with GDP growth accelerating by 0.3 percentage point (to 3.6%). Underpinned by benign labour market conditions, low inflation and accommodative monetary policy, resilient private demand was the key growth trigger in Poland. In Sweden, GDP grew by 3.8% (by 2.4% in 2014). Sweden posted not only strong but also rather balanced development, with domestic demand, investment and positive contribution from net exports all boosting. The growth (2.3%) in the UK in 2015 was, in turn, mainly driven by intensive private demand and increasing investment, while the effect on growth from net exports was negative as imports expanded faster than exports. In Denmark, both exports and imports contracted in 2015. It was determined by a bulky decline in exports and imports of services, while the situation with exports and imports of goods was somewhat more promising. The largest engine behind growth in Denmark was private consumption, which was supported by population's income growth amid low inflation and wage hikes.

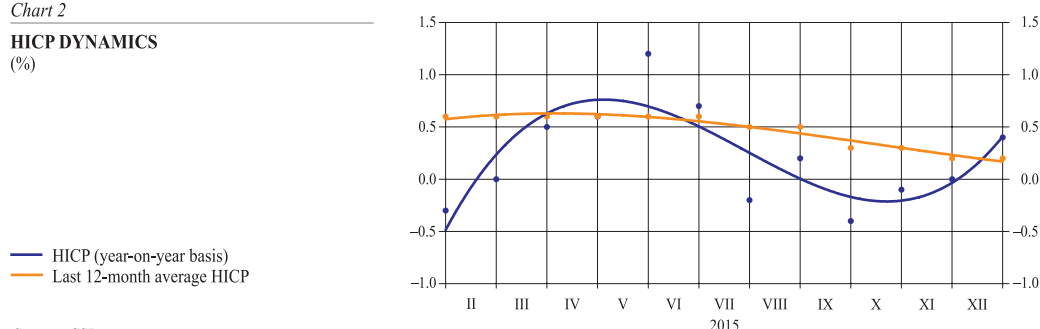
In 2015, Russia slid into recession, with its GDP losing 3.7% due to several interacting factors. The most important negative factor was the steep fall of oil prices, due to which the Russian state budget revenue, basically depending on income from oil sales, shrank markedly. Private consumption, so far the main engine behind growth in Russia, weakened sharply. Population's purchasing power dropped steeply, and real wages decreased due to rising inflation. This happened primarily because of the depreciation of the Russian ruble and also as a result of the foreign food import ban. As corporate costs elevated notably, investment expansion came to a halt; it was, to a large extent, related to the weakness of the Russian ruble against the US dollar and the euro, and to adverse effects of the economic sanctions, including limited access to capital markets of advanced economies.

LATVIA'S ECONOMIC ENVIRONMENT

INFLATION AND PRICES

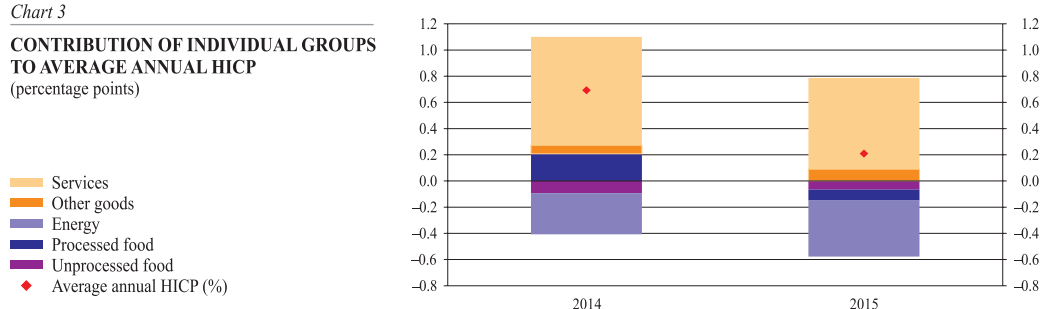
In 2015, average inflation (HICP) stood at 0.2% (see Chart 2; for contribution of individual groups to average HICP inflation see Chart 3), and its year-on-year decline primarily was on account of commodity (e.g. oil and agricultural and food products) price falls on a global scale. At the same time, positive upward price level shifts were mainly triggered by the domestic factors – liberalisation of the electricity market for households (in connection with the transition from administered to market electricity prices), somewhat rising indirect tax rates, more expensive public transport services in Riga, and a gradual increase in income.

Chart 2

HICP DYNAMICS
(%)

Source: CSB.

Chart 3

CONTRIBUTION OF INDIVIDUAL GROUPS TO AVERAGE ANNUAL HICP
(percentage points)

Sources: CSB and Eurostat.

Ample supplies and swelling inventories along with subdued economic growth in, and, consequently, weaker demand from largest countries (e.g. China) underpinned a further drop in oil prices in 2015. The direct impact from oil prices was seen in the annual 14.5% reduction in fuel prices, which had an indirect impact on prices of other energy recourses as well, e.g. the price of heat energy declined by 8.2% and that of gas by 5.2%.

Expanding supplies and large-volume stocks affected price dynamics of food and agricultural products in 2015. The removal of EU milk quotas likewise weighed on food prices that had already declined in Europe on the back of Russian market restrictions. In addition, Russia prolonged the period of food trade sanctions in the summer. According to the CSB data, food retail prices in Latvia declined most for the group of milk and dairy products, followed by prices of vegetables, and meat and meat products.

Domestic factors generally had an upward effect on inflation. On the supply side, one such factor was the liberalisation of the electricity market for households, which caused the average electricity price to go up sharply (by 27.6%), thus boosting also annual average HICP inflation by 0.8 percentage point. Also on the supply side, inflation was slightly pushed up by higher indirect (namely, excise) tax rates, while the overall rise in services prices resulted, to a relatively large extent, from an increase in public transport fares in Riga.

Increased income of population most affected prices in those goods and services groups of core inflation in which the market saturation effect of demand (in real terms) is lesser than, e.g. for food, fuel or heat energy. Similar to 2014, price hikes in the core inflation consumption groups were held down by falling costs, e.g. lower costs for fuel had a downward effect on tourism services prices. Meanwhile, in the groups of goods depending on constantly evolving technologies and mostly dominated by price falls for a couple of previous years, price hikes gradually started to re-occur in 2015 (e.g. audio-visual and data processing equipment, household appliances and automobiles). The effects of higher incomes of population were also seen in rising prices for other goods and services, e.g. newspapers and books, financial and insurance services, education, catering and personal care.

The average annual decline of producer prices in manufacturing measured 1.0%, including

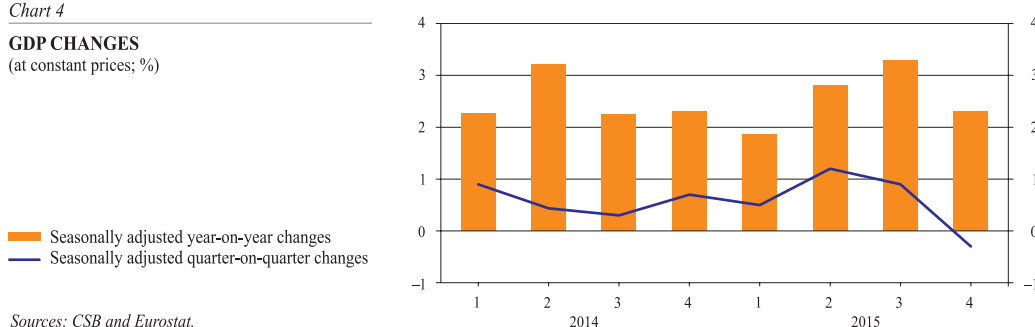
1.3% for domestically sold output. Most of it can be explained by lower priced resources, in many cases also with a pass-through to consumer prices. For output sold domestically and in foreign markets, producer prices in the manufacture of food products and energy dropped at similar rates; the extent of producer price falls albeit differed from that in consumer prices for the respective groups because of the presence of import component. An opposite relationship was in place for the energy sector where the structure of energy types produced differs rather notably from those consumed. Lower prices of resources also underpinned the price declining trend in manufacture of wood and products of wood; this sector did not show clear differences of annual average producer price contractions between the domestic and foreign market either. In 2015, rather few sectors, the manufacture of textiles and wearing apparel, repair and installation of machinery and equipment among them, recorded increases in producer prices. In part, compensation of employees is the underpinning factor for the first two manufacturing sectors, while for the latter, i.e. repair and installation of machinery and equipment, it was not typical, and other cost components appear to have been more important.

GROSS DOMESTIC PRODUCT

Latvia's GDP picked up 2.7% (2.6% according to seasonally adjusted data; for quarterly changes see Chart 4) in 2015, this being a slightly improved rate vis-à-vis 2014. External-risk-related uncertainty about the country's economic outlook remained elevated, however, as was evidenced by both the slowdown of economic activity towards the end of the year and unsteady performance of investing and exporting.

Chart 4

GDP CHANGES (at constant prices; %)



Sources: CSB and Eurostat.

Continuing the previous year's trend, private consumption was the key growth engine on expenditure side also in 2015; it increased by 3.0% over the year and contributed 2.0 percentage points to GDP growth. Throughout the year, private consumption was supported by a rather steep acceleration of real net wages. Amid ongoing strengthening of purchasing power of the working population and stable consumer sentiment, private consumption is expected to be the driver of growth also in 2016.

Investment increased by 2.4% in 2015 and contributed 0.6 percentage point to GDP growth. By sector, transportation and storage as well as real estate activities secured the largest positive share of non-financial investment growth. Despite a boost in investment over 2015 overall, its volume was unsteady, and uncertainties about the future outlook along with existing external risks were an obstacle to faster inflows of investment. Hence only moderate investment activity is expected in 2016 as well. Transition to the new EU budget programming period is not smooth, thus intensifying concerns about an eventual disruption in financing from the EU funds. Credit market recovery would potentially add some momentum to investment growth; hence willingness of credit institutions to expand lending is good news.

Government consumption increased by 3.2% in 2015, contributing 0.5 percentage point to GDP growth. This increment took place on account of a number of internationally notable developments, like events associated with the Latvian Presidency of the Council of the EU.

Despite the weak external demand and Russia-related sanctions, exports grew somewhat in 2015. In real terms, the export volume picked up 1.4%, with expansion recorded for both exports of goods and exports of services (0.6 percentage point contribution to GDP growth). The largest contributors to the annual export growth were industries of wood and products of wood, computer and optical products, and fishing products. Along with rising exports and strengthening consumption, import volumes also grew in 2015 (in real terms; by 1.7%).

The average capacity utilisation in manufacturing was 71.5% in 2015, i.e. not radically different from the historic high. Even though there is a likely potential for a further increase in capacity utilisation (the EU average indicator is higher), investment will be needed to boost exports in a longer term.

In general, the economic growth in 2015 relied on strong private consumption, which offset, to a certain extent, the weak external demand and absence of steadiness in investment growth. At the current junction, external factors do not support export and investment acceleration; hence measures leading to improvements in Latvia's business environment and other areas of activity via structural reforms aimed at boosting economy's competitiveness are gaining in importance.

In 2015, gross value added by economic sectors posted a 2.5% pickup. This increase was on the back of rising value added in trade (contributing 0.6 percentage point to annual growth in value added; 3.7% year-on-year change at constant prices) and was related to further strengthening of household purchasing power due to higher average wages and the low inflation rate. A rise in value added was also determined by higher value added in manufacturing (0.3 percentage point and 4.3% respectively). It, in part, depended on a temporary factor, i.e. the resumption of JSC *KVV Liepājas metalurģs* operation, which turned out to be more impaired than projected, with the enterprise's future functioning a still open issue. As the real estate market was gradually recovering, the contribution from real estate activities was also positive (0.3 percentage point and 3.0% respectively). Likewise, the contributions from public administration (0.2 percentage point and 2.3%), education (0.2 percentage point and 3.5%), agriculture (0.2 percentage point and 3.0%), information and communication services (0.2 percentage point and 3.3%), professional, scientific and technical services (0.1 percentage point and 1.2%), and financial and insurance activities (0.1 percentage point and 1.8%) affected GDP growth positively.

At constant prices, the volume of manufacturing output expanded by 4.2% (working-day adjusted data) in 2015, whereas at current prices it remained unchanged (working-day unadjusted data). In 2015, the dynamics across manufacturing subsectors was not homogenous. The manufacture of food products, with the output volume at constant prices shrinking by 4.9%, was suffering from Russian-sanction-incurred problems, as competition among the region's food producers tightened markedly. The aggravation of the situation was also driven by very low milk prices that adversely affected Latvia's dairy farming and milk production. The weak performance of food industry was offset by progress in wood industry (7.0% increment) where product lines were diversified and new export markets captured. Similarly, the manufacture of computer, electronic and optical products experienced an upswing (39.4%), turning in an ever more important component of Latvian manufacturing. Manufacturers of furniture and machinery and equipment n.e.c. also performed well, with their output picking up 14.1% and 7.7% respectively. By contrast, the manufacture of non-metallic mineral products (building materials) was not successful, with output contracting by 9.8% on account of sluggishly performing construction sector. In 2015, sales of manufactured industrial goods lost 1.0% (at nominal prices). It was determined by the domestic sales volume contracting by 3.2% but balanced out by export expansion of 4.3%, with due account, however, given to the JSC *KVV Liepājas metalurģs* factor.

The development of retail trade acted as an engine behind the economic growth in 2015: the sector's turnover increased by 5.5% (at constant prices; calendar adjusted data). This pickup in retail trade turnover mirrors increasing incomes of the population (real net wages grew by 7.4%) and falling consumption expenditure in some positions (e.g. energy bills). Retail sales of automotive fuel as well as furniture and household appliances expanded notably. As of the second half of 2014, the dropping automotive fuel prices had an upward effect on volumes sold; in 2015, according to sales data, more fuel was used, albeit these purchases lacked momentum. Similarly, retail trade in furniture and household appliances displayed steeper growth in 2014, whereas in 2015 the consumption level remained above the 2014 average, albeit without any pronounced growth trend. The given examples corroborate the three features typical for trade in goods: increases in income, price falls and the market saturation effect. Consequently, some part of consumers' income growth is likely to have been channelled into the services sector where, possibly due to demand, price hikes were steeper.

So far, the development of some retail trade segments in Latvia has been positively influenced by tourist spending. However, in 2014, the numbers of tourists from Russia started to decline along with the weakening of the Russian ruble. This trend was still alive in 2015, and spending of these travellers in Latvia contracted. The fall in the number of tourists from Russia in 2015 was in part offset by business travel expansion in connection with the Latvian Presidency of the Council of the EU.

Progress in transportation and storage in 2015 was adversely affected by geopolitical instability. For the first time since 2011, ports of Latvia loaded and unloaded less than 70 million tons of cargoes (6.2% decrease vis-à-vis 2014; the largest drop for the Port of Ventspils, a slight decline for the Port of Riga, some increase for the Port of Liepāja). Similar to 2014, loaded and unloaded coal volumes shrank also in 2015, with the Port of Ventspils recording largest contractions. It was related to both overall global weakening of the demand for coal and also sanctions against cargo owners in Russia. Shrinkages in chemical cargo volumes were particularly notable. As the volume of oil product cargoes loaded and unloaded at the Port of Ventspils terminals declined, all Latvian ports taken together recorded an overall oil product volume contraction as well. Shipments of containers also experienced a downturn (partly due to the weakening demand in Russia). In 2015, only the grain cargoes grew, mainly on the back of increased volumes at the Port of Liepāja.

In the meantime, 55.6 million tons of freight, or 2.4% less against 2014, were transported by rail. This contraction was on account of reduced volumes of both import cargoes and export cargoes. Transit flows (freights transported into and out of Latvia by rail) intensified in 2015. Although the total volume of freight transported by road in 2015 remained almost unchanged year-on-year (62.2 million tons), the freight turnover (in tonne-kilometres), driven primarily by stronger international traffic, picked up 6.9%. In general, this increase in the turnover of freight transport by road ensured that value added contributed by the transport sector remained unchanged in 2015.

Following amendments to the Immigration Law passed towards the end of 2014, two trends dominated the real estate market in 2015. First, non-resident transactions with real estate became substantially less numerous, recording contraction by 51.6%, and their share in total transactions notably shrank as well. Tighter terms and conditions for entitlement to term residence permits were the primary trigger. Second, even though the number of resident real estate transactions also shrank broadly in the course of the year, the situation was on a gradual improvement trend, with the momentum being positive in individual months of the year's second half. It was mainly determined by the increasing real disposable income of households. In 2015, the total number of real estate transactions decreased by 2.9% year-on-year.

In 2015, the house price index contracted by 3.4% year-on-year. It was driven by prices of new housing falling by 7.9% primarily due to steeply moderating demand on behalf of non-residents. The prices of old housing, in turn, gradually soared on the back of stronger demand from residents, i.e. domestic households.

LABOUR MARKET

In 2015, unemployment rate continued to moderate, albeit at a decelerating pace. Cyclical unemployment remained close to zero. The gradual decline in unemployment rate depended on the structural component which remained high vis-à-vis the EU average, while its further decrease will be determined by active labour market policy measures. Employment rate rose slowly. On the one hand, impetus to it came from a higher participation rate and dropping unemployment, while, on the other hand, such negative demographic developments as contracting population and decreases in the share of working age population hindered it. Labour remuneration kept rising steadily, albeit its pace still exceeded that of labour productivity growth. Nevertheless, amid the environment of declining energy and commodity prices, businesses managed to boost wages and, at the same time, to retain stable profit margins.

Monthly average gross wage and salary for full-time employment in 2015 was 818 euro, with its annual rise by 6.8% on par with 2014. Consequently, the average wage was above the pre-crisis level by more than 20% in money terms and by over 10% in purchasing power terms, thus supporting the private consumption dynamics in the environment of weak external demand. Remuneration in the private sector continued to rise faster than in the public sector. Labour productivity increased both per hour worked and per employee. Nevertheless, productivity growth lagged behind wages and brought about a moderate unit labour cost increase. While so far the productivity and wage gap has not impaired Latvia's competitiveness substantially, in open labour market circumstances productivity growth will be crucial for maintaining competitiveness in the medium term.

Overall, the employment growth in line with projections was slow. Given the declining number of working age population, the economic growth is expected to depend on productivity increases rather than on rising employment also in the future.

Since the second half of the year, no annual downturn in registered unemployment rate has been recorded. At the end of 2015, it accounted for 8.7% of economically active population, which was by 0.2 percentage point more than at the end of 2014. The highest registered unemployment rate was still in Latgale (18.5%) and the lowest in Riga (5.0%). In 2015, no reduction in regional unemployment disparities was observed.

According to the CSB's labour force survey data, job seekers constituted 9.8% of economically active population at the end of 2015 (annual decrease of 0.4 percentage point). Disparities due to education level were pronounced: it was more complicated for less educated to find job. For instance, at the end of 2015, the job seekers' ratio of university-educated people was several times smaller than the respective ratio of individuals with elementary education (5.4% and 23.5% respectively). Moreover, better educated employees were paid higher wages.

The number of job vacancies increased slowly, and employment expectations of businesses remained neutral to testify that the economy as a whole neither displayed any signs of labour shortage nor anticipated it in the near future. In addition, the business trend survey data suggest that the share of businesses referring to labour shortages as an essential obstacle to doing business is stable and moderate; hence there are no grounds to expect steeply rising unit labour costs. At the end of the year, mostly manufacturing businesses referred to labour shortages as such an obstacle (9.2%), whereas for construction and the services sector this indicator stood at 7.5% and 4.3% respectively.

FOREIGN TRADE, BALANCE OF PAYMENTS AND EXTERNAL DEBT

External risks notwithstanding, in 2015 the turnover of Latvia's foreign trade remained close to the previous year's level. Latvia's foreign trade in goods improved, with deficit shrinking to 8.8% of GDP.

Despite such adverse external developments as the weakening demand from Russia, depreciation of the Russian ruble, and sluggish and uneven development of the euro area countries, Latvia's exports of goods kept on a moderate upward trend, increasing by 1.3% also in 2015. The most significant contribution to annual growth in exports of goods came from such product groups as electrical equipment and machinery (1.8 percentage points) and cereals (0.8 percentage point); among contributors were also such groups as wood and products of wood, seeds, optical instruments and apparatus (including medical), paper and articles of paper, pharmaceutical products, base metals and miscellaneous manufactured articles, furniture among them. Some negative impact on overall exports of goods came from shrinking exports of mineral products and food products, including dairy (milk) product exports due to Russia's ban on their imports, as well as the removal of milk quotas in the EU and low milk prices therein. In 2015, the volume of real exports of goods picked up 1.0%, while goods export unit value increased by 0.3%.

According to the WTO operational data, in 2015, after stagnation for two years, the expansion of Latvia's goods export market shares in global imports re-started, suggesting effective penetration into new export markets by Latvian business. In 2015 as formerly, Latvia's major partners in exports of goods were Lithuania (19.0%), Estonia (11.7%), Russia (8.0%), Germany (6.6%) and Poland (6.0%). The share of EU countries in Latvia's exports of goods elevated from 72.7% in 2014 to 73.2% in 2015, with exports to euro area countries accounting for 49.6% of total exports (49.1% in 2014). The Latvian exporters saw an ever increasing export potential outside the EU. It was evidenced by the growing share of other world regions in Latvia's exports. Thus, the share of Asian countries expanded from 7.2% in 2014 to 8.5% in 2015; that of African countries grew from 1.6% to 2.8% respectively; countries of the Americas pushed up their respective shares from 1.8% to 2.1%. In the breakdown by country, major positive contributions in 2015 came from exports growing to Algeria, Lithuania, Saudi Arabia, the Netherlands, the United Arab Emirates, the UK, Denmark, the US, Turkey and the Czech Republic. Vis-à-vis 2014, exports of goods to Russia in 2015 contracted by 267.6 million euro or 24.4%. The largest drop was registered for exports of alcoholic beverages, dairy, meat and fish products as well as wood products, while exports of machinery and optical instruments and apparatus (including medical) increased.

Compared with 2014, imports of goods decreased by 1.1% in 2015. The real volume of imports of goods boosted by 0.8%, while the goods import unit value depreciated by 2.0%.

Strengthening domestic private consumption did not exert any serious pressure on imports of consumer goods. Although under the impact of slower growing imports of goods the balance of foreign trade in goods improved, the reduction in imports of goods was related to slowly developing exports, sluggish investment dynamics and oil price falls. In 2015, imports of mineral products contracted most (by 19.5%). Major partners in imports of goods were Lithuania (17.5%), Germany (11.4%), Poland (11.1%), Russia (8.4%) and Estonia (7.7%). In 2015, balances were positive for trade in wood and products of wood, agricultural products, and building materials. Of major trade partners, Latvia's foreign trade balance was positive with Estonia, the UK, Sweden, Denmark, Norway and the US.

The current account deficit of Latvia's balance of payments in 2015 dropped to 299.5 million euro or 1.2% of GDP (466.8 million euro or 2.0% of GDP in 2014), which, to a large extent, reflects the improvement of goods balance basically on account of weakening imports.

In 2015, the goods and services trade deficit declined to 1.4% of GDP (2.2% of GDP in 2014), with goods deficit falling to 8.7% of GDP (9.6% of GDP in 2014). This dynamics was determined by moderately growing exports of goods, while imports of goods contracted somewhat.

The balance of services was 1.8 billion euro or 7.2% of GDP in 2015 (1.7 billion euro or 7.4% of GDP in 2014). The annual rise (4.9%) in services exports was mainly driven by business and private travel services as well as financial, telecommunication, and computer and information services. Russia's economic downturn adversely affected the tourism industry in 2015: the number of tourists from Russia dropped. However, the decline was offset by increasing numbers of travellers from EU countries. This increase was driven by events of international significance which were taking place in Latvia. Factors that negatively impacted services exports were related to transport services and construction. The construction dynamics deteriorated under the impact of falling services exports due to contracting construction activities in the respective partner countries like Lithuania, the UK and Finland.

The negative primary income balance worsened somewhat in 2015, reaching 69.6 million euro or 0.3% of GDP (0.2% of GDP in 2014). In the year overall, the inflow of financing from the EU funds for agriculture displayed a slight upturn, yet, at the same time, costs associated with dividend payments increased due to larger foreign direct investment in Latvia; in the meantime, remuneration for residents employed abroad decreased.

Fluctuations in the secondary income account primarily depended on the EU fund flows supporting a slight balance improvement in 2015 (to 117.3 million euro or 0.5% of GDP). In 2015 year-on-year, the inflow of financing from the European Fisheries Fund deteriorated somewhat, yet this weakness was offset by stronger inflows from the European Social Fund and other EU funds.

The surplus in the capital account of Latvia's balance of payments in 2015 declined to 684.0 million euro or 2.8% of GDP vis-à-vis 753.7 million euro or 3.2% of GDP in 2014. This dynamics depended on smaller inflows from the European Regional Development Fund and the Cohesion Fund. A reason for decelerating inflows in Latvia was also slow absorption of financing for 2014–2020, hence the costs to be declared to the EC and, consequently, also the financing to Latvia both fell behind the progress of the previous period.

In 2015, the financial account of Latvia's balance of payments posted a negative value of 154.0 million euro or 0.6% of GDP. Foreign assets contracted by 1.3 billion euro and liabilities by 1.1 billion euro, suggesting an inflow of financing in Latvia. Most significant transactions were in the form of portfolio investment and other investment. Under the expanded APP, Latvijas Banka purchased debt securities of the Latvian government and euro area international organisations. Primarily due to the expanded APP, the assets in the form of debt securities in the national central bank's investment portfolio increased to 857.3 million euro or 3.5% of GDP. The assets of credit institutions, in turn, also in the form of debt securities, increased by 1.0 billion euro or 4.2% of GDP; deposits with foreign banks, at the same time, decreased by 3.2 billion euro or 13.3% of GDP. Another important development in the financial account in 2015 was related to other investment liabilities of general government: it repaid the second part (1.2 billion euro) of the international loan issued by the EC. Foreign direct investment in Latvia rose by 577.9 million euro or 2.4% of GDP in 2015 (by 448.6 million euro or 1.9% of GDP in 2014). Largest net inflows of investment were from Cyprus, Russia, Norway and the Netherlands, while in the breakdown by industry most investment went into financial services, trade and transport.

Latvia's gross external debt to GDP ratio narrowed by 4.5 percentage points (to 137.7%

of GDP) over the year. Meanwhile, its net external debt went down from 32.0% of GDP at the end of 2014 to 25.9% of GDP at the end of 2015.

At the end of 2015, external debt of general government accounted for 20.6% of total gross external debt (24.1% at the end of 2014). This reduction was largely determined by the repayment of above mentioned 1.2 billion international loan to the EC on 16 January 2015.

External debt of MFIs accounted for 47.1% of total external debt at the end of 2015 (45.3% at the end of 2014), its upside dynamics broadly driven by increasing non-resident deposits. In the meantime, 32.3% of gross external debt were contributed by liabilities of other sector and direct investment.

In November 2015, Fitch Ratings and Standard & Poor's, international credit rating agencies, kept Latvia's credit rating for long-term liabilities in local and foreign currencies unchanged at level A–, and maintained a stable future credit rating outlook.

FISCAL DEVELOPMENTS

The deficit of the consolidated general government budget estimated on an accrual basis decreased from 1.6% of GDP in 2014 to 1.3% of GDP in 2015. This improvement of the budget balance was supported by an increase in tax revenue supported by the economic and labour market developments as well as measures combating the shadow economy. At the same time, weaker absorption of the EU funds and lower capital spending of local governments resulted in deceleration of expenditure growth in comparison with 2014.

The deficit of the consolidated general government budget estimated on a cash flow basis amounted to 372.3 million lats or 1.5% of GDP in 2015 (see Chart 5). According to the accrual principle (ESA 2010) used to evaluate compliance with the EU fiscal framework criteria, the consolidated general government deficit was 306.2 million euro.

Chart 5

ACCRUED BALANCE OF THE CONSOLIDATED GENERAL GOVERNMENT BUDGET

(in millions of euro; according to the cash flow principle)

- Grants, donations and derived public persons
- Consolidated local government budget
- Central government special budget
- Central government basic budget
- Consolidated general government budget



Source: the Treasury.

The deficit of the consolidated central government budget increased from 313.0 million euro in 2014 to 346.8 million euro in 2015. This overall increase masked a small decrease in the surplus of the central government special budget, a higher deficit in the budget of derived public persons and a decline in the deficit of the central government basic budget. At the same time, the balance of the consolidated local government budget improved significantly by 60.5 million euro in 2015, with the deficit amounting to merely 25.5 million euro.

As regards the consolidated general government budget, revenue growth slightly outpaced that of expenditure in 2015 (3.4% and 2.9% respectively), resulting in a year-on-year improvement of the net cash flow. The rise in tax revenue (4.9%) exceeded the economic growth rate.

Consolidated general government budget revenue amounted to 8 822.6 million euro in 2015, with the ratio of budget revenue to GDP reaching 36.2%. Revenue expansion was driven by a significant increase in tax revenue.

The revenue growth of the consolidated general government budget accelerated from 1.9% in 2014 to 3.4% in 2015, with the rise reaching 286.7 million euro. Moreover, it was based on higher growth rates observed for revenue from taxes. All major tax types reported growth, and it was particularly high in the case of the corporate income tax, excise tax and VAT. The largest contributor was the VAT which increased by 99.9 million euro or 5.5%. The fact that the revenue growth outpaced that of the private consumption points to improved tax collection, inter alia as a result of the shadow economy combating measures. Excise tax revenue rose on account of an increased consumption of oil products supported by the low oil prices. Revenue from taxes on labour remained on an upward path based on wage growth. The annual growth of non-tax revenue reached 11.5 million euro or 2.6% in 2015, although it was dampened by lower revenue from central (local) government duties and fees. With the start of a new EU funds programming period, revenue from foreign financial assistance continued to shrink in 2015, with the annual decrease reaching 64.8 million or 6.1%.

The expenditure of the consolidated general government budget amounted to 9 194.8 million euro or 37.7% of GDP in 2015, representing an annual increase of 259.9 million euro or 2.9%. Its annual growth rate was lower than in 2014. The main contributor to the rise was expenditure on social benefits which grew by 140.5 million euro or 5.7%, reflecting the lifting of the cap on several social insurance benefits. Wage and salary expenditure continued on an upward trend, growing by 128.5 million euro or 6.9%, largely on account of higher minimum wages and additional spending required for the Latvian Presidency of the Council of the EU. Cash flow showed also a significant rise in interest payments, yet that was associated with debt management optimisation costs and had no effect on the budget balance according to the accrual principle. The Treasury used an opportunity presented by lower financial market costs on euro funds and redeemed a previous issue of US dollar denominated bonds by launching a new eurobond issue. Changing the debt currency will enable to cut the government debt service costs by approximately 85 million euro by 2021.

Capital expenditure grew by 42.6 million euro or 4.9% largely on account of a rise in spending on road network maintenance, construction and reconstruction of buildings. At the same time, expenditure growth was lower in comparison with the previous year as a result of a 39.3 million euro decrease in Latvia's contributions to the EU budget and spending items that are classified as subsidies and grants according to the cash flow principle. With the rate of absorption of the EU funds dropping, 145.7 million euro or 2.7% less was spent on subsidies and grants in 2015 in comparison with the previous year.

The Fiscal Discipline Council published its second Fiscal Discipline Monitoring Report in September 2015, highlighting the necessity to achieve the structural balance targets in 2015. It supported the planned measures for strengthening the revenue in 2016 and urged to explore further opportunities of boosting the tax revenue and combating the shadow economy.

According to the cash flow principle, the consolidated general government debt amounted to 8 489.3 million euro or 34.8% of GDP at the end of 2015, whereas according to the ESA 2010 methodology it was 8 871.7 million euro or 36.4% of GDP. The general government debt contracted by 600.8 million euro. The largest contributors to the changes in the amount of debt were the 1.2 billion euro loan repayment to the EC made at the beginning of the year and the 500.0 million euro worth eurobond issue launched in September. Exchange rate movements had an upward effect on nominal debt, while the risk management measures ensured that this had no significant effect on real liabilities.

CREDIT INSTITUTION DEVELOPMENTS

At the end of 2015, 27 credit institutions, including ten branches of foreign credit institutions, and 34 credit unions were registered in the Republic of Latvia. Two of the credit institutions launched business during the year and no money market funds remained after two money market funds wound up their business during the year. The government no longer holds any shares in the paid-up share capital of credit institutions, as the government shares in JSC *Citadele banka* were sold to a private investor.

Latvia's economic growth was moderate in 2015, and credit institution assets (for the composition of assets, see Chart 6) also expanded further by 3.6% (by 5.6% in 2014). Nevertheless, lending remained sluggish and credit institution loans to resident and non-resident non-MFIs stayed at the level of the previous year (a 6.1% decline in 2014). Looking at the credit institution liabilities, resident deposits increased by a mere 1.0% (for the composition of credit institution liabilities, see Chart 7), adversely affected by the volatility of government deposits. Solid growth of 7.1% (2.7% in 2014) was reported for resident private sector deposits which remained the substitute for non-resident MFI financing. Non-resident MFI financing contracted by 15.0% (by 22.9% in 2014), accounting for 8.6% of the aggregate assets of credit institutions at the year-end (of which financing from parent banks amounted to 8.4%). The annual growth of non-resident deposits decelerated to 8.3%. Nevertheless, the appreciation of the US dollar continued to have a notable upward effect, considering that the US dollar accounted for 66.7% of all non-resident deposits. Adjusted by exchange rate movements, the annual growth of non-resident deposits would be close to zero.

Chart 6

COMPOSITION OF THE CREDIT INSTITUTION ASSETS (%)

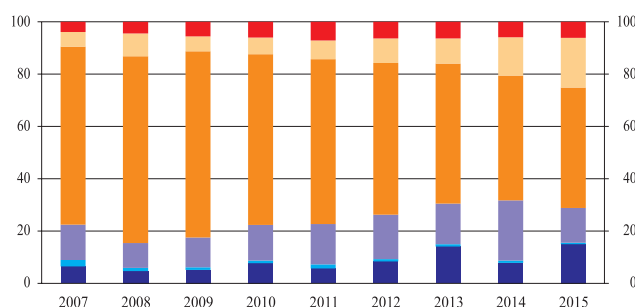
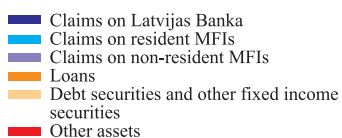
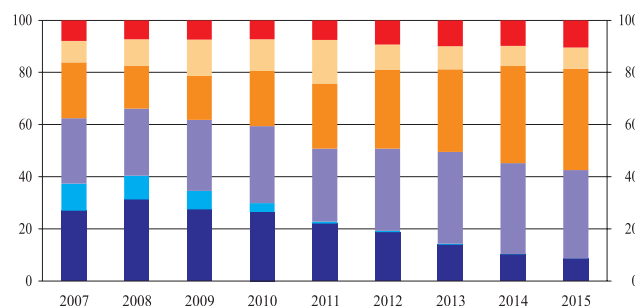
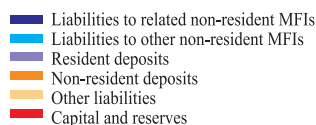


Chart 7

COMPOSITION OF THE CREDIT INSTITUTION LIABILITIES (%)



The share of liquid assets in aggregate credit institution assets increased slightly in comparison with the end of 2014 and reached 40.2% at the end of 2015 which is close to its historical high. With moderate economic growth continuing, the quality of credit institution loan portfolio improved and the share of loans past due over 90 days in the aggregate loan portfolio contracted from 6.9% at the end of 2014 to 6.0% at the end of 2015.

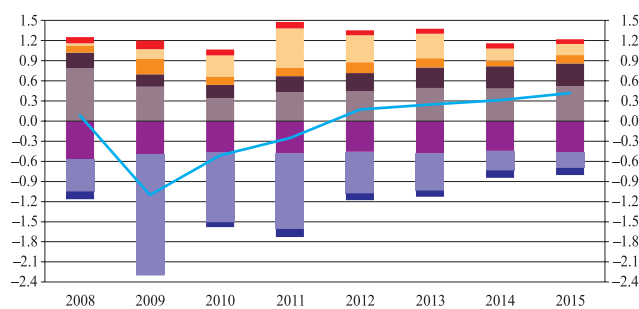
Most Latvia's credit institutions operated with profit in 2015, overall earning 415.9 million euro in comparison with 311.4 million euro profit earned in the previous year (see Chart 8). The operating income of credit institutions totalled 1 001.7 million euro in 2015, representing a year-on-year increase of 9.3%. Net interest income remained

Chart 8

DEVELOPMENT OF CREDIT INSTITUTION INCOME, EXPENSE AND OPERATING RESULTS

(in billions of euro)

- Net interest income
- Net income from commissions and fees
- Income from trading in financial instruments and revaluation
- Income from reducing provisions
- Other income
- Administrative expenses
- Expenditure on provisions
- Other expense
- Retained earnings/losses of the reporting year



the most sizeable component of the operating income and grew by 7.9% year-on-year, accounting for slightly more than a half of the operating income. Net commissions and fees, the second most important income component, increased by a mere 0.6% (by 8.3% in 2014), still representing about one third of the operating income. The administrative expenses of credit institutions grew by 4.3% year-on-year.

The total capital ratio of credit institutions continued to improve, standing at 22.4% at the end of the year (the minimum requirement is 8%), whereas Common Equity Tier I ratio amounted to 19.5%. Over the year, 11 credit institutions increased their Common Equity Tier I capital by a total of 122.8 million euro.

MONEY SUPPLY

Monetary developments in 2015 (see Appendix I), the second year after joining the Eurosystem, reflected Latvia's smooth integration within the euro area, moderate economic growth and the stability of the monetary aggregates as well as the growing liquidity surplus of the credit institutions.

Although external risks continued to ask for prudence and risk aversion on behalf of both credit institutions and potential borrowers, supported by the low financing costs, rising domestic demand as well as improvements in the legal framework lending started to recover gradually. The recovery was overall more powerful in the euro area where the annual growth rate of the loan portfolio turned positive; nevertheless, the contraction of the loan portfolio in Latvia also decelerated significantly, with loans to financial institutions and non-financial corporations, the segment where the credit institutions are the most active lenders, no longer had negative growth rates at the end of 2015. Improvement in household lending was less pronounced, with consumer credit increasing more notably, while loans for house purchase were, to a certain extent, supported by the ongoing government support programme.

The annual growth rate of deposits was broadly stable throughout the year and significantly higher than in 2014. Both deposits to non-financial corporations and households expanded, pointing to relatively positive economic development, the options of both investing in deposits and increasing consumption provided by the growing income, as well as raising the creditworthiness of non-financial corporations and households. Moreover, it should be noted that deposits grew despite of their poor remuneration. Although that resulted in further concentration of deposits in the most liquid segment of overnight deposits as well as deposits redeemable at notice, long-term deposits of households also expanded.

Demand for cash followed a gradual downward trend almost throughout the year, with seasonal improvements observed only in April and December.

Overnight deposits (Latvia's contribution to the euro area M1) increased by 13.9% in 2015. The rise in Latvia's contribution to the euro area M2 was slower at 9.4%. This masked a substantial 17.1% fall in deposits with an agreed maturity of up to 2 years, which could not be offset by a 13.3% rise in deposits redeemable at notice of up to 3

months. Latvia's contribution to other components of the euro area M3 was insignificant: at the end of 2015, MFI debt securities with a maturity of up to 2 years totalled 65.1 million euro. Latvian banks concluded no repo agreements meeting the definition of M3 in 2015. Overall, Latvia's contribution to the euro area M3 increased by 9.2% (for Latvia's contributions to the euro area money supply and the development of its components, see Charts 9 and 10). Looking at the euro area as a whole, in 2015 overnight deposits, deposits redeemable at notice, M2 and M3 grew by 11.6%, 0.6%, 5.3% and 4.7% respectively, whereas deposits with an agreed maturity contracted by 9.0%.

Chart 9

LATVIA'S CONTRIBUTION TO THE EURO AREA MONEY SUPPLY

(at end of period; in billions of euro)

- Overnight deposits (component of M1)
- M2
- M3

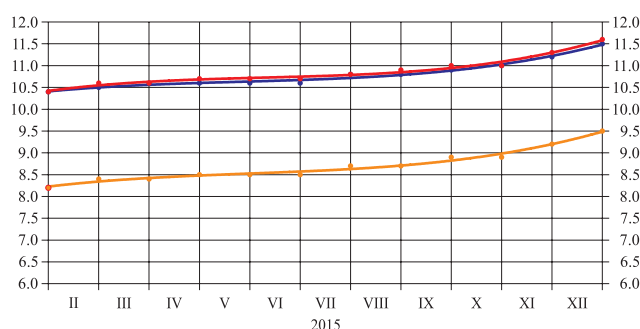
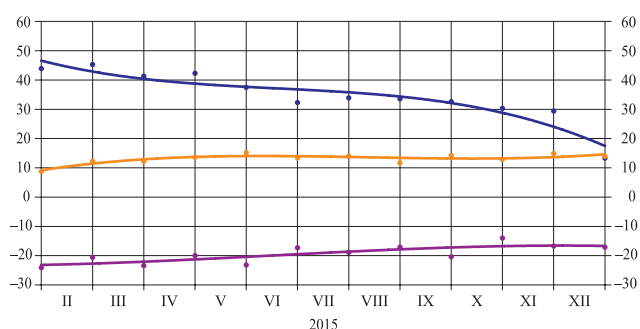


Chart 10

COMPONENTS OF LATVIA'S CONTRIBUTION TO THE EURO AREA MONEY SUPPLY

(annual percentage changes)

- Overnight deposits
- Deposits with an agreed maturity of up to 2 years
- Deposits redeemable at a period of notice of up to 3 months

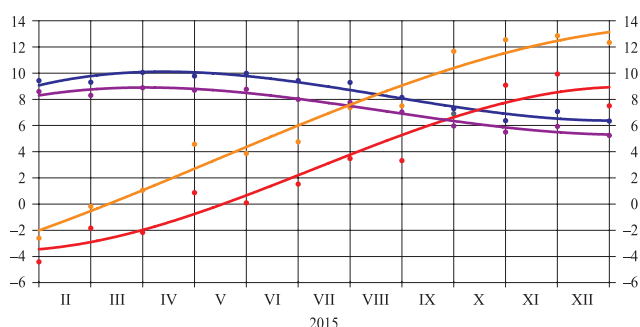


Deposits of resident financial institutions, non-financial corporations and households expanded by 9.0% in 2015 as compared to 3.4% in 2014. Following a decline at the beginning of the year, starting from the second quarter aggregate deposits increased almost every month, reaching new all-time highs, inter alia exceeding 10 billion euro in December. Household deposits rose by 6.3% in annual terms (see Chart 11), whereas deposits by financial institutions and non-financial corporations also grew by 12.3%. The share of household deposits in aggregate deposits decreased to 53.6% in comparison with 54.9% at the end of 2014. Household deposits accounted for 70.9% of all time deposits and deposits redeemable at notice, representing an increase from 68.1% in 2014, and for 48.6% of overnight deposits which is less than the 50.2% reported in 2014.

Chart 11

ANNUAL RATE OF CHANGE FOR DEPOSITS OF RESIDENT FINANCIAL INSTITUTIONS, NON-FINANCIAL CORPORATIONS AND HOUSEHOLDS (%)

- Total deposits of financial institutions and non-financial corporations
- Total deposits of households
- Euro deposits of financial institutions and non-financial corporations
- Euro deposits of households



Due to differences in remuneration, the currency composition of resident deposits shifted slightly more towards other foreign currencies; nevertheless, euro deposits retained their absolute dominance and accounted for 88.0% of all deposits at the end of 2015 (90.3% at the end of 2014). Remaining deposits were primarily made in the US dollars

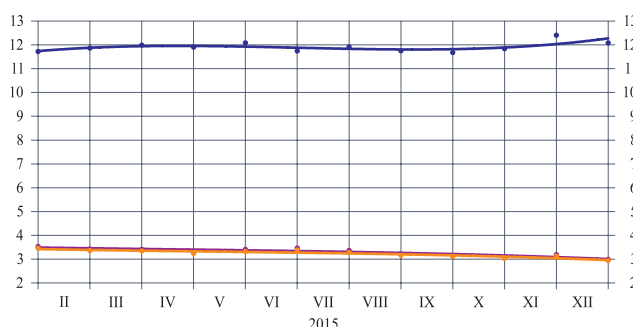
(approximately 9%), with less than 1% of the total placed in British pounds sterling and Norwegian kroner. In absolute terms, deposits made both in euro and other currencies expanded during the year.

Deposit inflows from non-residents decelerated in 2015 (for monthly changes, see Chart 12). Although non-resident banks continued to increase their deposits with Latvia's credit institutions, this increase amounted to merely 7.7% as opposed to 24.3% in 2014 and was partly associated with the US dollar appreciation vis-à-vis the euro. Funding from foreign parent banks continued to shrink, decreasing by 11.0% in 2015 as compared to 20.9% in 2014.

Chart 12

MAIN COMPONENTS OF THE FOREIGN LIABILITIES OF LATVIA'S MFIs (EXCLUDING LATVIJAS BANKA)
(at end of period; in billions of euro)

— Liabilities to foreign MFIs including to affiliated MFIs
— Non-resident non-MFI deposits



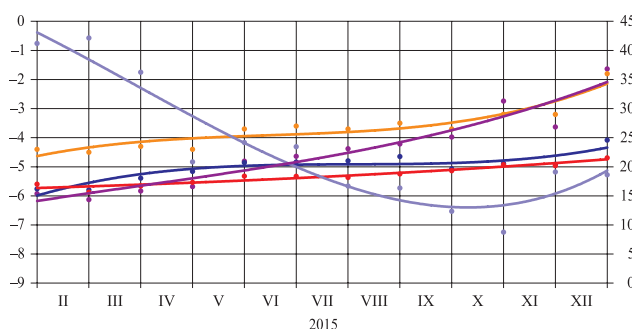
Looking at the balance sheet of MFIs (excluding Latvijas Banka), foreign assets decreased by 8.5%, primarily on account of temporary free liquidity shifts from deposits with foreign credit institutions into deposits with Latvijas Banka experienced at the turn of the year. As a result, claims on foreign MFIs contracted by 31.9%, whereas MFI claims on Latvijas Banka increased 1.9 times. At the same time, other investment in business with non-residents grew significantly in 2015: foreign government securities and private sector securities portfolios expanded by 55.6% and 29.0% respectively, whereas loans to foreign non-MFIs increased by 8.9%. At the end of 2015, the negative net foreign assets of MFIs (excluding Latvijas Banka) recorded a year-on-year rise of 1.8 billion euro.

Of the counterparts, the decline in MFI loans to private sector had a minor downward effect on the monetary aggregates, with loans to resident financial institutions, non-financial corporations and households shrinking by 1.8% in comparison with a 7.1% fall in 2014. The rate of decline in household loans decelerated to from 7.1% in 2014 to 4.1% in 2015 and the slow-down was even more significant for loans to non-financial corporations (from 9.6% to 1.6% respectively), whereas loans to non-bank financial institutions posted an increase for the third consecutive year, rising by 18.6% in 2015 (for changes in loans to financial institutions, non-financial corporations and households, see Chart 13). With the loan portfolio starting to stabilise and GDP continuing to grow, the decrease of the ratio of domestic loans to GDP slowed from 59.5% in 2013 to 53.3% in 2014, and to 50.6% in 2015 (see Chart 14).

Chart 13

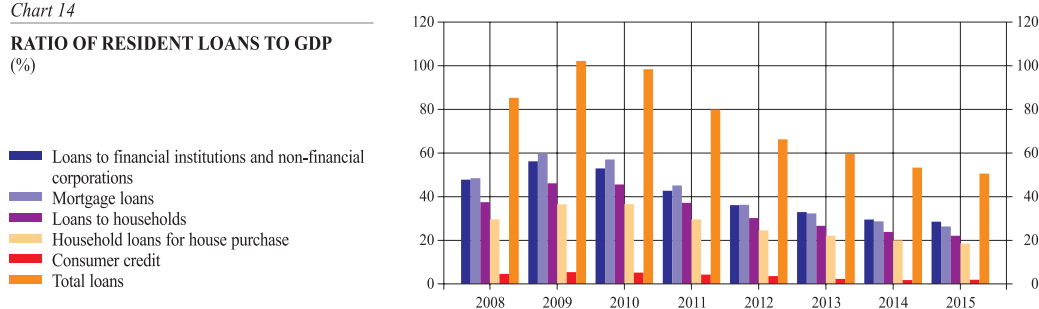
ANNUAL RATE OF CHANGE FOR LOANS TO RESIDENT FINANCIAL INSTITUTIONS, NON-FINANCIAL CORPORATIONS AND HOUSEHOLDS (%)

— Loans to non-financial corporations
— Loans to households including loans for house purchase
— Total loans to financial institutions, non-financial corporations and households
— Loans to financial institutions (right-hand scale)



As loans continued to contract, resident loans shrank from 40.7% of the aggregate balance sheet assets of MFIs (excluding Latvijas Banka) at the end of 2014 to 38.7% at the end of 2015. The loan-to-deposit ratio declined further in 2015. The share of loans past due

Chart 14

RATIO OF RESIDENT LOANS TO GDP (%)

also continued to decrease: loans past due over 90 days amounted to 6.0% of aggregate loans at the end of 2015 as compared to 6.9% at the end of 2014.

In 2015, loans increased in a relatively large number of economic sectors, including several sub-sectors of manufacturing, i.e. manufacture of wood (12.3%), beverages (51.3%), textile articles (10.4%) and basic pharmaceutical products and pharmaceutical preparations (35.5%), as well as in energy (13.1%) and crop and animal production (3.6%). Loan portfolios expanded also in several sub-sectors of transportation and storage, information and communication services, accommodation and catering services as well as some financial and insurance activities. Conversely, a sharp contraction of the portfolios was observed in forestry, mining and quarrying, manufacture of chemicals and chemical products, manufacture of metal and fabricated metal products, wholesale and retail trade, transportation by road and real estate activities. Nevertheless, the changes in loans to individual sectors, however, had no significant impact on the sectoral composition of the loan portfolio: at the end of 2015, the bulk of corporate loans was still concentrated in real estate activities (30.5%; 31.5% at the end of 2014), manufacturing (12.4%; 12.5% at the end of 2014), financial and insurance activities (10.7%; 9.9% at the end of 2014), trade (9.2%; 9.6% at the end of 2014), transportation and storage (8.9%; 7.9% at the end of 2014), energy (6.1%; 6.1% at the end of 2014), construction (6.0%; 6.3% at the end of 2014) as well as agriculture and forestry (5.9%; 6.0% at the end of 2014).

Commercial credit and industrial credit increased slightly in 2015 (by 0.4% and 2.2% respectively), with the rise in consumer loans to households being more substantial at 7.2%. Mortgage loans, however, continued to contract. Nevertheless, the rate of contraction was lower than in 2014, with mortgage loans to non-financial corporations shrinking by 6.6% in 2015 (by 11.5% in 2014) and household loans for house purchase by 4.7% (by 6.7% in 2014). Loans for house purchase totalled 4.7 billion euro or 83.5% of all household loans at the end of December 2015, representing a year-on-year decrease of 0.2 billion euro. At the end of 2015, household loans for house purchase, commercial credit and industrial credit accounted for 36.5%, 17.9% and 17.9% of aggregate loans respectively (37.6%, 17.5% and 17.1% respectively at the end of 2014).

The absolute dominance of the euro loans in the aggregate loan portfolio continued also in 2015. At the end of the year, euro loans accounted for 95.1% of all loans, representing only a 0.1 percentage point decrease over the previous year. Foreign currency loans expanded by 0.9% in 2015: 56.6% of those loans were granted in the US dollars, 19.7% in Swedish krona, 13.2% in Swiss francs and 10.1% in British pound sterling.

Latvia's contribution to the euro area monetary base grew by 40.5% in 2015, reaching 9.0 billion euro at the end of the period, and mainly consisted of the proportionate share of Latvijas Banka in the total amount of banknotes issued by the Eurosystem (4.0 billion euro) and the credit institutions' current accounts, including the minimum reserve system (4.8 billion euro). Latvijas Banka's net foreign assets (non-euro area assets) expanded by 474.5 million euro or 16.7%, amounting to 3.3 billion euro at the end of 2015.

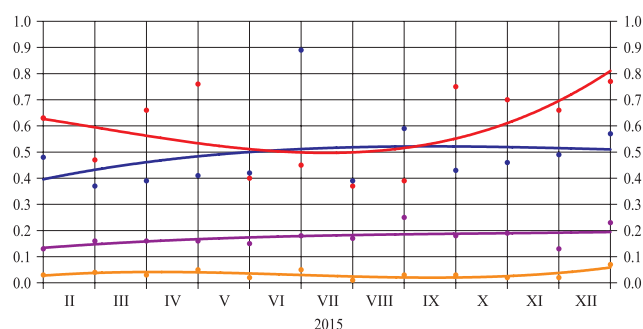
LENDING AND DEPOSIT RATES

In 2015, the lending and deposit rates in Latvia were affected by the 3-month and 6-month euro money market rates widely used as reference rates in lending. These money market rates continued to decrease gradually and turned negative for the first time in the second half of the year (see Chart 1). The fall of the money market rates was partly or fully mirrored by the rates of new euro loans to non-financial corporations and household loans for house purchase. Interest rates on time deposits from households and non-financial corporations sank to an all-time low (see Chart 15), encouraging households to search higher remuneration opportunities for their investments, including in longer maturity or higher risk deposits.

Chart 15

WEIGHTED AVERAGE INTEREST RATES ON NEW TIME DEPOSITS OF RESIDENT NON-FINANCIAL CORPORATIONS AND HOUSEHOLDS (%)

- Euro deposits of non-financial corporations
- Euro deposits of households
- Foreign currency deposits of non-financial corporations
- Foreign currency deposits of households

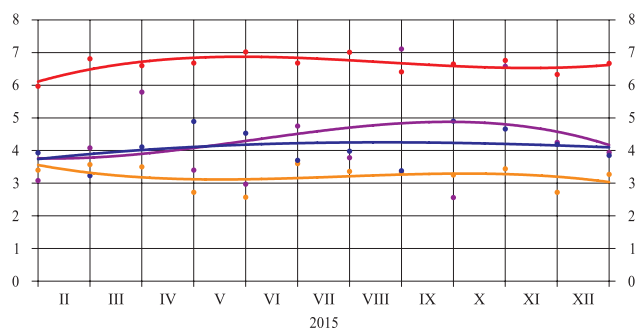


Interest rates on new euro loans to non-financial corporations tended to decrease in 2015, shrinking from an average of 3.5% in 2014 to 3.2%. Nevertheless, the interest rate differential between new large euro loans of over 1 million euro granted to non-financial corporations and the respective small and medium-sized loans slightly increased. Credit institutions used most of their funding set aside for lending to non-financial corporations for granting loans to large corporations with a good credit history. Interest rates on new large-sized loans to non-financial corporations were lower because of the relatively lower risk posed by the corporations and tighter competition among credit institutions and these rates tended to decrease more notably (from an average of 3.1% in the fourth quarter of 2014 to 2.9% in the fourth quarter of 2015). Following the downward path of the money market reference rates, the comparatively higher interest rates on new small and medium-sized loans to non-financial corporations also declined from an average of 4.5% in the fourth quarter of 2014 to 4.4% in the fourth quarter of 2015 (for weighted average interest rates on new loans to resident non-financial corporations and households, see Chart 16).

Chart 16

WEIGHTED AVERAGE INTEREST RATES ON NEW LOANS TO RESIDENT NON-FINANCIAL CORPORATIONS AND HOUSEHOLDS (%)

- Euro loans to non-financial corporations
- Euro loans to households
- Foreign currency loans to non-financial corporations
- Foreign currency loans to households



Interest rates on new household loans for house purchase in euro also followed the path of the euro money market indices and decreased from an average of 3.3% in 2014 to 3.1% in 2015. Although Latvian credit institutions changed the credit terms for household loans for house purchase on several occasions in 2015, according to the Eurosystem bank lending surveys, these changes were mostly related to the loan-to-value ratio. After the Saeima (Parliament) of the Republic of Latvia passed amendments to the Insolvency Law concerning the implementation of the "jingle mail" option at the end of 2014, credit institutions tightened the credit standards for household loans for house

purchase considerably and, to a smaller extent, also the respective terms and conditions. Yet in the first quarter of 2015, when the Saeima of the Republic of Latvia adopted a legal framework allowing a borrower to choose between the "jingle mail" option and undertaking full responsibility for loan repayment, credit institutions returned to the previous credit standards and credit terms and conditions applicable to household loans for house purchase. In the second and third quarters, credit institutions reduced the loan-to-value ratio and eased the collateral requirements again as they became more active participants of the housing guarantee programme for families with children implemented by JSC *Attīstības finanšu institūcija Altum*.

Interest rates on new consumer credit agreements in euro signed between households and credit institutions remained close to 20% most of the year. Changes in the interest rates on renegotiated loans resulted in some volatility of the rates on new consumer credit granted to households in euro. In general, credit institutions did not change their margins added to the euro money market reference rates in the case of consumer credit and other lending to households, but eased the terms for providing longer-term and larger-sized loans in the second half of the year. The effective interest rates on consumer credit to households went down from 26.9% in 2014 to 26.0% in 2015. These rates are comparatively higher as they reflect the sizeable additional charges, e.g. commissions, loan application fees and loan administration charges.

With the euro money market rates declining, the interest rates on new time deposits from non-financial corporations and households went down further from an average of 0.2% in 2014, reaching an all-time-low at 0.1% in 2015. Interest rates on new time deposits from non-financial corporations in euro approached zero (an average of 0.03% in 2015; 0.1% in 2014). At the same time, the rates on new time deposits from households in euro grew from an average of 0.5% in 2014 to 0.6% in 2015, with households tending to place a slightly larger amount of their savings into longer-term or riskier deposits. Within the euro area context, the lending rates of Latvian credit institutions were relatively high in 2015, whereas the interest rates applied to time deposits ranked among the lowest. The euro area interest rates on new loans to non-financial corporations and households tended to shrink gradually, and the fragmentation of the euro area loan and deposit market decreased. As a result of the accommodative monetary policy implemented by the ECB, the euro area money market rates used as reference rates for many variable rate loans declined. Financing costs of credit institutions also decreased. With the competition among credit institutions tightening in the circumstances of slow economic development in the euro area, the credit institutions of the euro area started to ease the credit standards applied to loans to non-financial corporations and households gradually. In the context of the growing competition, margins added to the money market rates for low and average risk loans also decreased in all major lending segments, at the same time remaining broadly unchanged for riskier loans. The low level of interest rates was one of the factors supporting the loan demand on the part of euro area non-financial corporations and households in 2015.

FOREIGN EXCHANGE AND INTERBANK MARKET

FOREIGN EXCHANGE MARKET

Like in 2014, the overall turnover of foreign exchange transactions in Latvian credit institutions decreased in 2015 (by 30%) and, according to the monthly reporting data of credit institutions on foreign currency purchase and sales transactions, totalled 571.1 billion euro in annual terms. The fall can be explained by the fact that the ample liquidity reduced the credit institutions' recourse to the foreign exchange market as well as changes in the demand.

The turnover contracted evenly across all currency types and currency pairs. The breakdown by types of foreign exchange transactions remained broadly unchanged: swaps

retained their dominant position in all foreign exchange transactions. Their share in the total foreign exchange turnover amounted to 63.8% in 2015 (65.8% in 2014). Moreover, it seems that the turnover stabilised in comparison with the previous year when swaps contracted by a monthly average of approximately 2.6 billion euro.

The turnover of transactions between domestic credit institutions decreased by 78.4% in 2015 (only by 4.0% in 2014), whereas the share of those transactions in the total foreign exchange turnover declined to 1.8%. Credit institutions' foreign exchange transactions with households decreased notably: in comparison with the previous year, the turnover went down by 53.2% (in 2014, the fall was even bigger at 70.8%, largely as a result of the euro changeover after which the euro/lats exchange transactions were discontinued). The share of currency exchange transactions by households in the total foreign exchange turnover declined to 2.2%.

Turnover vis-à-vis non-resident MFIs, the most significant foreign exchange counterparty of Latvia's credit institutions, shrank by 25.9% in 2015, yet the significance of this segment in total foreign exchange transactions grew to 60.6%, totalling 346.2 billion euro. The turnover in transactions exchanging the US dollar for euro, which is the most significant type of transactions with non-resident MFIs for Latvian credit institutions, contracted by 23.7%, although a fall was observed for other currency pairs as well.

Foreign exchange transactions of Latvian credit institutions with non-financial institutions, including government, non-financial corporations and non-profit institutions serving households, also decreased, with business with residents and non-residents shrinking by 25.1% and 33.9% respectively. Looking by counterparty, non-resident non-financial corporations and non-resident government sector remained the second largest segment, with the annual turnover reaching almost 143 billion euro in comparison with 216 billion euro in 2014. The most sizeable fall in business with these counterparties was registered for the US dollar to euro exchange transactions.

Turnover in non-cash foreign exchange transactions of credit institutions decreased for all currency pairs. The US dollar and euro remained the most significant currency pair in non-cash transactions of credit institutions. Although the turnover of those transactions went down by 30.6% and the overall annual turnover was 309.3 billion euro, the contribution of this currency pair remained unchanged at 54.0% of all non-cash transactions of credit institutions both in 2014 and 2015. The turnover remained stable also in non-cash transactions exchanging the Russian rubles to the US dollars. For those transactions, the turnover changed only slightly and was 94.8 billion euro, with the contribution rising from 12.7% in 2014 to 16.6% due to lower turnover in other currency pairs. Transactions from all currencies other than the US dollar into euro totalled only 7.1% of all non-cash transactions in 2015, whereas transactions from all currencies other than euro and the Russian ruble into the US dollar amounted to 18.5% of all non-cash transactions.

The total turnover of cash foreign exchange transactions in credit institutions and capital companies purchasing and selling foreign currencies (hereinafter referred to as "capital companies") shrank to 646.1 million euro in 2015, representing a 35.8% decrease over the previous year. More than a half of all those cash transactions, totalling 349.8 million euro, were executed by capital companies.

The US dollar was the most popular currency in cash foreign exchange transactions into euro. The share of this currency in cash foreign exchange transactions of credit institutions and capital companies amounted to 46.5% in 2015 (60.1% in 2014). The contribution of the British pound sterling almost doubled during the year. Russian ruble was traditionally the third most popular currency in cash foreign exchange transactions into the euro in credit institutions and capital companies. As the turnover for cash purchasing and selling of this currency against the euro decreased by 40% in 2015, the contribution of the Russian ruble amounted to 10.0%.

INTERBANK MARKET

Money market developments in Latvia as well as the euro area overall were significantly affected by the accommodative monetary policy implemented by the ECB. The amount of free liquidity increased across all euro area credit institutions, including those of Latvia. This reduced the need to participate in money market transactions in order to obtain euro resources. Moreover, the market expectations of a change in the FRS monetary policy stance and the subsequent raising of the federal funds rate in December for the first time in a long period of time resulted in the fact that the US dollar became the dominant currency in Latvia's money market transactions and interbank loans were mainly granted in the US dollar in 2015.

The significance of foreign counterparties in transactions with Latvian credit institutions in the interbank market continued to grow: the shares of business with non-resident MFIs and non-resident financial institutions increased for all types of transactions, including repos and reverse repos in 2015. Given the constantly growing liquidity, uncollateralised money market transactions mostly involved loans to non-residents which accounted for 96.9% of all funds lent in 2015 (95.1% in 2014). In other types of transactions, business with non-residents ranged from 75% (borrowed funds; 43.5% in 2014) to 97% (reverse repos).

Interbank lending in euro continued to contract in the domestic market. Aggregate loans decreased from 5.6 billion euro in 2014 to 206.0 million euro in 2015. In the case of foreign currency lending, the rate of decline observed in the domestic money market was lower: lending in US dollars decreased from 17.9 billion euro in 2014 to 11.8 billion euro in 2015, whereas lending in other currencies remained unchanged in comparison with the previous year at 2.1 billion euro.

As a result of the negative trend of the euro money market rates, uncollateralised overnight loans in euro were no longer granted in the domestic interbank market, most of the transactions were with a maturity of up to one month or sometimes with a longer maturity and at slightly higher interest rates (longer-term rates were close to zero). Interbank lending in US dollars in Latvia was also dominated by uncollateralised transactions with the original maturity of up to 1 month.

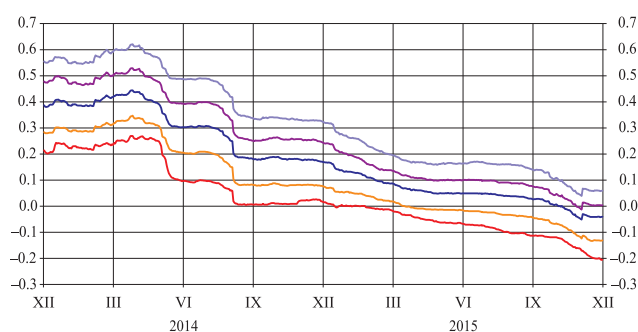
The weighted average interbank lending rate for uncollateralised euro loans to residents was negative in 2015 (-0.10% ; -0.07% in 2014). Moreover, following the decision of the Governing Council of the ECB of 3 December 2015 to cut the deposit facility rate and extend the expanded APP, the weighted average interbank market rate went down to -0.2% in December 2015.

The decisions taken by the Governing Council of the ECB in 2015 (the expanded APP launched at the beginning of the year and, in effect, strengthening of the monetary expansion as well as the cutting of the deposit facility rate in December) increased the downward slope of the money market rates which was well reflected by the declining EURIBOR (see Chart 17).

Chart 17

EURIBOR (%)

— 1 month
— 3 months
— 6 months
— 9 months
— 12 months



SECURITIES MARKET

Overall 410.0 million euro worth of Latvian government securities were supplied by the Treasury at auctions in 2015, representing a 10.8% increase in comparison with 2014. The entire amount supplied was sold and the demand exceeded supply 4.9 times (3.8 times in 2014). Higher demand was supported by both the expanded APP, as part of the newly-issued securities was purchased by Latvijas Banka in the secondary market, and the fact that the international rating agency Moody's Investors Service upgraded Latvia's credit rating from Baa1 to A3 in February. The amount of government securities outstanding increased by 6.7% to 1 116.2 million euro.

The Treasury offered 6-month and 12-month Treasury bills as well as 3-year and 5-year Treasury bonds in the primary market. Yields were low: the yield on 12-month Treasury bills stood at 0.07% and 0.02% in November 2014 and November 2015 respectively. The yield on 3-month Treasury bonds moved from 0.28% in January 2015 to 0.20% in October 2015. Meanwhile, the 5-year Treasury bond yield decreased from 1.10% in December 2014 to 0.86% in September 2015.

In September, Latvia issued 10-year eurobonds in the amount of 500 million euro with the average yield of 1.45%. The bids exceeded the supply 1.6 times and the margin above the average swap rate was 35 basis points. In December, Latvia repurchased US dollar denominated bonds in the amount of 650 million US dollars at nominal value and issued 5-year eurobonds in the amount of 550 million euro. The average yield of the eurobonds was 0.53%, margin above the average swap rate was 28 basis points, and the bids exceeded the supply 3 times.

Corporate debt securities in all currencies registered with the LCD grew by 36.1%, reaching 1.26 billion euro. As eurobond yields declined under the impact of the expanded APP, bond issuers increased the supply and investors restructured their investment portfolios, replacing the Latvian government securities purchased by the central bank by corporate debt securities. 33 new issues were registered with the LCD, totalling 506.9 million euro.

In the secondary market, the bid yield on Latvian government eurobonds issued in external market in 2014 and maturing in 2024 decreased from 1.64% at the end of 2014 to 0.90% at the end of 2015. The spread over the bid yield of same maturity German government bonds decreased from 125 basis points to 43 basis points. The narrowing of this spread as well as higher demand for the US dollar denominated bonds issued by Latvia was clearly supported the expanded APP. From the beginning of the year until the end of April, the euro area bond yields declined. Then, as a result of the euro area securities market adjustments, they briefly recovered before starting to shrink again from July onwards. The surge at the end of April and in May was caused by the changing market expectations: higher inflation expectations and signs of economic recovery, revaluation of the potential provided by the expanded APP, lower liquidity in the securities market, higher volatility of the bid yields and hence also the risk premia.

In 2015, the turnover of debt securities on Nasdaq Riga totalled 141.3 million euro, broadly the same as in 2014. Like in the previous year, the largest contribution at 136.2 million euro was made by the bonds of JSC ABLV Bank.

The turnover of Nasdaq Riga Main List and Secondary List shares grew from 17.3 million euro in 2014 to 45.4 million euro in 2015. The largest turnover was reported for the shares of JSC *Ventspils nafta* (26.8 million euro), JSC *Olainfarm* (6.3 million euro) and JSC *Latvijas kuģniecība* (5.3 million euro). Nasdaq Riga share price index OMXR appreciated by 45.7% over 2015, whereas the Baltic share price index OMXBBGI appreciated by 18.9%.



Šī gihve bij turpa -
Tu faturu lēji;
Šī gihve bij rails -
Tu puses lēji;
Raiņi.

LEGAL FRAMEWORK AND FUNCTIONS. LATVIJAS BANKA IN THE EUROSISTEM AND INSTITUTIONS OF THE EUROPEAN UNION

Latvijas Banka is the central bank of the Republic of Latvia and a member of the ESCB and the Eurosystem. In its activities, Latvijas Banka complies with the Republic of Latvia and EU legislation, as well as 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).

The primary objective of Latvijas Banka, as stipulated by the Law on Latvijas Banka, is to maintain price stability. Latvijas Banka has the following basic tasks:

- participate in defining and implementing the Eurosystem's monetary policy;
- manage the foreign reserves and other financial investments;
- ensure currency circulation in Latvia and participate in ensuring the currency circulation in the euro area;
- participate in promoting smooth functioning of payment systems;
- compile and publish statistical information in order to ensure the performance of the tasks of Latvijas Banka;
- cooperate with the ECB, the central banks of other EU Member States and other countries, as well as other financial institutions;
- act as the financial agent of Latvia's government and provide financial services to other market participants;
- act as an advisor to the Saeima and the Cabinet of Ministers of the Republic of Latvia on monetary policy issues and other issues related to the performance of the tasks of Latvijas Banka;
- maintain the Credit Register;
- 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.

Latvijas Banka is not subject to decisions and instructions by the government or other institutions. Latvijas Banka is independent in making and implementing decisions. Latvijas Banka is supervised by the Saeima of the Republic of Latvia.

In 2015, 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. The Deputy Governor of Latvijas Banka, in cooperation with the FCMC, participated in the work of the Supervisory Board of the ECB, ensuring the fulfilment of the 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 (see Appendix 4) and working groups, dealing with issues related to monetary policy, market operations, financial stability, payment systems, euro banknotes, statistics, international relations, communication, accounting etc.

Experts of Latvijas Banka also participated in committees and working groups of the Council of the EU and the EC. Sitting on the EFC and its subcommittees, representatives of Latvijas Banka regularly participated in the preparation of decisions concerning the economic development and financial stability of the EU and the development of the EU economic policy strategy, inter alia, concerning the instruments for ensuring sustainable growth and investment in the EU economy, as well as in the formulation of policies of international financial institutions. Representatives of Latvijas Banka participated in the EC and Eurostat working groups addressing issues related to euro coins, payment systems, economic forecasting and statistics.

As Latvijas Banka was involved in the performance of the tasks relating to the Latvian Presidency of the Council of the EU, Latvijas Banka's experts contributed to the progress of the EU legal initiatives in the areas of payment services, financial services, financial market regulation, statistics and other areas, as well as ensured the representation of EU interests at the G20 in the first half of 2015.

In 2015, the Governor of Latvijas Banka participated in the work of the ESRB making decisions on recommendations towards preventing the systemic risks of the EU financial system as well as other issues related to the macro-prudential policy. Representatives of Latvijas Banka engaged in the work of the Advisory Technical Committee of the ESRB and its working groups.

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

DEVELOPMENT, ADOPTION AND IMPLEMENTATION OF THE EUROSISTEM'S MONETARY POLICY

ECONOMIC RESEARCH, ANALYSIS AND FORECASTING

Economic research and analysis are an important function of a national central bank. The purpose of the function is to acquire sound explanations of the current and projected future economic processes by employing scientific methods, thus enhancing the adoption of quality economic policy decisions. With Latvia having joined the euro area, the role of research has further increased since the Eurosystem's monetary policy decision-making requires an in-depth economic analysis of both Latvia and other euro area countries.

The macroeconomic projections prepared by Eurosystem staff, including Latvijas Banka's experts, are published twice a year in June and December. The forecasting process of Latvijas Banka is adapted for successful participation in forecasting procedures of the Eurosystem both by developing macroeconomic forecasts for the Latvian economy and by taking part in the discussions of the forecasts of other euro area countries organised in the Eurosystem/ESCB Monetary Policy Committee and its Working Group on Forecasting.

Daily analytical work is no less important than forecasting. This work is performed in cooperation with the national central banks of other euro area countries and the ECB within the framework of the Eurosystem/ESCB Monetary Policy Committee and its working groups, i.e. the Working Group on Econometric Modelling and Working Group on Forecasting. Employees of Latvijas Banka are active participants of these cooperation fora where substantiated discussions form the basis for the Eurosystem's monetary policy decisions taken by the Governing Council of the ECB.

To enhance cooperation with researchers of other countries, Latvijas Banka continued to participate in the three ESCB research networks, i.e. the Competitiveness Research Network (CompNet), Wage Dynamic Network and Household Finance and Consumption Network. Experts of Latvijas Banka also participated in the regular forecasting meetings of the EC and OECD working groups on forecasting.

External reviewers from the NCBs of other countries or academic community are attracted for assessment of working papers to ensure their high quality. In 2015, Latvijas Banka published six working papers and three discussion papers on its website.

Continuing the series of working papers on macroeconomic forecasting, Latvijas Banka's Working Paper No. 1/2015 shows that detailed information on the economic situation also plays an important role in GDP forecasting, i.e. information contained by GDP components (quality forecasts have been provided by bridge and factor models). The

working paper also points out that combinations of the forecasts of the statistical models allow obtaining robust and accurate forecasts, which lead to a reduction of forecast errors.

Working Paper No. 2/2015 analyses survey data of Latvian enterprises on labour cost adjustment during two periods, i.e. 2008–2009 and 2010–2013. The results show that enterprises carried out significant adjustment of base wages and piece work rates in 2008–2009. In contrast to the reduction of the number of permanent workers during the crisis in 2010–2013, the key sources of labour cost adjustment were freeze of wages and new employment, as well as a decrease in working hours. Overall, this working paper confirms that Latvia's labour market is flexible.

Working Paper No. 3/2015 analyses the effect of education on wages during and after the crisis of 2008–2009 and concludes that it increased significantly during the crisis but decreased slightly during the subsequent economic recovery. In the post-crisis period, education contributed even more to chances to be employed and a longer working week. Wage differential models also reveal a relatively large wage premium for higher education and rather small for secondary education.

An estimated, full-fledged dynamic stochastic general equilibrium (DSGE) modelling is used in Working Paper No. 4/2015 to examine whether search-and-matching frictions explain labour market dynamics in Latvia. The results of the working paper show that the model can explain dynamics of the unemployment rate, it provides a relatively good explanation of the correlation between unemployment and vacancies, as well as dynamics of the number of vacancies in frequencies of a mid-term cycle, but it overestimates the dispersion of the number of vacancies in short-term frequencies. In addition to the model's ability to explain the key macroeconomic level indicators of Latvia's labour market, the inclusion of the above frictions in the model improves accuracy of one quarter ahead forecasts of hours worked and GDP.

On the basis of firm-level data, Working Paper No. 5/2015 assesses misallocation of resources in Latvia during 2007–2013 and concludes that allocation of resources worsened before 2010 and improved afterwards. Determinants of changes in allocation efficiency include growing competition in the domestic market, tighter credit supply and issues related to legal framework. The working paper also shows that in the absence of inter-firm trade data, the conclusions on misallocation of resources should be treated with some caution.

Detailed firm-level datasets for 2006–2013 are used in Working Paper No. 6/2015 to analyse a set of stylised facts about firms engaging in service exports. It concludes that service exporting firms are usually bigger and more productive than goods exporters and firms that are not engaged in export operations. Data analysis suggested that it is more difficult to become a service exporter than a goods exporter, and this may be related to stricter regulatory framework and competition in foreign service markets.

Discussion Paper No. 1/2015, which is one of the three published discussion papers, analyses a risk cobweb diagram employed as an additional analytical tool for monitoring and assessing financial stability risks in Latvia. The discussion paper concludes that the results of the back-testing of the risk cobweb diagram have been adequate.

Discussion Paper No. 2/2015 assesses the natural and cyclical unemployment component by applying the Beveridge curve model and concludes that unemployment in Latvia was close to its natural level at the end of 2014.

An anonymised firm-level foreign trade database provided by the CSB to evaluate Latvia's re-exports is used in Discussion Paper No. 3/2015 which finds that the average re-export mark-ups are sizeable and the share of re-export flows in the total merchandise exports and imports is significant. The majority of re-export flows is directed to Lithuania and

Estonia, suggesting that Latvia serves as a regional transport hub. The discussion paper concludes that re-exports may provide an important contribution to Latvia's GDP.

DECISIONS AND INSTRUMENTS OF THE EUROSISTEM'S MONETARY POLICY

The primary goal of the Eurosystem is to maintain price stability. Its inflation aim is to achieve the inflation rates below, but close to, 2% over the medium term. In 2015, economic growth rate remained low in the euro area, the growth rate forecasts of global economy were revised downwards several times, and ever further falling oil prices posed a threat to the euro area inflation outlook. Against this background, the Eurosystem had to continue to pursue accommodative monetary policy by adopting several important additional measures to stimulate monetary policy.

Key ECB interest rates were already close to zero, and to provide increased monetary policy support to the euro area economy the Eurosystem used unconventional monetary policy instruments. The expanded APP was the most important monetary policy measure introduced in 2015.

This programme aims to enhance normal transmission of monetary policy and to provide additional accommodative monetary policy measures, thus facilitating lending to the economy and recovery of the euro area economy to maintain price stability and to eliminate the risks associated with a too prolonged period of low inflation over the medium term. ECB representatives reiterated their commitment to use all available instruments within their mandate, if necessary, to reach the objective set by the Eurosystem. They also drew attention to the fact that the expanded APP is flexible enough in relation to the amount of securities to be purchased and their composition, as well as the pace of the implementation of the programme.

In addition to the two private sector asset purchase programmes launched in 2014, the expanded APP also includes the PSPP. Thus, the following securities are purchased under this programme: 1) covered bonds within the CBPP3 launched in October 2014, 2) asset-backed securities within the framework of the ABSPP launched in November 2014, and 3) bonds issued by the euro area central and local governments, agencies and European institutions under the PSPP launched in March 2015.

In line with the objective set by the Governing Council of the ECB, the total average monthly asset purchase volume in 2015 was 60 billion euro. Initially, it was planned to continue the programme until at least September 2016. The Governing Council of the ECB at its December meeting extended the asset purchase programme until March 2017 or until the Governing Council of the ECB sees a sustained adjustment in the path of inflation which is consistent with its price stability aim. The Governing Council of the ECB at its December meeting decided to reinvest the principal payments on the securities as they mature for as long as necessary. This, in combination with the extension of the expanded APP leading to an increase in the overall volume of securities purchases, facilitates a rise in credit institutions' liquidity.

The amount of securities purchased within the PSPP constituted the largest share of the total value of the securities purchased under the expanded APP within the framework of which the national central banks of the euro area, in compliance with their ECB capital key, purchased bonds issued by euro area central governments and euro area agencies, as well as international organisations in the secondary market. Initially the issue share limit for the bonds to be purchased was set at 25% of the consolidated securities holding by the euro area national central banks, but the limit for an issuer was fixed at 33% of the total stock of securities issued by the issuer. On 3 September, the Governing Council of the ECB decided to increase the issue share limit from 25% to 33%. At the same time, the limit of 25% in relation to the securities issues which would create a situation whereby the Eurosystem would have blocking minority power, remained unchanged.

At its meeting of 3 December, the Governing Council of the ECB decided to include euro-denominated marketable debt instruments issued by regional and local governments located in the euro area in the list of securities that are eligible for purchases under the PSPP, thus ensuring greater flexibility of the PSPP and enhancing continuous and smooth purchases of securities.

At the end of 2015, the balance sheet outstanding value of the securities purchased under the PSPP was 491.2 billion euro, and their weighted average remaining maturity was eight years. Moreover, the decision taken by the Governing Council of the ECB in December to reinvest the principal payments on the securities as they mature extended the maturity of the securities held by the Eurosystem. The balance sheet outstanding value of the bonds purchased within the CBPP3 was 143.3 billion euro at the end of 2015 (an increase of 113.7 billion euro in comparison with the end of 2014). The ABSPP portfolio expanded by 13.6 billion euro, and at the end of 2015 it was 15.3 billion euro. In accordance with the conditions of the ABSPP and CBPP3, securities were purchased both in the primary and secondary markets.

The Eurosystem continued to implement the TLTROs commenced in 2014. Four TLTROs aimed at increasing the amount of loans granted to the euro area non-financial private sector by credit institutions were conducted in 2015. The more funds exceeding a specific benchmark amount credit institutions had lent, the more they were allowed to borrow. In January 2015, the Governing Council of the ECB decided to change the pricing principle for the remaining six TLTROs providing that the interest rate on the TLTROs would be equal to the rate on the Eurosystem's main refinancing operation prevailing at the time of take-up and is fixed over the life of each TLTRO. The decision was taken to ensure the compliance of the instrument with the current market conditions when the risk premium included in the term structure of interest rates has decreased, to increase the attractiveness of this instrument and to provide further impetus to credit institutions regarding lending to the economy.

205.5 billion euro were allotted in the four TLTROs conducted in 2015, and a wide range of credit institutions, which could improve their competitiveness in the credit market and ease strict credit terms and conditions to include cheaper financing costs, continued to engage in these operations. Overall, credit institutions had attracted 417.9 billion euro within the framework of TLTROs until the end of 2015. The amount allotted at the TLTRO tenders decreased in 2015 as the decline in the market interest rates reduced the price incentive and the maturity of the next TLTRO was shorter than that of the previous one. Moreover, many credit institutions had already used a considerable TLTRO amount, and the financial situation was not tense.

TLTROs enhanced an increase in excess liquidity and extension of the average maturity of the Eurosystem's refinancing operations, thus exerting additional downward pressure on money market interest rates. Credit institutions replaced their participation in the main refinancing operations, LTROs with a maturity of 3 months and LTROs with a maturity of 3 years by engaging in TLTROs, and TLTRO allotments considerably exceeded the replacement effect.

On 3 December 2015, the Governing Council of the ECB decided to decrease the interest rate on the deposit facility from -0.20% to -0.30% , while the interest rate on the main refinancing operations and the interest rate on the marginal lending facility were kept unchanged (see Table 1).

In relation to the regular operations, the Eurosystem continued to use open market operations and standing facilities and established minimum reserve requirements. The Eurosystem pursued its efforts to conduct weekly main refinancing operations with a maturity of 7 days and monthly LTROs with a maturity of 3 months. The regular

Table 1

**KEY INTEREST RATES SET BY THE
GOVERNING COUNCIL OF THE ECB**
(%)

Key interest rates	10.09.2014– 08.12.2015	From 09.12.2015
Deposit facility	–0.20	–0.30
Main refinancing operations	0.05	0.05
Marginal lending facility	0.30	0.30

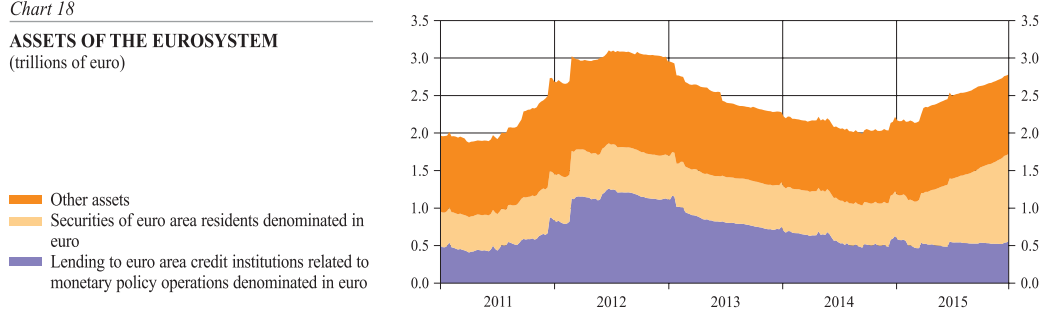
operations were conducted as fixed rate tenders with full allotment. Moreover, the Governing Council of the ECB at its December meeting announced that it would continue to conduct refinancing operations with a fixed interest rate and full allotment for as long as necessary, but at least until the end of the last reserve maintenance period of 2017.

The use of the main refinancing operations in 2015 decreased year-on-year and was on average 92.0 billion euro (110.0 billion euro in 2014). The demand for individual main refinancing operations in 2015 fluctuated considerably from 60.5 billion euro to 165.4 billion euro. Meanwhile, demand for LTROs with a maturity of 3 months grew significantly, i.e. in 2015, it fluctuated from 11.7 billion euro to 54.0 billion euro and was on average 27 billion euro (on average 11 billion euro in 2014).

The Eurosystem continued to offer liquidity in US dollars with a maturity of 7 days to credit institutions on a weekly basis; however, credit institutions' demand for these resources was low.

As a result of the expansion of the APP, excess liquidity in the euro area tended to increase. The average excess liquidity picked up from 108 billion euro in 2014 to 372 billion euro in 2015, but at the end of the year it reached 655 billion euro. The implementation of the asset purchase programme contributed to the increase in the value of the Eurosystem's asset balance sheet by 573 billion euro, and it amounted to 2.8 trillion euro at the end of 2015, approaching the highest level reached in 2012 (see Chart 18).

Chart 18

ASSETS OF THE EUROSISTEM
(trillions of euro)


The use of standing facilities rose in 2015. The average amount of the deposit facility was 114 billion euro (31 billion euro in 2014), but along with the expansion of the APP, the use of the deposit facility picked up gradually, averaging to 290 million euro per annum (243 million euro in 2014).

The minimum reserve ratio of the Eurosystem was not changed in 2015. It was 1% on short-term deposits and securities, including deposits with a maturity of up to two years, deposits with the period of notice of up to two years and securities issued with an original maturity of up to two years. Meanwhile, the minimum reserve ratio on deposits with a maturity of over two years, securities with an original maturity of over two years and repo transactions was 0%. The minimum reserve ratio is calculated according to the calendar of the implementation of the minimum reserve ratio published on the ECB website. As of 1 January 2015, the reserve maintenance period was extended from four to six weeks. As before, credit institutions received remuneration of 0.05% for funds held in reserve accounts to fulfil the minimum reserve requirements, while the rate on

deposit facility, which was negative in 2015, was applied for the funds exceeding the minimum reserve requirements.

USE OF MONETARY POLICY INSTRUMENTS IN LATVIA

2015 was the second year since Latvijas Banka had joined the Eurosystem and, in comparison with 2014, there were more challenges, more activities and more changes in the field of monetary policy.

The most notable monetary policy event in 2015, also for Latvijas Banka, was the decision taken by the Governing Council of the ECB in January to launch an expanded APP as of March 2015. The decision of the Governing Council of the ECB provided that all euro area NCBs would participate in the programme in proportion to their ECB capital key to ensure monthly intervention of 60 billion euro in the Eurosystem as a whole. As of March, the outstanding amount of the securities held at Latvijas Banka for monetary policy purposes augmented on a monthly basis (an average monthly increase was 180 million euro), and at the end of December it reached 1.8 billion euro. The PSPP was the largest securities purchase programme within the expanded APP, but since the amount of euro-denominated securities relative to GDP in Latvia was smaller than the euro area average Latvijas Banka had to buy more securities issued by European international institutions than those issued by the Latvian government.

Excess liquidity of Latvia's credit institutions rose from an average of 0.7 billion euro in December 2014 to an average of 3.5 billion euro in December 2015 and was on average 2.2 billion euro in 2015. The minimum reserve requirements remained broadly unchanged during the year, i.e. they picked up from 206 million euro at the end of 2014 to 231 million euro at the end of 2015. Latvia's ratio of balance on credit institutions' correspondent accounts to the minimum reserve requirements was the highest in the euro area at the end of 2015 (21; 20 in Estonia, 17 in Lithuania, less in other countries and 5 in the euro area on average), thus proving that the amount of Latvian credit institutions' excess funds was sizeable.

Against the backdrop of ample liquidity, credit institutions showed little interest in the traditional monetary policy instruments. In 2015, the average use of the main refinancing operations was 0.5 million euro per day. Meanwhile, LTROs were on average utilised in the amount of 175.0 million euro (at the end of 2014, the outstanding amount of these operations was 85.5 million euro, but at the end of 2015 it stood at 263.7 million euro). The amount of LTROs was not mainly derived from LTROs with a maturity of 3 months but from TLTROs maturing in September 2018. In 2015, credit institutions having positive developments of lending to non-financial corporations and households (except loans for house purchase) could apply for TLTROs. The ample liquidity and continuously cautious attitude of Latvian credit institutions towards lending led to the situation that only some credit institutions expressed an interest in TLTROs.

In 2015, marginal lending facility and deposit facility were used only one day in the amount of 1.0 million euro and 350.0 million euro respectively.

INVESTMENT MANAGEMENT

Foreign reserves comprising gold and foreign currencies, and other financial investments of Latvijas Banka amounted to 5.2 billion euro at the end of 2015 (4.4 billion euro at the end of 2014).

Latvijas Banka manages its investments in compliance with the guidelines adopted by the Council of Latvijas Banka. The benchmark currency is the euro and the benchmark assets were composed of 45% of US dollar-denominated assets, 25% of euro-denominated assets, 10% of Japanese yen-denominated assets, 10% of Canadian dollar-denominated

assets and 10% of British pound sterling-denominated assets. Danish krone-denominated assets and Singapore dollar-denominated assets were withdrawn from the benchmark assets in 2015. In addition to the 1–3 year fixed income securities portfolio and long-term securities portfolio, a government 1–10 year fixed income securities portfolio was established, investing part of financial assets in government securities of longer-term benchmark assets. Latvijas Banka invests the financial assets in safe and liquid financial instruments, primarily in debt securities issued by governments of EU countries and the US, their agencies, and international organisations, as well as in highly rated bank and corporate debt securities, asset-backed debt securities and callable bonds. Interest rate futures are used to regulate the duration of reserves. For the purpose of implementing yield curve strategies on the interest rate market, interest rate swaps are used, whereas currency futures and forward exchange rate contracts are applied to ensure the optimal currency composition of financial assets.

The major share of financial assets of Latvijas Banka was managed relative to the 1–3 year government bond indices of the US, euro area countries, Japan, Canada and the UK. The major focus was on the interest rates of 2-year bonds which declined from –0.1% to –0.35% in Germany and from 1.01% to 0.48% in Canada, while they rose from 0.66% to 1.05% in the US, from 0.45% to 0.65% in the UK and from –0.02% to –0.01% in Japan over 2015. With interest rates remaining historically very low, it is complicated for the national central bank as a conservative investor with a low risk appetite to generate high returns.

The gold reserves of Latvijas Banka were stored in the Bank of England, and transactions in this gold were not carried out in 2015. Latvijas Banka hedged the risk related to fluctuations in the gold reserves market value by entering into currency futures and foreign exchange forward contracts and foreign exchange swaps.

Latvijas Banka used the services provided by four external managers. They manage a portion of Latvijas Banka's financial assets pursuant to the guidelines adopted by the Council of Latvijas Banka. In the second half of 2015, the share of financial assets outside government securities investments managed by the external managers was increased to further diversify financial assets and generate higher income relative to the risk taken.

In investment management, much attention is paid to risk management and control. The compliance of financial asset and gold portfolios with the guidelines is checked on a daily basis, and risk allocation is managed in line with various investment decisions.

Latvijas Banka managed its share of the foreign reserve assets in Japanese yen transferred to the ECB together with Oesterreichische Nationalbank.

CURRENCY IN CIRCULATION

At the end of 2015, the amount of euro banknotes and coins in circulation issued by Latvijas Banka was 549.8 million euro; euro banknotes represented 497.3 million euro or 90.5% of this amount, while coins amounted to 52.5 million euro or 9.5%.

At the end of 2015, 20 euro and 50 euro banknotes accounted for the majority of banknotes in circulation issued by Latvijas Banka in terms of number (13.0 million and 11.4 million respectively; for data on net issues see Chart 19), while 1 cent and 2 cent coins made up the majority of coins issued by Latvijas Banka (58.7 million and 50.4 million respectively; for data on net issues see Chart 20).

In 2015, Latvijas Banka, the NCBs of other euro area countries and ECB were included in the list of the organisations supporting the Banknote Ethics Initiative (BnEI) launched at the Currency Conference in May 2013 to provide ethical business practice, with a focus on the prevention of corruption and on compliance with antitrust laws within the banknote industry (the list is published on the BnEI website).

Chart 19

EURO BANKNOTES ISSUED BY LATVIJAS BANKA IN NET TERMS

(at the end of 2015; face value; number in millions)

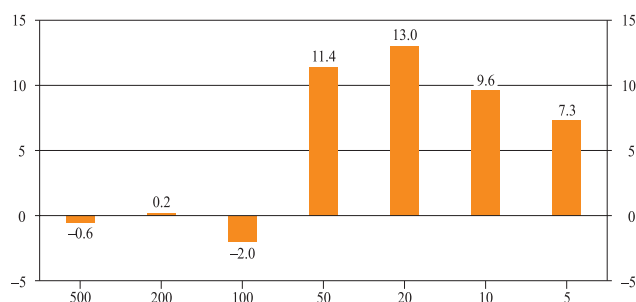
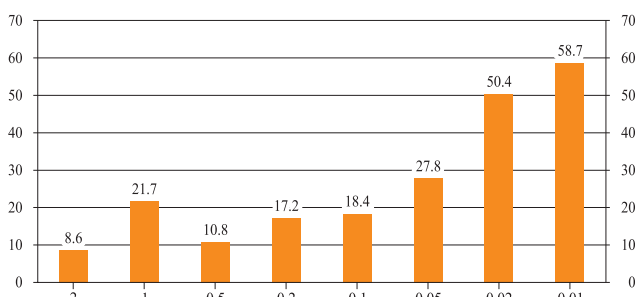


Chart 20

EURO COINS ISSUED BY LATVIJAS BANKA IN NET TERMS

(at the end of 2015; face value; number in millions)



The cash received from credit institutions was checked for wear and tear and authenticity by automated cash processing systems of Latvijas Banka. They processed 140.7 million banknotes in 2015. 16.6% (23.3 million) of the processed banknotes were identified as unfit for circulation and destroyed.

In 2015, Latvijas Banka continued to register merchants engaged in processing and recirculation of euro banknotes and coins and to monitor their operation. A merchant is entitled to carry out the processing and recirculation of euro banknotes and coins in the Republic of Latvia by registering as a cash processing institution with Latvijas Banka. At the end of 2015, 78 cash processing institutions were registered in Latvia. Latvijas Banka conducted inspections of the cash processing institutions by assessing their compliance with the requirements of the legislative acts regulating the cash processing.

To allow the entrepreneurs involved in cash circulation to prepare for putting into circulation the 20 euro banknote of the Europa series in a timely manner, Latvijas Banka provided an opportunity to borrow the new 20 euro banknotes for testing equipment before these banknotes officially entered into circulation on 25 November 2015. Upon receiving requests from such entrepreneurs, Latvijas Banka organised seminars on the security features of the new 20 euro banknote.

In 2015, 1 129 counterfeit euro banknotes and 353 counterfeit euro coins totalling 115.9 thousand euro were detected in Latvia (in 2014, 1 109 counterfeit euro banknotes and 441 counterfeit coins in the amount of 59.3 thousand euro were detected).

Exchange of lats banknotes and coins to euro banknotes and coins continued throughout 2015. At the end of 2015, lats banknotes and coins worth 50.1 million lats and 45.2 million lats respectively were not yet exchanged. 5 lats and 20 lats banknotes (1.8 million and 1.0 million respectively) and 1 santims and 2 santims coins (151.0 million and 90.8 million respectively) were least exchanged.

In 2015, to mark anniversaries significant to Latvian history and culture, Latvijas Banka issued collector coins "150 Years of Firefighting in Latvia" (in circulation as of 7 May 2015), "500 Years of the Riga Castle" (in circulation as of 16 June 2015), "Rainis and Aspazija" (in circulation as of 7 September 2015), "Valse M lancolique" dedicated to Em ls D rziņ s and his creative work (in circulation as of 6 October 2015) and "500

2 EURO COMMEMORATIVE COIN



LATVIAN PRESIDENCY OF THE COUNCIL OF THE EU

Struck in 2015 by *Staatliche Münzen Baden-Württemberg* (Germany)

The national side artists: Gunārs Lūsis (graphic design) and Jānis Strupulis (plaster model)

An archetypal image of a millstone, the logo of the Latvian Presidency of the Council of the EU, with the inscriptions LATVIJAS PREZIDENTŪRA ES PADOMĒ (Latvian Presidency of the Council of the EU) and EU2015.LV above and beneath it respectively.



STORK

Struck in 2015 by *UAB Lietuvos monetų kalykla* (Lithuania)

The national side artist Olga Šilova

A nesting stork is featured on the national side of the coin.



30 YEARS OF THE EU FLAG

Struck in 2015 by *Staatliche Münzen Baden-Württemberg* (Germany)

The national side artist Georgios Stamatopoulos

The design features childishly-drawn human figures dancing in a circle around the EU's 12-starred flag; the inscription LATVIJA is above it, and the years 1985–2015 are placed to the right.

This is a 2 euro commemorative coin issued jointly by the euro area countries. .

Weight: 8.50 g; diameter: 25.75 mm; thickness: 2.20 mm

Shape: round; colour: outer part – silver, inner part – gold

Composition: outer part – copper-nickel (Cu, Ni), inner part – three layers: nickel brass, nickel, nickel brass (Ni, Cu, Zn; Ni; Ni, Cu, Zn)

The edge of the coin bears the inscription *DIEVS *SVĒTĪ *LATVIJU (God, Bless Latvia).

The common side artist Luc Luyckx

5 EURO COLLECTOR COINS



150 YEARS OF FIREFIGHTING IN LATVIA

Weight: 22.00 g; diameter: 35.00 mm

Metal: silver of .925 fineness; quality: proof

Struck in 2015 by *Koninklijke Nederlandse Munt* (the Netherlands)

Artists: Henrihs Vorkals – graphic design, Ligita Franckeviča – plaster model

500 YEARS OF THE RIGA CASTLE

Weight: 26.00 g; square: 32.00 mm

Metal: silver of .925 fineness; quality: proof

Struck in 2015 by *Faude & Huguenin SA* (Switzerland)

Artists: Ivars Drulle – obverse graphic design, plaster model; Ilze Lībiete – reverse graphic design



RAINIS AND ASPAZIJA

Weight: 31.47 g; diameter: 38.61 mm
 shape: round, of two detachable halves
 Metal: silver of .925 fineness; quality: proof
 Struck in 2015 by *UAB Lietuvos monetų kalykla* (Lithuania)
 Artists: Arta Ozola-Jaunarāja – graphic design, Ligita Franckeviča – plaster model



VALSE MÉLANCOLIQUE

Weight: 22.00 g; diameter: 35.00 mm
 Metal: silver of .925 fineness; quality: proof
 Struck in 2015 by *Koninklijke Nederlandse Munt* (the Netherlands)
 Artists: Ilmārs Blumbergs – graphic design, Jānis Strupulis – plaster model



FAIRY TALE COIN I. FIVE CATS

Weight: 31.47 g; diameter: 38.61 mm
 Metal: silver of .925 fineness; quality: proof, with multi-coloured print (three colours on each side)
 Struck in 2015 by *UAB Lietuvos monetų kalykla* (Lithuania)
 Artists: Anita Paegle – graphic design, Jānis Strupulis – plaster model



500 YEARS OF LIVONIAN FERDING

Weight: 11.00 g; diameter: 28.00 mm;
 Metal: silver of .925 fineness; quality: proof
 Struck in 2015 by *Koninklijke Nederlandse Munt* (the Netherlands)
 Artists: Laimonis Šēnbergs – graphic design, Ligita Franckeviča – plaster model

Years of Livonian Ferding" (in circulation as of 8 December 2015). The series "Fairy Tale Coins" was launched by issuing the "Fairy Tale Coin I. Five Cats" (in circulation as of 24 November 2015).

In 2015, Latvijas Banka put into circulation 2 euro commemorative coins "Latvian Presidency of the Council of the EU" (in circulation as of 9 February 2015) and "The Stork" (in circulation as of 1 December 2015), as well as participated in the joint euro area 2 euro commemorative coin programme "30 Years of the EU Flag" (the coin entered into circulation on 3 November 2015).

Collector coins issued by Latvijas Banka in 2014 received recognition in two international

contests in 2015. The coin "The White Book" was awarded the first prize in the nomination "Unique Idea Solution", but the "Baltic Way" won the second prize in the nomination "Silver Coin of the Year" at the contest "Coin Constellation" organised by Watermark Publishing House, the Russian numismatics publishing house, while the "Baltic Way" was the winner in the nomination "Best Contemporary Event" at the contest "Coin of the Year" organised by Krause Publications, the US numismatics publishing house, and its magazine *World Coin News*.

In March 2015, Latvijas Banka held the traditional public survey "Latvia's Coin of the Year 2014" which is the most significant annual event dedicated to the coin art of Latvia, enabling Latvijas Banka to elicit public opinion on the work done in the field of collector coins and the attractiveness of coin themes and artistic presentations. The public survey involving almost 17 000 participants named the "Baroque of Courland" as the winner of "Latvia's Coin of the Year 2014" award.

PAYMENT AND SETTLEMENT SYSTEMS

TARGET2-LATVIJA OPERATION

Latvijas Banka, along with other participants of the ESCB, ensured the operation of TARGET2, the Trans-European Automated Real-time Gross settlement Express Transfer system. Latvijas Banka operated TARGET2-Latvija, the component system of TARGET2 in Latvia, providing settlement of the Eurosystem's monetary policy operations, interbank settlement of large-value payments and that of urgent customer payments in euro.

In 2015, TARGET2 was enhanced in order to ensure cash leg settlement for the securities transactions on TARGET2-Securities (T2S) platform developed by the Eurosystem. The above platform enables the European central securities depositories and their customers to execute securities and cash settlements in an integrated technical environment in the delivery versus payment (DvP) mode. T2S platform went live on 22 June 2015.

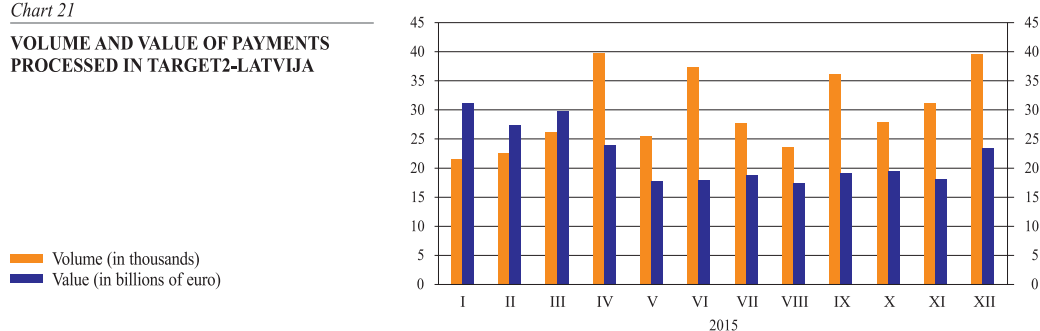
At the end of 2015, 22 credit institutions, the Treasury and Latvijas Banka were the participants in TARGET2-Latvija. TARGET2-Latvija also ensured final settlement in euro for the EKS, DENOS, the securities settlement system operated by the LCD, and First Data Latvia Ltd. In 2015, 359.1 thousand payments in the amount of 264.7 billion euro were processed in TARGET2-Latvija. The total volume of payments processed in TARGET2-Latvija remained broadly unchanged year-on-year (an increase of 0.8%) while the total value declined by 22.8% (see Table 2; for the monthly data on payments processed in TARGET2-Latvija see Chart 21). A decrease in the total value of payments processed in TARGET2-Latvija is primarily attributable to a direct connection of the EKS to STEP2, a system operated by EBA Clearing, at the end of 2014, whereby the procedure for the settlement via the connected system changed and settlement for the net debit and net credit positions was replaced with that of multilateral net settlement. In addition, some credit institutions, the members of the Nordic-Baltic group, changed their liquidity management policy by using TARGET2-Latvija.

Table 2

PAYMENTS PROCESSED IN TARGET2-LATVIJA

	Volume (in thousands)			Value (in billions of euro)		
	Interbank payments	Customer payments		Interbank payments	Customer payments	
2015	68.3	290.8	359.1	243.6	21.1	264.7
2014	75.1	281.2	356.3	326.5	16.1	342.6
2013	38.3	311.5	349.8	116.4	15.6	132.0
2012	35.7	292.4	328.1	173.1	12.9	186.0
2011	35.2	272.2	307.4	215.2	12.6	227.8

Chart 21

VOLUME AND VALUE OF PAYMENTS PROCESSED IN TARGET2-LATVIJA

OPERATION OF THE EKS, A SYSTEM MAINTAINED BY LATVIJAS BANKA, AND PAYMENT SERVICES

The EKS continued to ensure convenient, rapid and cheap interbank customer payments in euro, enabling a straight-through processing of SEPA credit transfers with the final settlement executed via TARGET2-Latvija on the participants' settlement accounts opened with Latvijas Banka. A direct connection of the EKS to STEP2 enabled credit institutions to speed up the payment execution within SEPA, including payments to Latvia's credit institutions other than the EKS participants.

As of May 2015 upon introducing enhancements to the EKS, Latvijas Banka has supplemented EKS settlements with a new clearing cycle, the so-called night-time clearing cycle, providing for the execution of settlement at 21.00 with the value date of the next business day. The implementation of such a night-time cycle has enabled the EKS participants to accelerate notably the transmission of payments submitted by customers at the end of a business day both to the beneficiary institutions – the EKS participants and to those reachable via STEP2.

At the end of 2015, the EKS comprised the following direct participants: 16 credit institutions, the Treasury and Latvijas Banka, as well as two indirect participants. The EKS processed 38.0 million payments in the amount of 52.4 billion euro in 2015 (see Table 3; for the monthly data on payments processed in the EKS see Charts 22 and 23). The volume and value of payments processed in the EKS recorded a growth of 6.7%

Table 3

PAYMENTS PROCESSED IN THE EKS

	Volume (in millions)			Value (in billions of euro)		
	Payments in lats	Payments in euro		Payments in lats	Payments in euro	
2015	–	38.0	38.0	–	52.4	52.4
2014	–	35.7	35.7	–	48.2	48.2
2013	33.7	0.9	34.6	17.6	8.4	26.0
2012	33.5	0.7	34.2	17.3	6.2	23.5
2011	34.6	0.5	35.1	17.1	2.8	19.9

Chart 22

VOLUME OF PAYMENTS PROCESSED IN EURO IN THE EKS

(in millions)

- Clearing cycle 1
- Clearing cycle 2
- Clearing cycle 3
- Clearing cycle 4
- Clearing cycle 5
- Clearing cycle 6
- Clearing cycle 7

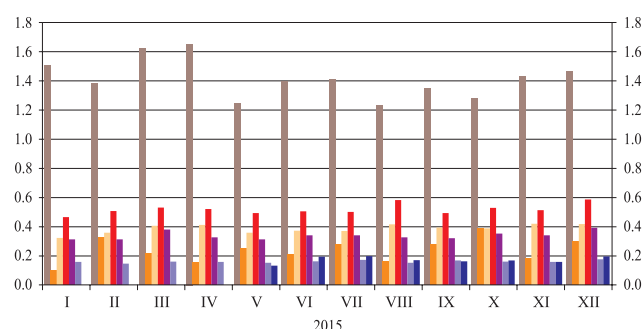
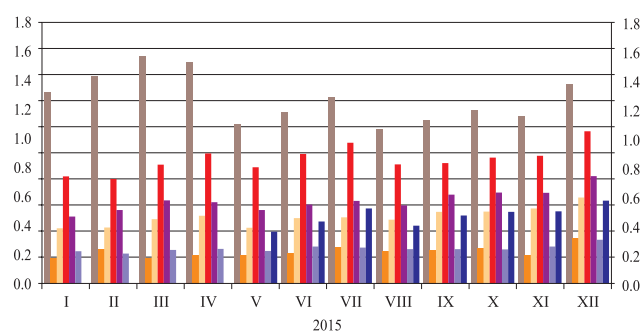


Chart 23

VALUE OF PAYMENTS PROCESSED IN EURO IN THE EKS
(in billions of euro)

- Clearing cycle 1
- Clearing cycle 2
- Clearing cycle 3
- Clearing cycle 4
- Clearing cycle 5
- Clearing cycle 6
- Clearing cycle 7



and 8.6% respectively in comparison with 2014. The EKS provided 100% availability to its participants (99.77% in 2014).

In 2015, Latvijas Banka continued to develop the existing payment infrastructure with the objective of implementing an instant payment service in the EKS in 2017. The goal of introducing the above instant payment service is to create a secure, effective and state-of-the-art interbank payment infrastructure, to promote the integration of Latvian payments market into the European payments area as well as to support the development of innovative payment instruments in the country. Two Expert Groups have been established for the purpose of fostering efficient cooperation among Latvijas Banka and credit institutions.

Latvijas Banka continued to execute SEPA credit transfers for the customers who had not migrated to SEPA Credit Transfer Scheme. Latvijas Banka also ensured its participants an indirect participation in the EKS by processing files of those SEPA credit transfer orders and SEPA payment return orders which an indirect participant had submitted on its own or its customer's behalf. In 2015, Latvijas Banka provided payment services in euro to the FCMC and other Latvian, foreign and international financial institutions, processing payments in the amount of 2.1 billion euro (1.2 billion euro in 2014).

OVERSIGHT OF PAYMENT AND SECURITIES SETTLEMENT SYSTEMS

Latvijas Banka, in the capacity of a participant in the Eurosystem, performed the oversight of payment and securities settlement systems in line with the Eurosystem Oversight Policy Framework, representing the common opinion of the Eurosystem.

Latvijas Banka engaged actively in the oversight of TARGET2, participating in the assessment of changes effected in the system and analysing its operation on a regular basis. Latvijas Banka performed a day-to-day oversight of the EKS, operated by it, and the securities settlement system DENOS, operated by the LCD, analysing technical and operational functions of the systems and compiling statistical data on these systems.

As Nasdaq commenced a project of merging the Central Securities Depositories of the Baltic States in 2015, expected to result in the establishment of Nasdaq CSD in Latvia by September 2017, with branches located in Estonia and Lithuania, Latvijas Banka provided opinion on the planned business model of Nasdaq CSD. Latvijas Banka also fostered the elaboration of the plan for establishing Nasdaq CSD by coordinating the required assessments and issued preliminary opinion on draft Nasdaq CSD regulations and was involved in the cooperation of the supervisory and oversight authorities of the Baltic States, organised by the FCMC and aimed at coordinating the issues and opinions pertinent to the compliance of Nasdaq CSD with the requirements of the Regulation (EU) No. 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No. 236/2012, and its technical and implementation standards, including the licensing of Nasdaq CSD in 2017.

Latvijas Banka compiled data on customer non-cash payment instruments used in Latvia (see Table 4). In 2015, card payments stood at 215.2 million payments or 59.6% of all customer non-cash payment instruments used, with their value amounting to 4.2 billion euro. The volume of card payments rose by 12.7% and their value picked up by 11.1% year-on-year. Customer credit transfers comprised 145.9 million payments or 40.4% of all customer non-cash payment instruments used, with their value amounting to 361.9 billion euro. The volume of customer credit transfers increased by 5.3%, whereas the value shrank by 17.4% year-on-year. Other payment instruments (direct debit, cheques and e-money) were relatively seldom used.

Table 4

**PAYMENT INSTRUMENTS USED IN
LATVIA**

	Volume (in millions)				Value (in billions of euro)			
	Customer credit transfers	Card payments	Direct debits, cheques and e-money payments		Customer credit transfers	Card payments	Direct debits, cheques and e-money payments	
2015	145.9	215.2	0.1	361.2	361.9	4.2	0.0	366.1
2014	138.3	191.0	5.0	334.3	437.9	3.8	0.3	442.0
2013	139.7	151.6	6.4	297.7	575.7	3.2	0.3	579.2
2012	130.3	128.0	5.7	264.0	488.9	2.7	0.3	491.9
2011	119.3	114.0	5.3	238.6	422.7	2.4	0.1	425.3

In 2015, Latvijas Banka took part in the consultations launched by the ECB and participated, in cooperation with the FCMC, in the European Forum on the Security of Retail Payments (SecuRe Pay) established by the ECB, developing, in cooperation with the EBA, technical standards on secure communication of market participants and strong user authentication stipulated by the Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, amending Directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) No. 1093/2010, and repealing Directive 2007/64/EC (Payments Services Directive).

Technical standards are one of the preconditions for achieving the following objectives of the Payments Services Directive: to improve consumer protection, enhance innovation and strengthen payment services security.

FINANCIAL STABILITY

The year 2015 was the first full year when the ECB carried out micro-prudential and macro-prudential supervisory tasks entrusted to it. Latvijas Banka engaged in the work of the Macro-prudential Forum and the Supervisory Board of the ECB. In 2015, Latvijas Banka contributed, within the ECB functions of macro-prudential supervision, to the assessment of systemic risk to financial stability in the euro area, the development of instruments for analysing financial stability and evaluation of macro-prudential supervision policy instruments, thereby cooperating closely with the FCMC and participating in the work of the Eurosystem/ESCB Financial Stability Committee and the relevant groups (Macro-prudential Policy Group and Macro-prudential Analysis Group).

Considering Latvijas Banka's expertise in the assessment of the economic development cycles, the ESRB recommendations and international practice, Latvijas Banka conducted an economic analysis fostering decision-taking regarding the countercyclical capital buffers for credit institutions. Latvijas Banka submitted the results of the above analysis to the FCMC – the authority responsible for applying the countercyclical capital buffer in Latvia.

In 2015, close cooperation among the Nordic-Baltic countries continued in the field of financial stability. The analytical issues of setting a countercyclical capital buffer rate are

studied and legal and practical aspects of the reciprocity of the regulatory requirements are dealt with in the Nordic-Baltic Macro-prudential Forum.

Latvijas Banka was actively involved, within the scope of its competence, in the transposition of Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 on establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No. 1093/2010 and (EU) No. 648/2012, of the European Parliament and of the Council, into the Law on the Restoration of Operation and Resolution of Latvia's Credit Institutions and Investment Firms (in effect as of 16 July 2015).

The stress test methodology was further improved in 2015. The credit risk model of non-financial corporations' loan portfolio was assessed. The use of separate models for assessing credit quality of the loans of non-financial corporations and households will improve the credit risk stress test quality as distinctions in the response of households and non-financial corporations to macroeconomic shocks will be taken into account.

OPERATION OF THE CREDIT REGISTER

Latvijas Banka continued to ensure the operation of the Credit Register pursuant to the Law on Credit Register and regulations of Latvijas Banka. The data of the Credit Register participants (such as credit institutions, companies having close links with credit institutions, credit unions, insurers and the state capital companies implementing the state development and aid programmes) on the obligations of their customers and customer guarantors and the performance thereof and default are collected, accumulated and stored in the Credit Register.

The goal of the Credit Register is to enable its participants and the consumer creditors of the EU Member States and the EEA countries to assess the creditworthiness of the customers and customer guarantors and manage credit risks more efficiently as well as furnish data for the purpose of implementing the tasks of Latvijas Banka and FCMC, contribute to the promotion of fulfilling the tasks of the ESCB, provide the public institutions with additional opportunities of receiving the data necessary for performing the analysis required by the tasks stipulated by laws and regulations, and ensure additional opportunities for enhancing the performance of the obligations of a customer and customer's guarantor facing financial difficulties.

In 2015, Latvijas Banka enhanced the Credit Register's functionality by expanding the classification of legal persons and supplementing the classification of the types of collateral and types of termination of the customer's obligations, whereby the Credit Register participants could enter in the Register more detailed data on the obligations of the customers and customer guarantors and the performance thereof.

Latvijas Banka supported the ECB's initiative in 2015 and provided the Credit Register data to the ECB in accordance with the ECB Decision of 24 February 2014 on the organisation of preparatory measures for the collection of granular credit data by the European System of Central Banks (ECB/2014/16). Pursuant to the above Decision, the ECB lays down the preparatory measures necessary for establishing a long-term framework for the collection of granular credit data gradually (the ECB project of Analytical credit datasets; AnaCredit project), where all national central banks of the euro area countries shall provide uniform data, and such data shall be used to identify and compare transactions associated with credit risk, assess credit risk and analyse statistics, financial stability, risk management and monetary policy.

At the end of 2015, the Credit Register comprised 104 participants who authorised

775 users to work with the Credit Register (in 2014 – 101 participants and 743 users respectively). The Credit Register contained data on 3.9 million obligations (of which 1.1 million were outstanding obligations) pertaining to 1.1 million persons (at the end of 2014, on 3.6 million obligations pertaining to 1.1 million persons). The total outstanding obligations of the participants amounted to 20.2 billion euro, including outstanding obligations recognised in the balance sheet – 17.2 billion euro (at the end of 2014, the total outstanding obligations were 19.7 billion euro, including outstanding obligations recognised in the balance sheet – 17.3 billion euro). In 2015, the Credit Register participants submitted 12.8 million requests (13.4 million requests in 2014). Latvijas Banka provided the Credit Register data to 4.5 thousand natural and legal persons in 2015 (to 4.7 thousand persons in 2014), while natural persons submitted 911 requests (638 requests in 2014) to the Credit Register website for servicing natural persons electronically for the purpose of receiving data pertaining to themselves.

STATISTICS

Latvijas Banka collects and compiles financial and monetary statistics and balance of payments statistics as well as prepares quarterly financial account statistics and government finance statistics. Following the ECB's request, Latvijas Banka has also been involved in addressing the methodology related issues of some fields of economic statistics and compiling specific aggregates. Latvijas Banka uses statistical data to perform analysis of finance and macroeconomics as well as raise public awareness of the developments in the financial sector and the economy. The ECB uses statistical data produced by Latvijas Banka to compile the Eurosystem's monetary statistics and the relevant statistics of the euro area as well as to discharge other tasks.

Latvijas Banka continued regular transmission of statistical data to the ECB, BIS, Eurostat, OECD, the World Bank and IMF and provided statistical information to other domestic and foreign data users. To furnish a wide range of data users with timely information, Latvijas Banka disseminated financial and monetary statistics, balance of payments statistics and quarterly financial account statistics of Latvia via its regular publications and website of Latvijas Banka and compiled data for publishing in the ECB publications and the ECB Statistical Data Warehouse and the IMF publications and within the framework of the IMF Special Data Dissemination Standard. Latvijas Banka expanded the range of data transmitted to the BIS through the inclusion of new data categories as well as continued to compile and transmit financial soundness indicators to the IMF. Latvijas Banka also participated in the IMF's Financial Access Survey in 2015, reporting data on the access to and scope of the services provided to households by Latvia's financial institutions.

FINANCIAL AND MONETARY STATISTICS

As regards the field of financial and monetary statistics, Latvijas Banka commenced the compilation of statistical data in accordance with its new regulations in 2015. At the same time, the compilation of statistical data in accordance with the requirements of the ECB and other data users was successfully ensured on a regular basis, and the range of data necessary for performing the tasks of SSM expanded and their periodicity increased.

In 2015, priorities set in the field of financial and monetary statistics concerned the commencement of data collection and compilation in accordance with the regulations in the field of MFI statistics, adopted by the Council of Latvijas Banka in 2014 and stipulating the implementation of the requirements of the relevant ECB Regulations and Guideline ("Regulation for Compiling the 'Monthly Financial Position Report' of Monetary Financial Institutions" (Regulation No. 132; in effect as of 1 December 2014), "Regulation for Compiling the 'Report on Adjustments in Respect of Write-Offs/Write-Downs of Loans and Price Revaluations of Securities'" (Regulation No. 134; in effect

as of 1 December 2014), "Regulation for Compiling Interest Rate Reports of Monetary Financial Institutions" (Regulation No. 133; in effect as of 1 December 2014)).

The assessment of compliance with the new requirements and data quality was performed in cooperation with the ECB in the fields of MFI balance sheet statistics and MFI interest rate statistics. Algorithms used for monitoring the data quality were also reviewed and updated. A chapter on Latvia's MFIs, the practice of MFI data collection, recording of financial instruments in MFI balance sheet statistics and major differences in the recording of financial instruments in statistics and accounting was prepared by Latvijas Banka for the ECB publication "Survey of National Practices Regarding MFI Balance Sheet Statistics", available on the ECB website since the end of 2015.

Latvijas Banka updated publications of MFI balance sheet statistics and monetary statistics in accordance with the new breakdown by institutional sector in 2015 and, to raise public awareness of the developments regarding loan volumes, as of December 2014 commenced publishing data on the volumes of new loans granted to households and non-financial corporations, including the data on the renegotiated loan amounts.

In 2015, Latvijas Banka began compiling and reporting to the ECB comprehensive information on institutions included in the lists of MFIs, investment funds and alternative investment funds pursuant to the new requirements of the Guideline of the European Central Bank of 4 April 2014 on monetary and financial statistics (recast) (ECB/2014/15) (2014/810/EU) regarding the compilation of the lists of financial institutions for the needs of the ECB Register of Institutions and Affiliates Database (RIAD). In addition, data on the payment statistics relevant institutions (PSRI) were compiled and transmitted for the first time.

BALANCE OF PAYMENTS STATISTICS

Latvijas Banka engaged actively in drafting amendments to Regulation (EC) No. 184/2005 of the European Parliament and of the Council of 12 January 2005 on Community statistics concerning balance of payments, international trade in services and foreign direct investment both during the Latvian Presidency of the Council of the EU in 2015 and thereafter. A compromise proposal for the amendments to the Regulation was put forward by the Working Party on Statistics of the Council of the EU. The most substantial amendments to the Regulation provide for a more detailed breakdown of data compiled on foreign direct investment and stipulate conferring of the power upon Eurostat to adopt delegated acts entitling Eurostat to implement certain measures in order to supplement or amend certain non-essential elements of particular legislative acts.

As regards the data released in the statistical database of Latvijas Banka, the use of a new sign convention for balance of payments statistics was introduced.

Transmission of some seasonally adjusted data of the balance of payments items to the ECB, Eurostat, IMF and OECD was commenced in 2015, and more detailed external debt data were transmitted to the World Bank.

GENERAL ECONOMIC AND GOVERNMENT FINANCE STATISTICS

Pursuant to the new requirement of the ECB regarding the exchange of government finance statistics within the ESCB, which foresees a separate reporting of the debt of defeasance structures or the so-called bad banks reclassified to the general government sector, the data on financial support extended by the government to financial institutions during the financial crisis were revised and transmitted to the ECB.

In the fourth quarter of 2015, data revisions were carried out for the first time in the field of quarterly financial account statistics in accordance with the revision policy harmonised

at the EU level. Financial account statistics data for period from the fourth quarter of 2013 until the second quarter of 2015 were revised and published.

Latvijas Banka participated in drafting the new ECB quarterly report "Household Sector Report" on financial and non-financial accounts of households of the euro area countries. The first report was published on the ECB website in November 2015.

PROVIDING FINANCIAL SERVICES TO THE GOVERNMENT

The Treasury participated in the payment systems of Latvijas Banka in the capacity of a direct participant in 2015.

Latvijas Banka ensured the management of the Treasury's current accounts opened with Latvijas Banka pursuant to the requirements of the Law on Latvijas Banka. In 2015, the Treasury had settlement accounts in euro and seven foreign currencies opened with Latvijas Banka. In 2015, Latvijas Banka settled 1.3 thousand payments of the Treasury in euro and foreign currencies, totalling 19.7 billion euro (translated according to the exchange rate of 31 December 2015; in 2014 – 1.3 thousand payments of the Treasury in euro and foreign currencies, totalling 28.0 billion euro).

ADVISORY ACTIVITIES AND INFORMATION TO THE PUBLIC

ADVISORY SERVICES TO THE GOVERNMENT AND OTHER INSTITUTIONS

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 other issues related to the performance of the tasks of Latvijas Banka.

The Governor of Latvijas Banka, other officials of Latvijas Banka and its employees held regular meetings with representatives of the Republic of Latvia government, including participation in meetings of the Cabinet of Ministers and in the work of several committees established by the government.

Employees of Latvijas Banka contributed to promotion of Latvia's economic development by participating in different working groups and professional organisations, sharing experience and providing advice to them.

In the first half of 2015, employees of Latvijas Banka provided widespread support to the government and other institutions ensuring the performance of the tasks relating to the Latvian Presidency of the Council of the EU, inter alia, made an important contribution to the progress of the EU legal initiatives in the areas of payment services, financial services, financial market regulation, statistics and other areas as well as ensured the representation of EU interests at the G20.

Experts of Latvijas Banka took an active part in the process of accession of the Republic of Latvia to the OECD. They provided support to the government by explaining Latvia's standpoint in negotiations with several OECD committees throughout their report drafting process.

Experts of Latvijas Banka provided opinion on the financial and economic development in meetings organised by the Budget and Finance (Taxation) Committee of the Saeima of the Republic of Latvia.

Employees of Latvijas Banka participated in the work of the Supervision Committee and sub-committees of the EU Structural Funds and the Cohesion Fund; they provided advice on the implementation progress and closing of the EU budget programming period 2007–2013, as well as drafting of the planning documents of the EU budget programming period 2014–2020.

Representatives of Latvijas Banka provided advice on fiscal discipline issues, the assessment of fiscal risks and the potential GDP estimation for the purpose of drawing up the Fiscal Discipline Compliance Report on the draft state budget for 2016 and draft budget frameworks for 2017 and 2018 through the participation in the Fiscal Discipline Council of the Republic of Latvia and its working groups, as well as took part in the work of the cross-institutional working group for reviewing the government expenditure by providing recommendations on more efficient use of state budgetary funds.

Employees of Latvijas Banka in their capacity as experts continued to participate in the work of preparation of the notification of general government budget deficit and debt for 2014, dealing with the methodological issues related to accounting of the European System of National and Regional Accounts.

Experts of Latvijas Banka continued to participate in the work of the Working Group for Improving Cooperation with International Rating Agencies in drafting a report on Latvia's credit rating and the factors impacting it and ensuring provision and exchange of information for the purpose of hosting regular visits of international credit rating agencies.

Experts of Latvijas Banka contributed to compilation and analysis of data and development of methodology for the study of the dairy product price setting mechanism under the project implemented by the Competition Council.

Representatives of Latvijas Banka were engaged in the evaluation of the enterprises participating in a competition "Trademark of the Year" organised by the Patent Office of the Republic of Latvia and Latvian Chamber of Commerce and Industry and a competition "Export and Innovation Award" organised by the Investment and Development Agency of Latvia in cooperation with the Ministry of Economics of the Republic of Latvia.

OPERATION OF THE VISITORS CENTRE

The Visitors Centre of Latvijas Banka "Money World" offering a modern exposition for obtaining financial education and information had around 3 500 visitors in 2015. Groups of people with special interests were welcomed while carrying out the reconstruction of the exposition since following the euro changeover, Latvijas Banka had launched a gradual redesign of its Visitors Centre "Money World" to offer comprehensive contents according to the new situation and an advanced technological solution including through environment-friendly energy solutions.

Secondary school seniors and university students majoring in social sciences are the primary target audience of Latvijas Banka's Visitors Centre "Money World"; this group, as previously, accounted for approximately 80% of total attendance. The overwhelming presence of youth among the visitors is of importance also because the information communicated by the Visitors Centre helps them master educational programmes; likewise, dialogue arouses interest in macroeconomic and financial topics also stirring up discussions by public at large.

Topics about the stability of the euro, the euro changeover in Lithuania as well as the financial stability in the euro area and its maintenance in the context of developments in Greece were among the most discussed in 2015. The discussions mainly focused on changes to Latvijas Banka's operation related to Latvijas Banka's joining the Eurosystem, the central government budget planning and financial discipline as well as the process of strengthening economic competitiveness.

INFORMATION AND EDUCATIONAL FACILITIES PROVIDED TO THE PUBLIC

In 2015, Latvijas Banka informed the public about significant Eurosystem's monetary policy decisions and Latvijas Banka's participation in the implementation of these decisions.

Based on the analysis carried out by experts, Latvijas Banka actively expressed its opinion regarding the economic development of Latvia and the euro area, in particular in respect of the importance of reasonable fiscal policies in ensuring macroeconomic balance. Press conferences during which the Governor of Latvijas Banka informed the public about the economic development of the euro area and Latvia, fiscal discipline and lending developments as well as the decisions made by the Governing Council of the ECB were held on a regular basis. Economists of Latvijas Banka published their commentaries on the decisions taken at the meetings of the Governing Council of the ECB and the development of the euro area economy and financial markets on a regular basis on the website at www.bank.lv to familiarise the general public with the operation of the Eurosystem and the monetary policy purposes and instruments.

In compliance with the requirements of the Statute of the ESCB and ECB, Latvijas Banka ensured translation of the ECB Annual Report 2014 and the ECB's Economic Bulletin issues published after the monetary policy meetings of the Governing Council of the ECB held in March, June, September and December (published on the Internet).

Latvijas Banka continued to prepare a wide range of regular publications. Incorporating the data provided by Latvijas Banka, CSB, the Ministry of Finance of the Republic of Latvia, FCMC and other institutions, the Macroeconomic Developments Report discussed the developments of external sector, financial market, domestic demand and supply, costs and prices, and balance of payments, and presented GDP and inflation forecasts in June and December. The balance of payments statistics compiled by Latvijas Banka are published in *Latvijas Maksājumu Bilance. Latvia's Balance of Payments (2014)*, while the publication Financial Stability Report has assessed major stability risks. In 2015, six working papers by Latvijas Banka's experts and three discussion papers were published on the websites of Latvijas Banka (see Appendix 6).

Economists of Latvijas Banka continued to analyse the economic performance in Latvia and the euro area, in particular focussing on explanations of the monetary decisions taken by the Governing Council of the ECB and their impact on the website www.macroeconomics.lv. The number of visitors of the website increased by 24% in comparison with 2014, and topics about the characterisation of different sectors, foreign trade and explanations of the monetary policy developments and latest economic developments were among the most popular.

Economists of Latvijas Banka published their working papers useful for academics and economic agents both on the websites of Latvijas Banka and international peer-reviewed journals in economics.

Issues related to currency circulation – putting the 20 euro banknote of the Europa series into circulation, the euro collector and commemorative coins issued by Latvijas Banka, the implementation of the coin reservation system, and money safety issues – generated great public interest throughout the year. Latvijas Banka also continued active communication with the general public about the progress on fulfilling other tasks of Latvijas Banka.

Overall, throughout the year more than 9 000 publications on issues concerning the activities of Latvijas Banka and the macroeconomic and financial analysis appeared in different mass media, and more than 700 journalists' questions were answered.

On 28 October 2015, Latvijas Banka hosted its annual conference on economy. At the conference "Quo vadis, Europe? How to achieve growth in high debt environment?" representatives of academia and economic policy implementers analysed the public debt growth from the historic and academic point of view and discussed the effect of high public debt levels on monetary policy. The conference brought together European and national policy makers, economists, opinion leaders, businesses, representatives of

academia and Latvian and global mass media. The conference was also webcast, and more than 1 000 interested parties in Latvia and abroad followed this discussion held by high level academics and economic policy makers.

To enhance the adoption of macroeconomic development-oriented decisions in the country and to encourage a professional discussion on issues relevant for the Latvian economy as well as to share expertise regarding the latest developments in the euro area, Latvijas Banka organised already traditional experts' roundtable discussions. In 2015, high level experts from public administration institutions, financial circles, businesses, academic community and international organisations (European Parliament, Representation of the EC in Latvia) were brought together to address issues regarding the necessary reforms, ways on how an average income country can make a quality leap in the economic development and fiscal discipline in the euro area. The expert roundtables were aimed at starting a timely discussion in Latvia on what should be done by the experts and country to ensure effective supervision of the EU budget deficit and debt after the crisis and help countries free themselves from the general government deficit and debt trap.

Studies suggest that Latvian people have already evaluated euro banknotes and coins as a safe, settlement-friendly and quality means of payment. To promote the public awareness of the design and security features of euro banknotes and coins, Latvijas Banka expanded activities including, paying particular attention to putting the 20 euro banknote of the Europa series into circulation in November 2015. To provide more comprehensive information about the new banknote to the general public and professional cash handlers, printed information leaflets on the design and security features of the new banknote, in cooperation with the ECB, have been sent to different population and business groups already since February. As previously, special materials were prepared and, in cooperation with the Latvian Society of the Blind, delivered to the visually impaired. Informational activities reached the majority of the Latvian population, and Latvia traditionally is among the leaders in terms of informing its citizens about the design and security features of banknotes and coins.

To improve the financial and economic literacy of different population groups, Latvijas Banka continued to maintain the economic literacy website "Money School" and engaged in several educational events for students organised jointly with the cooperation partners – the Financial Education Week activities and the Security Day in Daugavpils – by explaining the security aspects of euro banknotes and coins and sound money management principles to students. A seminar "Topical Economic Issues" was organised already for the second time in summer, thus enabling the teachers of economics and commercial science to improve their understanding of macroeconomic issues. Latvijas Banka continued its cooperation with Junior Achievement – Young Enterprise Latvija, organising the final of the competition for primary school students "My Dictionary" and thus facilitating their ability to discuss economic issues with the representatives of different generations. In autumn, experts of Latvijas Banka participated in the creative afternoon workshops of the "Money School" of Nordea Bank AB Latvia branch, explaining the most significant aspects of cash production and security to students. In autumn 2015, Latvijas Banka together with the students of Jelgava Spīdola Secondary School launched a full-time course of lectures on the safety of money to third through sixth grade students of Latvia's schools.

In 2015, Latvijas Banka continued to deliver a guest lecture programme at Latvia's higher educational establishments. At their request, leading economists of Latvijas Banka delivered lectures on the economic development of the euro area and the Eurosystem's monetary policy, the perception of competitiveness and the types of analysis, the global economic growth, the economic governance instruments of the EU as well as the payment instruments and systems. A competition of Student Scientific Research Papers was organised by Latvijas Banka already for the 13th time with a view to promote the

research and analysis of Latvia's and euro area's macroeconomic issues by involving the most talented young economists in this work. Overall, 11 papers were submitted, and the authors of them were 16 students from four Latvia's higher educational establishments.

The new version of the website of Latvijas Banka (www.bank.lv) was published in April 2015; on the one hand, it has been made more user-friendly in terms of information structuring, the way information is presented and the technological possibilities, while, on the other hand, it has become a dynamic information channel explaining highlights and stance of Latvijas Banka as well as receiving statistical data.

Latvijas Banka actively communicated with the public by means of social networks (*Twitter.com*, *Slideshare.net*, *Youtube.com* and *Flickr.com*). Since 2015, two more social media channels (*Facebook.com* and *Draugiem.lv*) and a tool for creating infographics *Infogr.am* have also been used. Thus, Latvijas Banka can be reached via all major social media in Latvia, and Latvijas Banka uses them to inform the general public about the latest developments, to share its view on economic development processes and to depict and present visual and audiovisual information in a user-friendly manner. Taking into account the persistent interest in the collector coins issued by Latvijas Banka, a separate section devoted to this theme has been created on the website of Latvijas Banka.

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.

In 2015, Latvijas Banka continued to represent Latvia's interests at meetings of the IMF Board of Governors and in the coordination of operational issues. Priorities of the IMF policy were mainly related to strengthening the global economy and the global financial system. The issues related to fiscal policy and its impact on long-term growth, monetary policy and its link with financial stability as well as the role of the structural reforms were analysed in particular. In December 2015, the US Congress ratified the 2010 IMF quotas and governance reforms, ensuring the enactment of these reforms. This will allow to increase the IMF's permanent (quota) resources and to boost the representation of emerging economies in the IMF. On 30 November, the Executive Board of the IMF decided to include the Chinese renminbi in the SDR basket, effective on 1 October 2016. The IMF continued to implement improvements of the framework for sovereign debt restructuring and the IMF's lending policies.

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 3.41% votes.

Representatives of Latvijas Banka continued to participate in the work of the Nordic-Baltic Monetary and Financial Committee established for setting strategic directions and laying down guidelines and developing a joint opinion on operational issues of the IMF.

In 2015, cooperation with the IMF, based on consultations under Article IV of the IMF Articles of Agreement, continued.

In 2015, Latvijas Banka continued its membership in the BIS.

In April, Latvijas Banka participated in the organisation of an informal meeting of the Economic and Financial Affairs (ECOFIN) Council in Riga, related to the Latvian Presidency of the Council of the EU. The Economic Policy Panel meeting of academic level was hosted by Latvijas Banka.

In May, Latvijas Banka organised an external meeting of the Working Group on Credit Registers of the Eurosystem/ESCB Financial Stability Committee, but in June – an external meeting of the Human Resources Conference of the ESCB as well as the Nordic-Baltic communication experts' meeting. An external meeting of the Eurosystem/ESCB Banknote Committee was organised in Riga in September.

In 2015, Latvijas Banka organised several ESCB and SSM training workshops on economic issues and issues related to financial sector surveillance as well as workshops for improving professional skills.

At expert level, employees of Latvijas Banka advised experts of the State Bank of Vietnam on issues concerning the use and adaptation of information systems to the functions of a national central bank, as well as presented the exhibition design principles practiced by an educational visitors centre and shared its operational planning expertise with the experts of the Central Bank of the Russian Federation.

In 2015, international financial organisations and foreign central banks extended support to Latvijas Banka, providing opportunities to participate in the workshops and courses hosted by these institutions as well as to receive consultations on issues related to the central bank operations. Employees of Latvijas Banka participated in courses, seminars and professional experience exchange programmes organised by the BIS, EC, ECB, IMF, Joint Vienna Institute, Study Center Gerzensee, Federal Reserve Bank of New York, as well as by the central banks of the UK, Argentina, Austria, Belgium, Czech Republic, France, Italy, Ireland, Lithuania, the Netherlands, Poland, Portugal, Romania, Finland, and Germany.

MANAGEMENT AND ORGANISATION OF LATVIJAS BANKA





¹ As of 1 March 2016, the functions of the Governor's Office were transferred to the International Relations and Communication Department.

THE COUNCIL OF LATVIJAS BANKA

The Council of Latvijas Banka takes decisions on behalf of Latvijas Banka. The Council of Latvijas Banka comprises the Governor and the Deputy Governor of Latvijas Banka and six members (one position of the Member of the Council of Latvijas Banka has been vacant since 13 March 2014). Their term of office is six years. In 2015, the composition of the Board of Latvijas Banka was as follows:

- Governor **Ilmārs Rimševičs;**
- Deputy Governor **Zoja Razmusa;**
- Members of the Council: **Leonīds Gricenko,
Edvards Kušners,
Vita Pilsuma,
Arvils Sautiņš,
Aivars Skopiņš.**

Meetings of the Council of Latvijas Banka are held as appropriate, but at least once a quarter. The Council of Latvijas Banka held 11 meetings in 2015. When performing the tasks stipulated in the Law on Latvijas Banka, the Council of Latvijas Banka adopted 80 legal acts overall in 2015 regarding the use of monetary policy instruments, investment management, provision of currency in circulation, the operation and oversight of the payment and securities settlement systems, operation of the Credit Register, licensing and supervising the purchase and sales of foreign currency and other issues pertaining to the operation, management and organisation of Latvijas Banka.

THE BOARD OF LATVIJAS BANKA

To carry out and manage day-to-day activities of Latvijas Banka, the Council of Latvijas Banka has established the Board of Latvijas Banka that comprises six members and performs activities on a continuous basis. In 2015, the composition of the Board of Latvijas Banka was as follows:

- Chairman of the Board **Māris Kālis;**

– Deputy Chairperson of the Board

Ilze Posuma;

– Members of the Board:

**Jānis Blūms,
Jānis Caune,
Harijs Ozols,
Raivo Vanags.**

The Board of Latvijas Banka conducted daily activities of Latvijas Banka in compliance with the requirements of the Law on Latvijas Banka and other legal acts, as well as by implementing decisions of the Council of Latvijas Banka.

EMPLOYEES OF LATVIJAS BANKA

At the end of 2015, the number of Latvijas Banka employees was 540, of which 22 had fixed-term employment contracts (compared with 540 and 16 employees at the end of 2014, respectively). At the end of 2015, the staff of Latvijas Banka was 57% male and 43% female.

To ensure exchange of information between Latvijas Banka and EU institutions, the Counsellor of Latvijas Banka at the Permanent Representation of Latvia to the EU continued her work in 2015.

COMMISSIONS, COMMITTEES AND WORKING GROUPS OF LATVIJAS BANKA

In order to ensure quality performance of tasks of Latvijas Banka, several committees, commissions and working groups approved by the Council of Latvijas Banka, the Governor of Latvijas Banka or the Board of Latvijas Banka carried on their work in 2015.

The Commission for Examination of Banknotes and Coins and for Controlling Cash Processing of Latvijas Banka examined banknotes and coins of both lats and euro, identifying the counterfeits, as well as identifying the damaged banknotes as genuine and replacing them with fit ones, and provided for testing cash processing equipment of merchants recirculating euro banknotes in order to decrease the potential risk of euro counterfeits and improve the quality of euro banknotes in circulation. To ensure fulfilment of the requirements specified for purchasing and selling foreign currency as a financial service, the Licensing Committee of Latvijas Banka issued, re-registered and rewrote licences for purchasing and selling foreign currency to capital companies as a commercial activity and controlled operation of the licensed capital companies.

The Audit Committee of Latvijas Banka, authorised by the Council of Latvijas Banka, was responsible for the oversight of the internal auditing function, activities of the external auditors of Latvijas Banka and preparation of financial statements, as well as enhanced the functioning of the internal control system of Latvijas Banka.

The Ethics Committee of Latvijas Banka monitored the implementation of the "Code of Conduct of Latvijas Banka".

A wide range of issues related to security were addressed by the Security Oversight Commission of Latvijas Banka. The Information Systems Management Committee of Latvijas Banka monitored and coordinated the issues related to operation, security and development of Latvijas Banka's information systems, as well as personal data processing. The Operational Risk Management Committee of Latvijas Banka monitored the operational risk management at Latvijas Banka.

The Budget Commission of Latvijas Banka, whose aim is to facilitate proper utilisation of financial resources of Latvijas Banka, contributed to the operational management of Latvijas Banka. The Standing Commission for Procurement of Latvijas Banka achieved this objective in the area of procurements organised by Latvijas Banka. The Investment

Committee of Latvijas Banka developed and defined a strategy for and made tactical decisions in managing financial assets and gold.

COMMITTEES AND COMMISSIONS OF LATVIJAS BANKA AT THE END OF 2015

The Audit Committee of Latvijas Banka	The Ethics Committee of Latvijas Banka
The Budget Commission of Latvijas Banka	The Information Systems Management Committee of Latvijas Banka
The Coin Design Commission of Latvijas Banka	The Investment Committee of Latvijas Banka
The Commission for Examination of Banknotes and Coins and for Controlling Cash Processing of Latvijas Banka	The Licensing Committee of Latvijas Banka
The Commission for Evaluation of Gifts and Disposal and Write-off of Movable Assets of Latvijas Banka	The Operational Risk Management Committee of Latvijas Banka
The Commission for Optimisation of Work Premises of Latvijas Banka	The Security Oversight Commission of Latvijas Banka
The Document and Archives Management Expert Commission of Latvijas Banka	The Standing Commission for Procurement of Latvijas Banka

MANAGEMENT PRINCIPLES AND DEVELOPMENT

Management of Latvijas Banka ensures quality performance of the tasks stipulated in the Law on Latvijas Banka and other legal acts. The management model of Latvijas Banka enables detection of gaps in the areas of strategies, resources, staff and processes management and leadership, as well as provides an opportunity to measure the results achieved vis-à-vis customers, employees and the general public.

"Statement of Vision, Mission and Values of Latvijas Banka" and the strategic goals of Latvijas Banka form the basis for the operation and development planning. Every year, the progress towards achieving the set objectives is measured. The execution of functions and processes is monitored daily, implementation of work plans is reviewed on a recurring basis and customer and staff surveys are conducted regularly asking customers to assess the quality of Latvijas Banka's services, the level of their accessibility and convenience, and competence and responsiveness of the staff.

RESOURCE MANAGEMENT

HUMAN RESOURCES

In 2015, Latvijas Banka continued to pursue its key principles of human resources policy by hiring qualified and professional employees as a result of an effective staff recruitment process and established long-term employment relationships, creating a motivating working environment and enhancing professional development opportunities.

Like in previous years, Latvijas Banka used staff rotation and promotion to foster personnel development and career. Within a short-term ESCB secondment programme two staff members went to the ECB to complement their work experience at the Directorate General Communications and Directorate Banknotes of the ECB, but two employees continued their work at the Directorate General Economics and Directorate General Communications of the ECB. An employee of Latvijas Banka was appointed the new Adviser to the Executive Director of the Nordic-Baltic Constituency of the IMF.

Staff of Latvijas Banka continued to broaden their expertise in the fields of monetary policy, financial stability, macroeconomics, econometrics, financial markets, financial institution supervision, statistics, financial accounting, internal audit, human resources management, law, risk management, securities operations, cash processing supervision and information technologies. Several employees of Latvijas Banka developed further their professional knowledge by participating in international professional certification programmes.

Staff training costs of Latvijas Banka amounted to 1.7% of the total expenses on remuneration (1.4% in 2014).

FINANCIAL RESOURCES

The financial management system of Latvijas Banka has been developed in a way that it ensures support to decision making, financial risk management and efficient use of financial resources.

Latvijas Banka primarily finances its operation from the income generated from managing financial assets. Latvijas Banka does not receive financing from the state budget. Instead, it transfers 65% of the profit made during the reporting year to the state budget. In 2015, Latvijas Banka recorded profits of 30.0 million euro, of which 19.5 million euro are to be transferred to the state budget. Latvijas Banka has contributed to the state budget a total of 145.2 million euro from its profit earned between 2010 and 2014.

Major financial transactions of Latvijas Banka are related to the management of financial assets and implementation of monetary policy. Financial assets are managed in compliance with the basic principles set out in the "Guidelines for Managing Financial Assets and Gold of Latvijas Banka" adopted by the Council of Latvijas Banka. They include preserving the value of investments, ensuring their liquidity and earning income within the framework of acceptable risk standards without contradicting the monetary policy implemented by the Eurosystem. Meanwhile, operations related to the implementation of monetary policy are performed by Latvijas Banka in line with the "Procedure for Participation in the Eurosystem Monetary Policy Operations Organised by Latvijas Banka" adopted by the Council of Latvijas Banka.

In order to ensure comprehensive and transparent information about financial transactions, financial risks and their management, as well as about performance results of Latvijas Banka, it prepares and publishes annual financial statements. They are drafted in accordance with the mandatory requirements of the ECB legal framework for accounting and financial reporting binding on the ESCB and in line with the "Financial Accounting Policy of Latvijas Banka", adopted by the Council of Latvijas Banka, by organising accounting in compliance with the "Financial Accounting Regulation of Latvijas Banka", adopted by the Board of Latvijas Banka, and other regulations of Latvijas Banka pursuant to the Law on Latvijas Banka and requirements of other laws and regulations of the Republic of Latvia binding on Latvijas Banka.

Latvijas Banka publishes a monthly closing balance sheet and Notes to it, as well as other financial information available also on the website of Latvijas Banka. Latvijas Banka's integrated information system ensures a standardised, automated, safe and efficient execution of financial transactions of Latvijas Banka, their uniform accounting and drawing up of financial statements. Within the framework of the internal financial control system, the management of Latvijas Banka regularly assesses changes in assets and liabilities, as well as in income and expenses of Latvijas Banka, paying particular attention both to the results of investment management and compliance of operating costs and long-term investments with the approved budget of Latvijas Banka. The Council of Latvijas Banka approves the annual budget of Latvijas Banka; the management of the

budget is carried out according to the "Regulation for Managing the Budget of Latvijas Banka" adopted by the Council of Latvijas Banka and aimed at ensuring efficient use of Latvijas Banka's financial resources. The Regulation provides for the procedure of drafting, approving and monitoring the execution of Latvijas Banka's budget. Within the budget management framework, Latvijas Banka assesses the effectiveness, costs and human resources of each project on a continuous basis in order to ensure efficient use of funds. To assure the independence of internal audit, the Council of Latvijas Banka also approves an expenditure plan for the Internal Audit Department.

The Budget Commission, set up by the Council of Latvijas Banka, evaluates the draft budget prepared by the Board of Latvijas Banka and oversees the budget execution. The Board of Latvijas Banka, together with the heads of the relevant structural units of Latvijas Banka, draws up the draft budget and submits it to the Budget Commission and the Council of Latvijas Banka, as well as controls the budget execution and report on it on a regular basis.

INFRASTRUCTURE RESOURCES

Engineering and technical infrastructure resources

Latvijas Banka provides and maintains the infrastructure necessary for its operation in good condition. Construction works necessary for the maintenance of buildings were carried out in the buildings of Latvijas Banka in Riga, the building of Liepāja Branch of Latvijas Banka and the building of the Training Centre.

In 2015, renovation of the roof and its covering constructions of Latvijas Banka's building at K. Valdemāra iela 2A, Riga, was started in order to enhance the protection of the national architectural heritage against the adverse environmental impact and improve its safety and energy efficiency.

In order to provide crucial electricity consumers with back-up power supply, the power supply system of the building at Bezdēlīgu iela 3, Riga, was improved.

Resources of information technologies

The Banking Information System T24 was upgraded to new release, thus obtaining a more progressive banking information system with improved functionality, with full support from the vendor.

The websites of Latvijas Banka were deployed using cloud computing services allowing better availability and flexible resource management at lower costs, thus enabling quality performance of those websites during high workloads.

The business continuity solution of Latvijas Banka's data centres was improved significantly ensuring the storing of information and continuation of the most crucial and important processes under different scenarios.

The document management system was modernised to ensure a technologically progressive and easy-to-use centralised solution for electronic management of Latvijas Banka's correspondence and official documents.

A new centralised management system of Latvijas Banka's information systems' user rights was developed allowing an easy management of access rights to all Latvijas Banka's information systems and resources in one place.

Security solutions were improved to mitigate risks associated with the most topical technological threats. The overall security level of Latvijas Banka's computer network was also enhanced by introducing device authentication for this computer network.

More efficient use of environmental resources

Latvijas Banka is an environmentally friendly institution striving to ensure more efficient use of environmental resources.

Over time, several measures have been taken to reduce the usage of paper and, consequently, also resources required for its production. These included the expanding of electronic document circulation, thus substantially reducing the need for document printing. Meanwhile, waste paper is recycled.

Raw material (toner, ink and paper) efficient printing mode of printers has been used, ensuring lower consumption of raw materials and paper (by applying duplexing). The staff are encouraged to choose a more efficient printing mode by assessing the necessity of printing (colour material printing in particular). Using an enhanced security printout management system has limited the possibility of preparing a print-out by mistake.

As regards energy efficiency, Latvijas Banka also evaluates energy consumption of new equipment when implementing projects in relation to technical modernisation of equipment. Energy efficiency ratio is taken into account when upgrading hardware and other technical equipment.

Successful continuation of server and data array virtualisation and consolidation of their resources has led to a further decrease in the amount of electricity consumed and the heat generated by these recourses. Consequently, fewer resources are needed for their cooling.

RISK MANAGEMENT

Latvijas Banka manages strategic, financial and operational risks. Latvijas Banka's risk management goals and basic principles are set in "The Risk Management Policy of Latvijas Banka", "The Business Continuity Management Policy of Latvijas Banka", "The Information and Information Systems Security Policy of Latvijas Banka", and "The Physical Security Policy of Latvijas Banka" adopted by the Council of Latvijas Banka. A comprehensive and uniform supervision of the implementation of these policies is carried out by the Security Oversight Commission of Latvijas Banka.

Market risk (price, interest rate and currency risks), credit and liquidity risks are the most significant financial risks Latvijas Banka is exposed to in its daily activities. Latvijas Banka manages financial risks related to its investments in accordance with "The Procedure for Managing Financial Assets and Gold of Latvijas Banka" adopted by the Council of Latvijas Banka. Investments are managed by classifying them into different investment portfolios. Parameters for a benchmark reflecting the acceptable level of financial risks and the return target are set out for each financial instrument portfolio, and the Risk Management Division of the Market Operations Department controls compliance with them. 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 investment managers. The Investment Committee of Latvijas Banka reviews the investment strategy once a quarter, and receives and reviews, on a weekly basis, reports on and forecasts for developments in financial markets, prepared by financial investment portfolio managers, reports by financial risk managers, and approves the investment management tactical decisions for the forthcoming week. The Market Operations Department informs the Council and the Board of Latvijas Banka about the results of investment management on a regular basis.

The procedure for managing operational risks of Latvijas Banka is set in "The Procedure for Managing Operational Risks of Latvijas Banka" adopted by the Board of Latvijas Banka. Latvijas Banka's operational risks are managed through processes and projects by identifying and assessing risks and, depending on the level of risk, opting for the most appropriate risk mitigation measures. The management of operational risks is organised

by the Operational Risk Manager of Latvijas Banka and conducted, on a daily basis, by the structural units of Latvijas Banka, project managers and other employees of Latvijas Banka responsible for the execution of Latvijas Banka's processes. Operational risk management is supervised by the Operational Risk Management Committee of Latvijas Banka, appointed by the Board of Latvijas Banka, which ensures coordination of the measures to be carried out under the operational risk management process and provides support to the Board of Latvijas Banka in the area of risk management.

In the second half of 2014 and in 2015, the organisation of Latvijas Banka's operational risk management process was improved in order to specify the framework of operational risks making the operational risk management more efficient, result-oriented and focused on practical gains, integrating the business continuity management into the operational risk management process, to the fullest extent possible, and advancing a closer linkage with Latvijas Banka's process management.

The business continuity management of Latvijas Banka is aimed at ensuring continuity of the processes critical to the performance of the core functions of Latvijas Banka or to the achievement of its objectives or, in case a critical process is interrupted, its re-establishment at an appropriate level and in an acceptable timeframe, as well as an efficient incident and crisis management.

Latvijas Banka continued risk analysis of the critical and important information systems based on the information system risk management methodology. Risk analysis is also performed as part of any information system development or upgrading project and an information system infrastructure modification project.

Staff members were trained in the areas of information and information system security as well as operational risk management, including business continuity management.

INTERNAL AND EXTERNAL AUDIT

By applying a systemic and planned approach, the internal audit provides the management of Latvijas Banka with an objective and independent evaluation of the effectiveness of Latvijas Banka's governance, risk management, internal control system and operational processes and advises on improvement in Latvijas Banka's operation. The internal audit at Latvijas Banka is conducted by the Internal Audit Department. The internal audit is organised and conducted in accordance with "The Internal Audit Policy of Latvijas Banka", adopted by the Council of Latvijas Banka, and the Regulation of Internal Audit Department. It is carried out in line with the "International Standards for the Professional Practice of Internal Auditing" and the "Code of Ethics" of the Institute of Internal Auditors.

The compliance of internal audit activities with the "International Standards for the Professional Practice of Internal Auditing" and the "Code of Ethics" of the Institute of Internal Auditors has been attested by the external assessment of internal audit quality in 2015.

The internal audit covers all business areas of Latvijas Banka. Internal audits are planned and conducted using a risk based approach. The Head of the Internal Audit Department reports the outcome of each internal audit to the Governor and the Audit Committee of Latvijas Banka, while also informing the members of the Council and the Board of Latvijas Banka. The Audit Committee of Latvijas Banka jointly with the Head of the Internal Audit Department reviews the internal audit findings, recommendations and their implementation on a quarterly basis. The results of internal audit activities are reported to the Council of Latvijas Banka on an annual basis.

The Internal Audit Department also carries out internal audits based on the audit plan approved by the Eurosystem/ESCB Internal Auditors Committee. These internal audits

are carried out in accordance with the Audit Charter for the Eurosystem/ESCB and the Single Supervisory Mechanism. In 2015, five such internal audits were performed.

Pursuant to the Law on Latvijas Banka, Latvijas Banka's financial statements are audited by independent external auditors recommended by the Governing Council of the ECB and approved by the Council of the EU. SIA KPMG Baltics, a commercial company of certified auditors, have been approved as external auditors of Latvijas Banka's financial statements for 2015–2019.

**FINANCIAL STATEMENTS OF LATVIJAS BANKA
FOR THE YEAR ENDED 31 DECEMBER 2015**



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BALANCE SHEET

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

	Note ¹	2015	2014
ASSETS			
Gold and gold receivables	6	207 670	210 774
Claims on non-euro area residents denominated in foreign currency	7	2 949 979	2 441 368
Receivables from the International Monetary Fund		153 780	144 069
Balances with banks and security investments, external loans and other external assets		2 796 199	2 297 299
Claims on euro area residents denominated in foreign currency	8	541 073	486 242
Claims on non-euro area residents denominated in euro	9	169 490	214 953
Lending to euro area credit institutions related to monetary policy operations denominated in euro	10	263 730	85 520
Longer-term refinancing operations		263 730	85 520
Other claims on euro area credit institutions denominated in euro	11	2 491	4 475
Securities of euro area residents denominated in euro	12	3 015 433	1 095 446
Securities held for monetary policy purposes		1 808 374	–
Other securities		1 207 059	1 095 446
Intra-Eurosystem claims	13	3 802 596	3 393 275
Participating interest in the European Central Bank		115 082	115 082
Claims equivalent to the transfer of foreign reserves		163 480	163 480
Other claims within the Eurosystem		3 524 034	3 114 713
Other assets	14	166 225	92 455
TOTAL ASSETS		11 118 687	8 024 508

¹ The accompanying Notes set out on pages 73 to 114 are an integral part of these financial statements.

(at the end of the year; in thousands of euro)			
	Note	2015	2014
LIABILITIES			
Banknotes in circulation	15	3 992 436	3 849 170
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	16	4 784 410	2 423 356
Current accounts (covering the minimum reserve system)		4 784 410	2 073 356
Deposit facility		–	350 000
Other liabilities to euro area credit institutions denominated in euro	17	8 830	540
Liabilities to other euro area residents denominated in euro	18	145 894	126 919
General government		38 055	50 900
Other liabilities		107 839	76 019
Liabilities to non-euro area residents denominated in euro	19	9 099	23 986
Liabilities to euro area residents denominated in foreign currency	20	155 228	144 579
Liabilities to non-euro area residents denominated in foreign currency	21	478	–
Intra-Eurosystem liabilities	13	1 312 104	796 980
Liabilities related to TARGET2 and correspondent accounts (net)		1 312 104	796 980
Other liabilities	22	258 853	180 089
Capital and reserves	23	451 355	478 889
TOTAL LIABILITIES		11 118 687	8 024 508

PROFIT AND LOSS STATEMENT

		(in thousands of euro)	
	Note	2015	2014 ¹
Net interest income	33	44 953	38 799
Interest income		64 696	50 097
Interest expense		-19 743	-11 298
Net result of financial operations, recognition of revaluation result in profit and loss statement and risk provisions		-11 717	-5 310
Realised gains arising from financial operations	34	37 216	11 135
Recognition of revaluation result on financial assets and positions in profit and loss statement	23, 35	-13 633	-1 645
Provisions for market risk and credit risk	36	-35 300	-14 800
Net expense from fees and commissions		-1 388	-1 213
Fees and commissions income		422	302
Fees and commissions expense		-1 810	-1 515
Income from participating interest	37	4 157	3 650
Net result of pooling of monetary income	38	25 675	31 953
Other operating income	39	1 762	3 666
NET INCOME		63 442	71 545
Remuneration	40	-16 932	-16 839
Social security costs	40	-3 518	-3 382
Depreciation of fixed assets and amortisation of intangible assets	14	-3 722	-3 685
Banknote and coin acquisition costs	41	-1 955	-2 633
Other operating expenses	42	-7 278	-8 246
PROFIT OF THE REPORTING YEAR		30 037	36 760

¹ Interest income and expense recognised in the profit and loss statement of Latvijas Banka for 2014 have been restated in line with the reporting of negative interest described in Note 2.24.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

		(in thousands of euro)	
	Note	2015	2014
Profit of the reporting year		30 037	36 760
Revaluation	23	-13 537	36 006
Realisation of the accumulated revaluation result	23	-33 773	-27 166
Recognition of revaluation result on financial assets and positions in profit and loss statement	23, 35	13 633	1 645
Total changes in the valuation account	23	-33 677	10 485
TOTAL		-3 640	47 245

The financial statements, which are set out on pages 69 to 114, were authorised by the Board of Latvijas Banka on 10 March 2016.

BOARD OF LATVIJAS BANKA

M. Kālis

I. Posuma

J. Blūms

J. Caune

H. Ozols

R. Vanags

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 Republic of Latvia and EU legislation as well as 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, the primary goal of Latvijas Banka is to maintain price stability. As of 1 January 2014, the euro changeover day in Latvia, Latvijas Banka has the following primary tasks:

- participate in the formulation and implementation of the Eurosystem's monetary policy;
- manage the foreign reserves and other financial investments;
- ensure cash currency circulation in Latvia and participate in providing the cash currency circulation in the euro area;
- promote smooth functioning of payment systems;
- compile and publish statistical information in order to ensure the performance of the tasks of Latvijas Banka;
- cooperate with the ECB, the central banks of other EU Member States and other countries, as well as other financial institutions;
- operate as the financial agent of Latvia's government and provide financial services to other market participants;
- 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 the tasks of Latvijas Banka;
- maintain the Credit Register;
- 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.

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 is supervised by the Saeima of the Republic of Latvia.

Latvijas Banka does not engage in any commercial activity, and its operation related to the execution of its tasks is mainly financed from income received from its investment management.

The Head Office of Latvijas Banka is situated at K. Valdemāra iela 2A, Riga. Latvijas Banka manages the storage, processing and circulation of cash through its branches in Riga and Liepāja.

2. PRINCIPAL ACCOUNTING POLICIES

A summary of the principal accounting policies adopted by Latvijas Banka in the preparation of these financial statements is set out below.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with the Guideline of the ECB of 11 November 2010 on the legal framework for accounting and financial reporting in the European System of Central Banks (recast) (ECB/2010/20), Financial Accounting Policy of Latvijas Banka approved by Latvijas Banka's Council, and the requirements of the Law on Latvijas Banka governing financial reporting.

2.2 BASIS OF MEASUREMENT

These financial statements have been prepared in accordance with the historical cost basis of accounting. Gold, debt securities (except held-to-maturity debt securities and securities held for monetary policy purposes that are measured at amortised cost), participating interest (except the participating interest in the ECB), currency future contracts and interest rate derivatives are accounted for at fair value. Forward exchange rate contracts and currency swap arrangements are valued according to the principles described in Note 2.15. The comparison of the book value and fair value of these instruments is provided in Note 24.

2.3 FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

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. The discounted cash flows are modelled using quoted market prices of financial instruments and money market interest rates. The breakdown of assets measured at fair 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 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. The exchange rate of the SDR is set on the basis of the weights of the SDR basket of currencies published by the IMF and the exchange rates of the respective currencies 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 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 on the day of the transaction.

Transactions in foreign currencies are included in the calculation of net foreign currency position of the respective currency. The transactions in foreign currencies reducing the respective currency position result in realised gains or losses. Any gain or loss arising from revaluation of transactions in foreign currencies and foreign currency positions are credited or charged to the profit and loss statement or the balance sheet item "Capital and reserves" as the foreign currency revaluation reserve ("Valuation account") in accordance with the principles referred to in Note 2.23. The principles referred to herein and in Note 2.23 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 2015 and the year ended 31 December 2014 are as follows:

	(at the end of the year)		
	2015	2014	Changes (%)
US dollar (USD)	1.0887	1.2141	-10.3
Japanese yen (JPY)	131.07	145.23	-9.8
Canadian dollar (CAD)	1.5116	1.4063	7.5
British pound sterling (GBP)	0.73395	0.7789	-5.8
Gold (XAU)	973.225	987.769	-1.5

2.5 RECOGNITION AND DERECOGNITION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets and financial liabilities are recognised in the balance sheet when Latvijas Banka becomes a contractual party in the respective financial transaction.

A financial asset is derecognised when the contractual rights to cash flows arising from the respective financial asset expire or are transferred, thereby risks and rewards related to the particular asset are transferred, and Latvijas Banka does not retain control over the asset. Financial liabilities are derecognised when the respective obligations are settled.

A regular way purchase or sale of financial assets is recognised and derecognised on the settlement day.

2.6 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets and financial liabilities are offset and the net amount in the financial statements is reported only in cases when there is a legally enforceable right to set off the recognised amounts, and there is an intention to dispose of the respective assets and settle the liability simultaneously.

2.7 USE OF ESTIMATES AND ASSUMPTIONS

Estimates and assumptions have been made in the preparation of the financial statements that affect the amounts of certain assets, liabilities and contingent liabilities reported in the financial statements. Future events may affect the above mentioned estimates and assumptions. The effect of a change in such estimates and assumptions is reported in the financial statements for the reporting year and each year in the future to which it refers.

The major estimates and assumptions in the preparation of the financial statements have been made with respect to the following: impairment of assets (see Note 2.19), the method for establishing the fair value of the BIS shares (see Note 14.2), the useful life of fixed assets and intangible assets (see Notes 2.17 and 2.18), the repurchasing probability of collector coins (see Note 2.21), provisions for market risk and credit risk (see Notes 2.22 and 36), the intention of holding a certain share of debt securities to maturity (see Note 2.9), the breakdown of fair value determination (see Note 5), and the method of recognising a part of the initial valuation account balance in profit and loss statement (see Note 23).

2.8 GOLD AND GOLD RECEIVABLES

Gold is stated at market value in the balance sheet in accordance with the principles described in Note 2.4.

Any gain or loss arising from transactions in gold and revaluation of gold reserves is credited or charged to the profit and loss statement or the balance sheet item "Capital and reserves" as the foreign currency revaluation reserve in accordance with the principles described in Note 2.23.

2.9 DEBT SECURITIES

Debt securities are stated at fair value in the balance sheet, except those held to maturity and securities held for monetary policy purposes, 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.

Interest on securities, including premium and discount, is recognised in the profit and loss statement as interest income (see Note 2.24).

Gain or loss arising from transactions in debt securities and revaluation of the debt securities stated at fair value are credited or charged to the profit and loss statement or the balance sheet item "Capital and reserves" as the securities revaluation reserve in accordance with the principles referred to in Note 2.23.

2.10 REVERSE REPURCHASE AGREEMENTS

Reverse repurchase agreements are accounted for as financing transactions. Securities purchased under reverse repurchase agreements are not reported on Latvijas Banka's balance sheet. The related funding provided to the counterparty is reported on Latvijas Banka's balance sheet at nominal value as claims on the seller of the securities.

The difference between the purchase and resale price of securities is gradually recognised as interest income in the profit and loss statement over the term of the agreement.

2.11 REPURCHASE AGREEMENTS

Repurchase agreements are accounted for as financing transactions. Securities sold under repurchase agreements are reported on Latvijas Banka's balance sheet along with other securities that are not involved in these transactions. Funding received from such sales is reported on the balance sheet at nominal value as a liability to the purchaser of the securities.

The difference between the sale and repurchase price of securities is recognised as interest expense in the profit and loss statement over the term of the agreement.

2.12 SECURITIES LENDING

Securities lent under automated security lending programme agreements are reported on Latvijas Banka's balance sheet along with other securities that are not involved in these transactions. Only cash collateral placed on the account of Latvijas Banka is recognised in the balance sheet.

Income from securities lending transactions is recognised as interest income in the profit and loss statement.

2.13 LOANS TO CREDIT INSTITUTIONS, DEPOSITS AND SIMILAR FINANCIAL CLAIMS AND FINANCIAL LIABILITIES

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

2.14 PARTICIPATING INTEREST

Participating interest includes long-term investments of Latvijas Banka in equity instruments. Latvijas Banka has no control or significant influence in any institution, therefore participating interest is not accounted for as an investment in a subsidiary or an associate. Equity instruments are reported at fair value in the balance sheet, except participating interest in the ECB, which is reported at cost in the balance sheet in accordance with the ECB's legal framework for accounting and financial reporting.

The change in fair value of participating interest is reported under the balance sheet item "Capital and reserves" as the revaluation reserve for equity instruments.

2.15 DERIVATIVE FINANCIAL INSTRUMENTS

Latvijas Banka enters into commitments involving forward exchange rate contracts, currency and interest rate swap arrangements, and interest rate and currency future contracts, which are reported in off-balance sheet accounts at their contract or notional amount. Forward exchange rate contracts and currency swap arrangements are included in the net position of the respective currency on the transaction day at the spot rate of the transaction and are recorded in the balance sheet in euro at the exchange rate of the respective currency at the end of the reporting period. Other derivative financial instruments are reported in the balance sheet at fair value.

Interest on derivative financial instruments, including the spot and forward interest 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. Any gain or loss arising from a change in fair value of interest rate and currency future contracts is included in the profit and loss statement taking into account settlement. Any gain or loss arising from a change in fair value of other derivative financial instruments is credited or charged to the profit and loss statement or the balance sheet item "Capital and reserves" as the revaluation reserve in accordance with the principles referred to in Note 2.23.

2.16 ACCRUED INTEREST INCOME AND EXPENSE

Accrued interest income and expense are reported under balance sheet items of other assets or other liabilities.

2.17 FIXED ASSETS

Fixed assets are tangible long-term investments with the useful life of over one year. Capitalisation limit of fixed assets is 150 euro, except the costs related to real estate improvements and replacement of fixed asset parts for which the Board of Latvijas Banka has set a higher capitalisation limit depending on their significance. Fixed assets are used in the provision of services as well as in the maintenance of other fixed assets and to ensure operation of Latvijas Banka.

Fixed assets are recorded at cost less accumulated depreciation and impairment, if any.

Depreciation is recognised using the straight-line method over the estimated useful life of the asset. Assets under construction or development, land and works of art are not depreciated. Buildings and structures are accounted by separate components, with individual useful life set for each such component.

In 2015, the useful lives set for fixed assets were not changed. In 2015 and 2014, the useful lives set for fixed assets were as follows:

	(years)	
	2015	2014
Buildings and their components, improvements to the territory, incl.	5–100	5–100
structures	100	100
finishing, equipment and engineering communications	5–20	5–20
Transport vehicles	10–15	10–15
Office equipment and tools	5–25	5–25
Cash processing, verifying and storage equipment	5–15	5–15
Computer and telecommunication equipment	2–7	2–7
Other fixed assets	5–15	5–15

In accordance with generally accepted principles for hedge accounting, the cost of individual fixed assets includes an effective result arising from financial instruments designated as hedges of exchange risk associated with development of the respective fixed assets.

2.18 INTANGIBLE ASSETS

Intangible assets are long-term investments without physical substance with a useful life of over one year. Capitalisation limit of intangible assets is 150 euro. Intangible assets include software application rights and other rights.

Intangible assets are reported in the balance sheet at cost less accumulated amortisation and impairment, if any.

Acquisition costs of intangible assets are amortised over the useful life of the respective assets using the straight-line method; however, this period may not exceed 10 years.

Costs related to software development by Latvijas Banka are recognised in the profit and loss statement when incurred.

2.19 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 exceed their recoverable amount. The latter in its turn is defined as the present value of a future cash flow estimate. The ECB's Governing Council approves the results of the asset impairment assessment carried out by the ECB.

2.20 CURRENCY IN CIRCULATION

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 share allocated to the ECB is 8% of the total amount of euro banknotes issued by the Eurosystem; the remaining 92% are allocated to the NCBs in proportion to their share 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 amount of euro banknotes it has issued (see Note 15); consequently, claims on the ECB for the allocation of banknotes are reported under the balance sheet item "Intra-Eurosystem claims". In accordance with the ECB's legal framework for accounting and financial reporting, the balance sheet item "Banknotes in circulation" at the end of 2014 also comprises the nominal value of the lats banknotes in circulation which had not been exchanged for euro yet. The non-exchanged lats banknotes at the end of 2015 have been reported under the balance sheet item "Other liabilities".

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.

Euro coins and lats coins in circulation issued by Latvijas Banka, except collector coins, are reported under the balance sheet item "Other liabilities" at nominal value.

2.21 COLLECTOR COINS

Collector coins sold are not included in the balance sheet liabilities, as the repurchasing probability of those coins is low or the value of precious metals of which the coins are made exceeds the nominal value. Proceeds from sales of collector coins are recognised in the profit and loss statement when incurred. The accounting principles established with respect to collector coins are applied to the lats gold circulation coins and collector coins.

2.22 PROVISIONS

Provisions are recognised in the financial statements when Latvijas Banka has incurred a present legal or constructive obligation arising from a past event or transaction and a reliable estimate can be made of the obligation and it can be expected to result in a cash outflow from Latvijas Banka.

On the basis of reasonable risk estimates, Latvijas Banka's Council decides 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 (see also Note 36).

2.23 RECOGNITION OF GAINS OR LOSSES ON FINANCIAL INSTRUMENTS, FOREIGN CURRENCY AND GOLD POSITION

Gains or losses on financial instruments, foreign currency and gold position 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 other financial instrument, foreign currency or gold position.

The average cost method shall be used to calculate realised and unrealised gains and losses of financial instrument, foreign currency and gold position. The average cost of 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.

2.24 INTEREST INCOME AND EXPENSE

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

Interest income includes interest on securities, securities lending, deposits placed, loans granted, forward exchange rate contracts, currency and interest rate swap arrangements, intra-Eurosystem claims, as well as negative interest on deposits received. Interest on securities also includes premium and discount, which is amortised over the remaining life of the respective securities using the straight-line method.

Interest expense includes interest on deposits received from the Latvian government, credit institutions and other financial institutions, as well as interest on forward exchange rate contracts and currency and interest rate swap arrangements, intra-Eurosystem liabilities, as well as negative interest on deposits placed.

In the profit and loss statement received negative interest is reported as interest income; paid negative interest is reported as interest expense. Accrued negative interest on balance sheet liabilities is reported under the balance sheet item "Other assets"; accrued negative interest on balance sheet assets is reported under the balance sheet item "Other liabilities".

2.25 REALISED GAINS OR LOSSES FROM FINANCIAL OPERATIONS

Realised gains or losses from financial operations are recognised in the profit and loss statement at the time of disposal of financial instrument or at the time of settlement.

Realised gains or losses from financial operations include realised gains or losses of derivative financial instruments, disposal of debt securities, and foreign exchange transactions.

2.26 INCOME FROM PARTICIPATING INTEREST

The change in fair value of participating interest is reported under the balance sheet item "Capital and reserves" as the revaluation reserve for equity instruments.

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

Pursuant to the decision of the Governing Council of the ECB, the income gained by the ECB on the claims for 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, as well as from the public sector asset purchase programme (PSPP) 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 decides to establish provisions for foreign exchange rate, interest rate, credit and gold price risks. In addition, the Governing Council of the ECB may resolve to make deductions from the interim profit distribution result in respect of expenses incurred by the ECB in connection with the issue and handling of euro banknotes; the deductions may not exceed income on the claims for the allocation of banknotes within the Eurosystem.

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

Income from participating interest in the ECB is reported under the profit and loss statement item "Income from participating interest".

2.27 NET RESULT OF POOLING OF MONETARY INCOME

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. For the first six years following the joining of the Eurosystem an NCB's monetary income is adjusted in compliance with a definite coefficient to avoid significant euro area NCB income fluctuations (see also Note 33).

The net 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. 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.

2.28 BANKNOTE AND COIN ACQUISITION COSTS

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

2.29 OTHER EXPENSE AND INCOME

Bank's other operating expense and income are recognised in the profit and loss statement on an accrual basis. The amount of accrued expense 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 2015, Latvijas Banka's assets grew by 3 094.2 million euro, mostly on account of securities purchases for monetary policy and investment purposes.

In 2015, the ECB's Governing Council made a decision on launching an expanded asset purchase programme (APP). Latvijas Banka implemented the PSPP, which is a part of the expanded APP, and under it purchased securities issued by the Latvian government and international institutions in the amount of 1 808.4 million euro, reported under the balance sheet item "Securities held for monetary policy purposes". Euro area NCBs purchased PSPP securities in proportion to their shares in the ECB's capital.

An increase in the assets under the balance sheet items "Claims on non-euro area residents denominated in foreign currency", "Balances with credit institutions and security investments, external loans and other external assets", and "Other securities" basically resulted from investment activities in line with the liquidity management principles set by the ECB's Governing Council (see also Note 4).

In 2015, the amount of loans granted to credit institutions by Latvijas Banka as a result of monetary policy operations (mostly targeted longer-term refinancing operations) grew by 178.2 million euro.

Other claims related to other operational requirements within the Eurosystem grew by 409.3 million euro, mostly on account of a rise in claims on banknote allocation in the Eurosystem (see also Note 13.4).

In 2015, banknotes in circulation increased by 143.3 million euro, in line with the pickup in the overall amount of banknotes in circulation of the euro area NCBs. The outstanding amount of non-exchanged lats banknotes (71.3 million euro at the end of 2015), reported under the balance sheet item "Banknotes in circulation" at the end of 2014, is reported under the balance sheet item "Other liabilities".

At the end of 2015, credit institution deposits, reported under the balance sheet item "Liabilities to euro area credit institutions related to monetary policy operations denominated in euro", increased by 2 361.1 million euro.

Mostly as a result of cross-border payments made by credit institutions and Latvijas Banka, liabilities to the ECB for the settlement result in TARGET2, reported under the balance sheet item "Intra-Eurosystem liabilities", increased to 1 312.1 million euro (797.0 million euro at the end of 2014).

Capital and reserves of Latvijas Banka decreased by 27.5 million euro on account of net changes in valuation of financial instruments (33.7 million euro) and the share of profits earned in 2014 and remitted to the state budget revenue in the amount of 23.9 million euro, while profits earned in 2015 had an increasing effect (30.0 million euro).

3.2 FINANCIAL PERFORMANCE

In 2015, Latvijas Banka's profit amounted to 30.0 million euro (36.8 million euro in 2014). Net interest income in 2015 grew by 6.2 million euro as compared to 2014.

A 14.6 million euro increase in interest income resulted from a 7.4 million euro rise in interest income on investment on account of higher investment amounts and an expanding share of higher yield financial instruments in the total amount of investment. Interest income on monetary operations grew by 8.0 million euro, basically as a result of PSPP securities purchases in 2015 and an increase in negative interest received on credit institution demand deposits.

An 8.4 million euro increase in interest expense was mostly a result of a rise in interest expense on investment in relation to the transactions carried out by Latvijas Banka for the purpose of hedging currency risk.

In 2015, realised gains from financial operations were 26.1 million euro higher than in 2014 on account of the result of currency future contracts concluded for the purpose of hedging currency risk and the result of interest rate future contracts. In view of Latvijas Banka hedging the risks related to gold price and foreign exchange fluctuations, the revaluation result of the respective hedged balance sheet items is reported under the balance sheet item "Capital and reserves". The realised gains from financial operations were positively affected by the result of the recognition of a part of the initial valuation account balance in profit and loss statement.

The recognition of the revaluation result on financial assets and positions in profit and loss statement amounted to 13.6 million euro on account of a rise in USD interest rates at the end of 2015.

The provisions established by the Council of Latvijas Banka for market risk and credit risk in 2015 were 20.5 million euro higher than in 2014, mainly as a result of an increase in the amount of investment as well as changes in the investment structure during 2015.

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. In 2015, Latvijas Banka's net result of pooling of monetary income was 25.7 million euro.

Total recognised financial result, including changes in the "Valuation account" balance, decreased by 50.9 million euro, predominantly as a result of a 42.7 million euro fall in the result of the revaluation of securities due to higher interest rates in Latvijas Banka's major investment markets (excluding the euro area) compared to 2014.

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

4. FINANCIAL INVESTMENT POLICY

Investments are managed in compliance with the basic principles set out in the Procedure adopted by the Council of Latvijas Banka, inter alia preserving the value of investments, ensuring their liquidity and earning income within the framework of acceptable risk 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 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. Portfolios of borrowed funds include investments which correspond to Latvijas Banka's liabilities in foreign currencies to government or government deposits. Investments that are not included in the portfolios of borrowed funds (net investments) are included in the portfolios of 1–3 year fixed income securities, 1–10 year government fixed income securities, mortgage-backed securities, long-term fixed income securities, and other portfolios. A part of investments included in the 1–3 year fixed income securities portfolios and mortgage-backed securities portfolios are managed by external investment managers.

The parameters for a benchmark reflecting the acceptable level of financial risks and return target are set out for the 1–3 year fixed income securities, 1–10 year government fixed income securities and mortgage-backed securities portfolios and portfolios of borrowed funds.

The breakdown of investments by type of investment portfolio at the end of 2015 and 2014 was as follows:

	Portfolio value (in thousands of euro)		Proportion (%)	
	2015	2014	2015	2014
1–3 year fixed income securities portfolios	3 561 588	3 665 508	68.5	82.5
Mortgage-backed securities portfolios	536 233	267 672	10.3	6.0
1–10 year government fixed income securities portfolio	371 829	–	7.2	–
Long-term fixed income securities portfolio	299 195	149 843	5.8	3.4
Gold portfolio	222 411	211 846	4.3	4.8
Portfolios of borrowed funds	155 228	144 579	3.0	3.3
Latvian government securities portfolio	49 323	–	0.9	–
Total	5 195 807	4 439 448	100.0	100.0

The 1–3 year fixed income securities portfolio benchmark at the end of 2015 was the weighted 1–3 year government securities index of the UK, the US, euro area countries, Japan and Canada. In 2015, the government securities indices of Denmark and Singapore were excluded from the 1–3 year fixed income securities portfolio benchmark.

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

In 2015, Latvijas Banka established a 1–10 year government fixed income securities portfolio; its benchmark was the weighted 1–10 year government fixed income securities index of the UK, the US, euro area countries, Japan and Canada.

The long-term fixed income securities portfolio comprises euro denominated government bonds of euro area governments included in the 1–3 year government securities index with the long-term credit rating from AA–/AA–/Aa3 to AAA/AAA/Aaa.

The benchmark for borrowed fund portfolios is formed in compliance with the parameters of respective liabilities.

In 2015, Latvijas Banka established the Latvian government securities portfolio comprising euro denominated Latvian government bonds with term to maturity of 5–10 years at the time of acquisition.

Latvijas Banka's investment benchmark currency is the euro, except for portfolios of borrowed funds, thus limiting the currency risk. For portfolios of borrowed funds, the benchmark currency structure is formed in compliance with the currency of respective liabilities.

Following the liquidity management principles set by the ECB's Governing Council, the value of the investment portfolios has increased by 756.4 million euro in comparison with the end of 2014.

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

BALANCE SHEET NOTES

5. ASSETS AT FAIR VALUE

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

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

At the end of 2015 and 2014, Latvijas Banka's assets carried at fair value were generally valued on the basis of a quoted market price.

At the end of 2015 and 2014, 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 2015 and 2014, the breakdown of assets carried at fair value according to the fair value hierarchy was as follows:

	(in thousands of euro)			
	Quoted market price	Observable data	Non-observ- able data	Total
As at 31 December 2015				
Gold	207 670	–	–	207 670
Debt securities	3 736 100	484 277	–	4 220 377
Participating interest in the Bank for International Settlements	–	–	30 699	30 699
Interest rate swap arrangements	–	137	–	137
Total	3 943 770	484 414	30 699	4 458 883
As at 31 December 2014				
Gold	210 774	–	–	210 774
Debt securities	3 231 897	527 134	–	3 759 031
Participating interest in the Bank for International Settlements	–	–	28 176	28 176
Total	3 442 671	527 134	28 176	3 997 981

The debt securities, including accrued interest income 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" and "Other assets".

The average market prices on the last trading day of the reporting year are obtained from the electronic information systems Bloomberg and Interactive Data (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 2013	248 706	217 923
During 2014		
Transfer of gold reserves to the European Central Bank	-35 322	-30 774
Increase in gold market value	x	23 625
As at 31 December 2014	213 384	210 774
During 2015		
Decrease in gold market value	x	-3 104
As at 31 December 2015	213 384	207 670

Latvijas Banka hedges the risk related to gold price fluctuations by entering into forward exchange rate contracts, currency swap arrangements, and currency future contracts (see Notes 3.2 and 26). Revaluation of gold and gold receivables, forward exchange rate contracts, and currency swap arrangements is recognised under the balance sheet item "Capital and reserves" as the revaluation reserve, whereas revaluation of currency future contracts, taking into account that they are settled, is recognised under the profit and loss statement item "Realised gains arising from financial operations".

At the end of 2015 and 2014, 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 promissory notes 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 is recorded as an asset 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 2015, the receivables from the IMF in SDR as recorded on Latvijas Banka's balance sheet were equivalent to 153 780 thousand euro (144 069 thousand euro at the end of 2014), whereas the liabilities to the IMF are made up of funds at the disposal of the IMF in the amount of 474 thousand euro (444 thousand euro at the end of 2014) held on its Accounts No. 1 and No. 2 (see also Note 19).

At the end of 2015 and 2014, Latvia's net receivables from the IMF were as follows:

	(in thousands of euro)		(in thousands of SDR)	
	2015	2014	2015	2014
Latvia's quota in the International Monetary Fund	180 864	169 440	142 100	142 100
International Monetary Fund holdings in euro	-180 816	-169 395	-142 062	-142 062
Promissory notes of the Latvian government	-180 342	-168 950	-141 690	-141 690
Account No. 1	-452	-424	-355	-355
Account No. 2	-22	-21	-17	-17
Reserve position in the International Monetary Fund	70	66	55	55
SDR	153 780	144 069	120 821	120 823
General allocation	-119 640	-112 083	-93 998	-93 998
Special allocation	-34 141	-31 985	-26 824	-26 824
Latvia's net receivables from the International Monetary Fund	69	67	54	56

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.

7.2 BALANCES WITH CREDIT INSTITUTIONS AND SECURITY INVESTMENTS, EXTERNAL LOANS AND OTHER EXTERNAL ASSETS

	(in thousands of euro)	
	2015	2014
Debt securities	2 589 637	2 108 735
Demand deposits	169 439	132 373
Reverse repurchase agreements	37 108	56 173
Foreign currency in cash	15	18
Total	2 796 199	2 297 299

8. CLAIMS ON EURO AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY

	(in thousands of euro)	
	2015	2014
Debt securities	538 707	482 752
Demand deposits	2 366	3 490
Total	541 073	486 242

9. CLAIMS ON NON-EURO AREA RESIDENTS DENOMINATED IN EURO

(in thousands of euro)

	2015	2014
Debt securities	164 168	203 266
Demand deposits	5 322	11 687
Total	169 490	214 953

10. LENDING TO EURO AREA CREDIT INSTITUTIONS RELATED TO MONETARY POLICY OPERATIONS DENOMINATED IN EURO

At the end of 2015, the total amount of Eurosystem loans in monetary policy operations reached 558 989 million euro (630 341 million euro at the end of 2014), including 263.7 million euro (85.5 million euro at the end of 2014) of loans granted by Latvijas Banka. Pursuant to the Statute of the ESCB and of the ECB, 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 (see Note 2.27).

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 2014 and 2015, Latvijas Banka had granted no loans in main refinancing operations.

10.2 LONGER-TERM REFINANCING OPERATIONS

Longer-term refinancing operations are open market operations with a maturity of over 1 week, executed through reverse transactions with the aim to provide credit institutions with additional longer-term refinancing. At the end of 2015, the balance of longer-term refinancing operations conducted by Latvijas Banka stood at 10 000 thousand euro (0 at the end of 2014). Following the decision of the Governing Council of the ECB, targeted longer-term refinancing operations were launched in September 2014. These liquidity providing reverse operations are conducted by way of a fixed-rate tender procedure aiming to promote lending to households and non-financial corporations by credit institutions in euro area countries. At the end of 2015, the balance of the targeted longer-term refinancing operations conducted by Latvijas Banka stood at 253 730 thousand euro; these operations will mature on 26 September 2018 (at the end of 2014 the balance was 85 520 thousand euro, with 26 September 2018 being the date of maturity).

11. OTHER CLAIMS ON EURO AREA CREDIT INSTITUTIONS DENOMINATED IN EURO

Other claims on euro area credit institutions denominated in euro include demand deposits in euro with euro area credit institutions amounting to 2 491 thousand euro at the end of 2015 (885 thousand euro at the end of 2014). At the end of 2014, Latvijas Banka's pledged assets for providing collateral for transactions in financial derivatives were included in this item, with the book value and market value of the pledged assets amounting to 3 590 thousand euro.

12. SECURITIES OF EURO AREA RESIDENTS DENOMINATED IN EURO

In 2015 Latvijas Banka purchased securities issued by the Latvian government and international institutions under the PSPP; as a result, the balance sheet item "Securities held for monetary policy purposes" grew by 1 808.4 million euro.

Securities held for monetary policy purposes and securities held to maturity are measured at amortised cost. The table presents the book value of the PSPP securities and those of

other euro area residents purchased by Latvijas Banka and comparison with their fair value at the end of 2015 and 2014, measured on the basis of a quoted market price in an active market (see also Note 5).

	(in thousands of euro)			
	Book value		Fair value	
	2015	2014	2015	2014
Securities held for monetary policy purposes	1 808 374	–	1 798 721	–
Latvian government securities	472 158	–	466 374	–
Securities issued by international institutions	1 336 216	–	1 332 347	–
Other securities	1 207 059	1 095 446	1 223 569	1 115 482
Securities not held to maturity	909 992	947 138	909 992	947 138
Securities held to maturity	297 067	148 308	313 577	168 344
Total	3 015 433	1 095 446	3 022 290	1 115 482

13. INTRA-EUROSISTEM CLAIMS/LIABILITIES (–)

	Note	(in thousands of euro)	
		2015	2014
Participating interest in the European Central Bank	13.1	115 082	115 082
Claims in respect of foreign reserves transferred to the European Central Bank	13.2	163 480	163 480
Claims for the allocation of banknotes in the Eurosystem	13.4	3 495 103	3 079 370
Claims related to other operational requirements within the Eurosystem	13.5	28 931	35 343
Total intra-Eurosystem claims		3 802 596	3 393 275
Liabilities related to TARGET2 and national central bank correspondent accounts (net)	13.3	–1 312 104	–796 980
Total intra-Eurosystem liabilities		–1 312 104	–796 980
Total intra-Eurosystem claims (net)		2 490 492	2 596 295

13.1 PARTICIPATING INTEREST IN THE EUROPEAN CENTRAL BANK

With Latvia's accession to the EU, Latvijas Banka became a subscriber of the capital of the ECB. In accordance with the Statute of the ESCB and of the ECB, Latvijas Banka's ECB capital key is calculated on the basis of Latvia's population and gross domestic product data. The NCB capital keys are adjusted every five years or at shorter intervals depending on changes in the number of the EU Member States. Since 1 January 2014 Latvijas Banka's ECB capital key is 0.2821%, equivalent to 30 537 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 in the ECB's reserve capital, provisions equivalent to reserves and the valuation account for financial instruments, in proportion to its share in the ECB's capital. As of 1 January 2014, participating interest in the ECB consists of the paid up shares in the amount of 30 537 thousand euro in the ECB's capital, transfers to the financial instrument revaluation account amounting 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 in the amount of 41 793 thousand euro (see also Note 13.2).

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.

	2015	2014
Total amount of the European Central Bank's subscribed capital (in thousands of euro)	10 825 007	10 825 007
The subscribed and paid-up share of Latvijas Banka in the European Central Bank's capital (in thousands of euro)	30 537	30 537
The percentage share of Latvijas Banka in the European Central Bank's capital (%)	0.2821	0.2821

At the end of 2015 and 2014, the percentage shares of NCBs in the ECB's capital (capital key) were as follows:

	(%)	
	2015	2014
Nationale Bank van België/Banque Nationale de Belgique	2.4778	2.4778
Deutsche Bundesbank	17.9973	17.9973
Eesti Pank	0.1928	0.1928
Banc Ceannais na hÉireann/Central Bank of Ireland	1.1607	1.1607
Bank of Greece	2.0332	2.0332
Banco de España	8.8409	8.8409
Banque de France	14.1792	14.1792
Banca d'Italia	12.3108	12.3108
Central Bank of Cyprus	0.1513	0.1513
Latvijas Banka	0.2821	0.2821
Lietuvos bankas	0.4132	–
Banque centrale du Luxembourg	0.203	0.203
Bank Ċentrali ta' Malta/Central Bank of Malta	0.0648	0.0648
De Nederlandsche Bank	4.0035	4.0035
Oesterreichische Nationalbank	1.9631	1.9631
Banco de Portugal	1.7434	1.7434
Banka Slovenije	0.3455	0.3455
Národná banka Slovenska	0.7725	0.7725
Suomen Pankki – Finlands Bank	1.2564	1.2564
Subtotal for euro area NCBs	70.3915	69.9783
Българска народна банка (Bulgarian National Bank)	0.8590	0.8590
Česká národní banka	1.6075	1.6075
Danmarks Nationalbank	1.4873	1.4873
Hrvatska narodna banka	0.6023	0.6023
Lietuvos bankas	–	0.4132
Magyar Nemzeti Bank	1.3798	1.3798
Narodowy Bank Polski	5.123	5.123
Banca Națională a României	2.6024	2.6024
Sveriges Riksbank	2.2729	2.2729
Bank of England	13.6743	13.6743
Subtotal for non-euro area NCBs	29.6085	30.0217
Total	100.0000	100.0000

In 2015, the subscribed capital of the ECB remained unchanged. Lietuvos bankas joining the Eurosystem resulted in an increase of 43 052 thousand euro in the ECB's total paid-up capital.

The subscribed and paid-up NCB shares in the ECB's capital at the end of 2015 and 2014 were as follows:

	(in thousands of euro)			
	Subscribed capital		Paid-up capital	
	2015	2014	2015	2014
Nationale Bank van België/ Banque Nationale de Belgique	268 222	268 222	268 222	268 222
Deutsche Bundesbank	1 948 209	1 948 209	1 948 209	1 948 209
Eesti Pank	20 871	20 871	20 871	20 871
Banc Ceannais na hÉireann/Central Bank of Ireland	125 646	125 646	125 646	125 646
Bank of Greece	220 094	220 094	220 094	220 094
Banco de España	957 028	957 028	957 028	957 028
Banque de France	1 534 899	1 534 899	1 534 899	1 534 899
Banca d'Italia	1 332 645	1 332 645	1 332 645	1 332 645
Central Bank of Cyprus	16 378	16 378	16 378	16 378
Latvijas Banka	30 537	30 537	30 537	30 537
Lietuvos bankas	44 729	–	44 729	–
Banque centrale du Luxembourg	21 975	21 975	21 975	21 975
Bank Ċentrali ta' Malta/Central Bank of Malta	7 015	7 015	7 015	7 015
De Nederlandsche Bank	433 379	433 379	433 379	433 379
Oesterreichische Nationalbank	212 506	212 506	212 506	212 506
Banco de Portugal	188 723	188 723	188 723	188 723
Banka Slovenije	37 400	37 400	37 400	37 400
Národná banka Slovenska	83 623	83 623	83 623	83 623
Suomen Pankki – Finlands Bank	136 005	136 005	136 005	136 005
Subtotal for euro area NCBs	7 619 885	7 575 156	7 619 885	7 575 156
Българска народна банка (Bulgarian National Bank)	92 987	92 987	3 487	3 487
Česká národní banka	174 012	174 012	6 525	6 525
Danmarks Nationalbank	161 000	161 000	6 038	6 038
Hrvatska narodna banka	65 199	65 199	2 445	2 445
Lietuvos bankas	–	44 729	–	1 677
Magyar Nemzeti Bank	149 363	149 363	5 601	5 601
Narodowy Bank Polski	554 565	554 565	20 796	20 796
Banca Națională a României	281 710	281 710	10 564	10 564
Sveriges Riksbank	246 042	246 042	9 227	9 227
Bank of England	1 480 244	1 480 244	55 509	55 509
Subtotal for non-euro area NCBs	3 205 122	3 249 851	120 192	121 869
Total	10 825 007	10 825 007	7 740 077	7 697 025

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 shall be fixed in proportion to the each euro area NCB's percentage share in the ECB's capital. For the foreign reserves transferred to the ECB Latvijas Banka

received a euro-denominated claim on the ECB in the amount of 163 480 thousand euro, i.e. in proportion to the value of the respective claims of other euro area NCBs. 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). For the foreign reserves transferred to the ECB Latvijas Banka receives interest income calculated at the interest rate on the main refinancing operations set by the ECB (see also Note 33).

13.3 CLAIMS/LIABILITIES RELATED TO TARGET2 AND NATIONAL CENTRAL BANK CORRESPONDENT ACCOUNTS (NET)

TARGET2 system 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 2015, 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.

Interest is paid on the above claims and liabilities as per the rate on the main refinancing operations set by the ECB.

13.4 CLAIMS FOR THE ALLOCATION OF BANKNOTES IN THE EUROSISTEM

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 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" (see Note 13).

13.5 CLAIMS RELATED TO OTHER OPERATIONAL REQUIREMENTS WITHIN THE EUROSISTEM

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

Monetary income received by Latvijas Banka in 2015 was higher than its monetary income pooled. It resulted in a claim on the ECB associated with the net result of pooling of monetary income, standing at 25 675 thousand euro at the end of 2015 (see also Notes 2.27 and 38).

Claims for the ECB's interim profit distribution in the amount of 3 255 thousand euro are set as per Latvijas Banka's percentage share in the ECB's capital (see also Notes 2.26 and 37).

14. OTHER ASSETS

(in thousands of euro)

	Note	2015	2014
OTC financial derivative contracts and spot exchange rate contracts	24	47 561	2 638
Accrued income on debt securities		44 421	17 871
Fixed assets	14.1	38 844	40 256
Participating interest in the Bank for International Settlements	14.2	30 699	28 176
Intangible assets	14.3	1 908	1 815
Other accrued income		1 161	391
Prepaid expenses		1 056	875
Other		575	433
Total		166 225	92 455

14.1 FIXED ASSETS

(in thousands of euro)

	Buildings, improvement of territory, and land	Furniture and office equipment	Computer and telecommunication equipment	Cash processing equipment	Transport vehicles	Other fixed assets	Total
As at 31 December 2013							
Cost	59 071	5 144	4 739	7 021	1 660	8 055	85 690
Accumulated depreciation	-22 833	-3 990	-3 597	-4 475	-1 203	-6 621	-42 719
Net book value	36 238	1 154	1 142	2 546	457	1 434	42 971
During 2014							
Additions	212	82	832	356	65	86	1 633
Change in classification	-	-179	-	179	-	-	-
Disposals and write-offs	-2 026	-50	-548	-113	-84	-284	-3 105
Net change in cost	-1 814	-147	284	422	-19	-198	-1 472
Depreciation charge	-2 139	-144	-387	-430	-62	-307	-3 469
Change in classification	-	178	-	-178	-	-	-
Accumulated depreciation on disposals and write-offs	1 167	47	547	113	84	268	2 226
Net change in accumulated depreciation	-972	81	160	-495	22	-39	-1 243
As at 31 December 2014							
Cost	57 257	4 997	5 023	7 443	1 641	7 857	84 218
Accumulated depreciation	-23 805	-3 909	-3 437	-4 970	-1 181	-6 660	-43 962
Net book value	33 452	1 088	1 586	2 473	460	1 197	40 256
During 2015							
Additions	739	65	591	192	143	404	2 134
Disposals and write-offs	-39	-101	-343	-715	-26	-445	-1 669
Net change in cost	700	-36	248	-523	117	-41	465
Depreciation charge	-2 053	-129	-504	-423	-71	-288	-3 468
Accumulated depreciation on disposals and write-offs	22	98	340	662	25	444	1 591
Net change in accumulated depreciation	-2 031	-31	-164	239	-46	156	-1 877
As at 31 December 2015							
Cost	57 957	4 961	5 271	6 920	1 758	7 816	84 683
Accumulated depreciation	-25 836	-3 940	-3 601	-4 731	-1 227	-6 504	-45 839
Net book value	32 121	1 021	1 670	2 189	531	1 312	38 844

At the end of 2015 and 2014, the total cadastral value of land under the ownership and possession of Latvijas Banka was 2 962 thousand euro. Land is reported in the balance sheet of Latvijas Banka at cost (2 375 thousand euro at the end of 2015 and 2014).

At the end of 2015, Latvijas Banka's contractual commitments related to acquisition of fixed assets were 767 thousand euro (18 thousand euro at the end of 2014).

A small share of Latvijas Banka's fixed assets (premises and equipment) are given on lease. Asset lease agreements where Latvijas Banka acts as a lessor are operating leases, therefore the assets given on lease are reported as fixed assets in Latvijas Banka's balance sheet. Lease payments, except those that are directly transferred to the state budget, are recognised in the profit and loss statement proportionally over the term of the respective agreement. The depreciation of the assets given on lease is calculated on the basis of the depreciation policy described in Note 2.17 and reported in the profit and loss statement as depreciation charges.

14.2 PARTICIPATING INTEREST IN THE BANK FOR INTERNATIONAL SETTLEMENTS

At the end of 2015 and 2014, Latvijas Banka owned 1 070 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 5 350 thousand SDR (the nominal value per share is 5 thousand SDR), paid up in the amount of 1 338 thousand SDR or 25% (see also Note 46). At the end of 2015 and 2014, 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's management, 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. The BIS applied this valuation method for calculating the issue price of its shares; the International Court at the Hague has also recognised it as appropriate for the valuation of shares when repurchasing them from former private shareholders of the BIS. Pursuant to the Statutes of the BIS, only central banks can be shareholders in the BIS. At the end of 2015, the fair value of BIS shares was 30 699 thousand euro (28 176 thousand euro at the end of 2014).

14.3 INTANGIBLE ASSETS

(in thousands of euro)

As at 31 December 2013	
Cost	6 239
Accumulated amortisation	-5 582
Net book value	657
During 2014	
Additions	1 374
Amortisation charge	-216
As at 31 December 2014	
Cost	7 613
Accumulated amortisation	-5 798
Net book value	1 815

<i>(cont.)</i>	(in thousands of euro)
During 2015	
Additions	347
Derecognised intangible assets	-1 452
Net change in cost	-1 105
Amortisation charge	-254
Accumulated amortisation on derecognised intangible assets	1 452
Net change in accumulated amortisation	1 198
As at 31 December 2015	
Cost	6 508
Accumulated amortisation	-4 600
Net book value	1 908

15. BANKNOTES IN CIRCULATION

	(in thousands of euro)	
	2015	2014
Euro banknotes	3 992 436	3 771 356
Euro banknotes issued by Latvijas Banka	497 333	691 986
Adjustment for banknote allocation in the Eurosystem	3 495 103	3 079 370
Lats banknotes	-	77 814
Total	3 992 436	3 849 170

As of 1 January 2015, the lats banknotes in circulation which had not been exchanged for euro yet were excluded from the balance sheet item "Banknotes in circulation" and are reported under the balance sheet item "Other liabilities". The euro coins issued by Latvijas Banka and the non-exchanged lats coins are also reported under the balance sheet item "Other liabilities" (see also Note 22).

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. Minimum reserve balances have been remunerated at the latest available interest rate used by the Eurosystem in its tenders for main refinancing operations. Since June 2014, the lower rate of either zero per cent or the ECB's deposit facility rate has been applied to the reserves held in excess of the minimum requirements. At the end of 2015, balance on the current accounts placed with Latvijas Banka was 4 784 410 thousand euro (2 073 356 thousand euro at the end of 2014), including the minimum reserves in the amount of 230.6 million euro (206.0 million euro at the end of 2014).

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 2015; the amount of deposits stood at 350 000 thousand euro at the end of 2014.

17. OTHER LIABILITIES TO EURO AREA CREDIT INSTITUTIONS DENOMINATED IN EURO

Other liabilities to euro area credit institutions denominated in euro resulted from funds received as collateral for forward exchange contracts accounting for 8 830 thousand euro at the end of 2015 (540 thousand euro at the end of 2014).

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 (see also Note 43).

Deposits of other financial institutions mostly include the funds of the FCMC and the Deposit Guarantee Fund and Fund for the Protection of the Insured, both managed by the FCMC, in the amount of 106 952 thousand euro (73 562 thousand euro at the end of 2014).

19. LIABILITIES TO NON-EURO AREA RESIDENTS DENOMINATED IN EURO

Liabilities to non-euro area residents denominated in euro mostly comprise funds (in the amount of 8 423 thousand euro) received as collateral for transactions in financial derivatives at the end of 2015.

	(in thousands of euro)	
	2015	2014
Other financial institutions	8 423	490
International Monetary Fund	474	444
European Commission	202	23 052
Total	9 099	23 986

20. LIABILITIES TO EURO AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY

Liabilities to euro area residents denominated in foreign currency comprise demand deposits of the Latvian government in foreign currency standing at 155 228 thousand euro at the end of 2015 (144 579 thousand euro at the end of 2014; see also Note 43).

21. LIABILITIES TO NON-EURO AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY

At the end of 2015, liabilities to non-euro area residents denominated in foreign currency resulted from funds received as collateral for transactions in financial derivatives (478 thousand euro at the end of 2015; 0 at the end of 2014).

22. OTHER LIABILITIES

(in thousands of euro)

	Note	2015	2014
Lats banknotes in circulation		71 261	–
Lats coins in circulations	22.1	64 265	64 741
Euro coins in circulation	22.1	52 484	43 742
Provisions for market risk and credit risk	36	50 100	14 800
OTC financial derivative contracts and spot exchange rate contracts	24	14 144	51 894
Accrued expense and similar liabilities		5 170	3 801
Tax liabilities	22.2	197	175
Other		1 232	936
Total		258 853	180 089

22.1 COINS IN CIRCULATION

Apart from the lats and euro circulation coins issued by Latvijas Banka and reported on the liabilities side of the balance sheet, euro collector coins, lats collector coins and precious metal circulation coins were also in circulation with the total nominal value of 5 787 thousand euro at the end of 2015 (5 627 thousand euro at the end of 2014). The above coins in circulation have not been reported under the balance sheet item "Other liabilities" (see also Note 2.21).

22.2 TAX LIABILITIES

At the end of 2015 and 2014, tax liabilities of Latvijas Banka were as follows:

(in thousands of euro)

	Personal income tax	State compulsory social security contributions (by employer)	State compulsory social security contributions (by employee)	Tax on real estate	Value added tax	Other taxes and duties	Total
Liabilities as at 31 December 2013	–	1	–	–	207	3	211
During 2014							
Calculated	3 288	3 382	1 547	154	827	2	9 200
Increase in deferred liabilities	–	94	–	–	–	–	94
Paid	–3 288	–3 477	–1 547	–154	–859	–5	–9 330
Liabilities as at 31 December 2014	–	–	–	–	175	0	175
During 2015							
Calculated	2 969	3 518	1 462	150	840	2	8 941
Decrease in deferred liabilities	–	–239	–	–	–	–	–239
Paid	–2 969	–3 273	–1 460	–150	–826	–2	–8 680
Liabilities as at 31 December 2015	–	6	2	–	189	0	197

In addition to the tax payments indicated herein, Latvijas Banka transfers to the state budget 65% of the profit for the reporting year (23 894 thousand euro in 2015; 38 349 thousand euro in 2014; see also Notes 23 and 43). The transfer includes the payment for the usage of state capital. Latvijas Banka is not subject to corporate income tax.

23. CAPITAL AND RESERVES

(in thousands of euro)

97

	Nominal capital	Reserve capital	Valuation account	Profit of the reporting year	Capital and reserves
As at 31 December 2013	35 572	244 283	131 140	58 998	469 993
During 2014					
Net result of revaluation, realisation, and revaluation result recognition in profit and loss statement	x	x	10 485	x	10 485
Profit appropriated to the state budget	x	x	x	-38 349	-38 349
Profit transferred to the reserve capital	x	20 649	x	-20 649	0
Increase in the nominal capital	64 428	-64 428	x	x	0
Profit of the reporting year	x	x	x	36 760	36 760
As at 31 December 2014	100 000	200 504	141 625	36 760	478 889
During 2015					
Net result of revaluation, realisation, and revaluation result recognition in profit and loss statement	x	x	-33 677	x	-33 677
Profit appropriated to the state budget	x	x	x	-23 894	-23 894
Profit transferred to the reserve capital	x	12 866	x	-12 866	0
Profit of the reporting year	x	x	x	30 037	30 037
As at 31 December 2015	100 000	213 370	107 948	30 037	451 355

The capital and reserves of Latvijas Banka is comprised of the nominal capital, reserve capital and the valuation account, as well as the undistributed profit of 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 other 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 is comprised of the state-allotted resources, transfers from the reserve capital and Latvijas Banka's profit allocations.

The Law on Latvijas Banka establishes that a part of Latvijas Banka's profit of the reporting year, calculated by applying the same percentage as the tax rate set for resident corporate entities of Latvia by the Law on Corporate Income Tax, together with a payment in the amount of 50% of the profit of the reporting year for the usage of state capital shall be transferred to the state budget, as well as that 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 2015 and 2014, the corporate income tax rate applicable to residents of Latvia was 15%. Therefore, unless the Council of Latvijas Banka decides otherwise, 65% of Latvijas Banka's profit of the reporting year or 19 524 thousand euro year shall be transferred to the state budget within 15 days following the approval of the Annual Report of 2015 by the Council of Latvijas Banka.

Latvijas Banka's profit remaining after making the above deductions 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 valuation 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 the realised gains are recognised in the profit and loss statement only after the disposal of a financial instrument or settlement while unrealised gains are recorded under the balance sheet item "Capital and reserves" as the revaluation reserve, thus facilitating the preservation of the capital under the impact of financial instrument price, interest rate and exchange rate fluctuations.

In 2015 and 2014, changes in the valuation account were as follows:

	(in thousands of euro)					
	2015	Recognition in profit and loss statement	Revaluation	Realisation		2014
Initial valuation account	27 952	x	x	-13 543		41 495
Revaluation reserve for equity instruments	28 190	-	2 523	-		25 667
Result on revaluation of foreign currencies and gold	25 060	214	-1 438	-2 225		28 509
Result on revaluation of interest rate swap arrangements	185	48	137	-		-
Result on revaluation of securities	26 561	13 371	-14 759	-18 005		45 954
Total	107 948	13 633	-13 537	-33 773		141 625

	2014	Recognition in profit and loss statement	Change in classification	Revaluation	Realisation	2013
Initial valuation account	41 495	x	23 055	x	-15 735	34 175
Revaluation reserve for equity instruments	25 667	-	-	-270	-	25 937
Result on revaluation of foreign currencies and gold	28 509	133	-23 055	8 350	-	43 081
Result on revaluation of securities	45 954	1 512	-	27 926	-11 431	27 947
Total	141 625	1 645	0	36 006	-27 166	131 140

In accordance with the ECB's legal framework for accounting and financial reporting, on 1 January 2014 Latvijas Banka reclassified the accumulated result on revaluation of foreign currencies to the initial valuation account. The initial valuation account also comprises the accumulated result on revaluation of financial instruments and gold prior to the change in the accounting policy on 1 January 2007.

The balance on the initial valuation account is recognised in the profit and loss statement to compensate lower remuneration for claims related to the banknote allocation within the Eurosystem as per the coefficients applied in accordance with the decisions of the Governing Council of the ECB for the calculation of the remuneration adjustment for claims related to the banknote allocation within the Eurosystem in the first six years after an NCB joins the Eurosystem (see Note 33). The amount to be recognised in the profit and loss statement for the respective year is calculated by multiplying the balance on the initial valuation account as at 1 January 2015 with the share of the coefficient for calculating the compensation amount for the respective year in the total coefficients (indicated in Note 33) during the transition period when the adjustment amounts for the claims on banknote allocation in the Eurosystem are calculated.

The revaluation reserve for equity instruments has been established to account for the result on revaluation of the BIS shares.

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.

(in thousands of euro)

	Contract or notional amount		Book value			
			Assets		Liabilities	
	2015	2014	2015	2014	2015	2014
OTC financial derivative and spot exchange rate contracts						
Forward exchange rate contracts and currency swap arrangements	4 384 675	3 451 371	46 517	1 693	13 217	51 463
Spot exchange rate contracts	359 907	105 401	560	–	432	289
Forward transactions in securities	723 093	382 093	299	945	447	142
Interest rate swap arrangements	16 385	6 460	185	x	48	x
Total	x	x	47 561	2 638	14 144	51 894
Traded financial derivative contracts						
Interest rate future contracts	573 263	439 495	x	x	x	x
Currency future contracts	179 512	187 615	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 settlement has been made for the change in the fair value of future contracts, the change is reported as demand deposits under the respective balance sheet asset item.

The reconciliation of the net book value and net fair value of OTC contracts at the end of 2015 and 2014 was as follows. Fair value is determined applying discounted cash flow approach and money market interest rates (observable data; see Note 5).

(in thousands of euro)

	Net fair value		Net book value		Difference	
	2015	2014	2015	2014	2015	2014
OTC financial derivative and spot exchange rate contracts						
Forward exchange rate contracts and currency swap arrangements	30 561	–50 576	33 300	–49 770	–2 739	–806
Spot exchange rate contracts	129	–289	128	–289	1	–
Total	30 690	–50 865	33 428	–50 059	–2 738	–806

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. Management of Latvijas Banka's risks is organised and implemented according to the Risk Management Policy of Latvijas Banka approved by the Council of Latvijas Banka. Therefore, the Board of Latvijas Banka has established a risk management framework under the basic principles set forth by the Council of Latvijas Banka, which is improved in line with the developments in financial markets and operations of Latvijas Banka as well as changes in external environment. Management of Latvijas Banka's financial and operational risks is reviewed by the Internal Audit Department and is monitored by the Budget Commission of Latvijas Banka, Security Supervision Commission, and Audit Committee, each of which is comprised of Members of the Council of Latvijas Banka.

25.1 FINANCIAL RISKS

Market risk (price, interest rate and currency risks), credit and liquidity risks are the most significant financial risks Latvijas Banka is exposed to in its daily activities.

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 its investment policy are described in Note 4. Investments are managed by classifying them into different investment portfolios. Parameters for a benchmark reflecting the acceptable level of financial risks and return target are set out for each financial instrument portfolio. The Risk Management Division of the Market Operations Department monitors the investment compliance with the established requirements.

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 developments in financial markets, prepared by financial investment portfolio managers, reports by financial risk managers, and approves the investment management tactical decisions for the forthcoming week. The Market Operations Department informs the Council and the Board of Latvijas Banka about the results of investment management on a regular basis.

Latvijas Banka purchases assets under the PSPP in accordance with the decisions of the ECB's Governing Council. Latvijas Banka makes the purchases and manages financial risks in line with the guidelines of the ECB's Governing Council and the procedure adopted by the Board of Latvijas Banka. Financial risks arising as a result of implementing 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 exposure to losses due to adverse changes in financial markets (for example, movements in interest rates or exchange rates).

Latvijas Banka is exposed to interest rate risk primarily due to investing in foreign debt securities and interest rate derivatives that are subject to interest rate fluctuations and used within the course of investment management. Latvijas Banka manages interest rate risk by using a modified duration limit set individually for each investment portfolio.

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, 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 and credit risk of 1–3 year fixed income securities portfolios, government 1–10 year fixed income securities portfolios, and mortgage-backed securities portfolios (see Note 4) is managed by determining the tracking error limit. Tracking error in 2015 and 2014 is disclosed in Note 28.

For investment portfolios, except for portfolios of borrowed funds, the benchmark currency is the euro. For portfolios of borrowed funds, the benchmark currency structure is formed in compliance with the respective currency. 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 limits, Latvijas Banka hedges the currency risk by using forward exchange rate contracts, currency swap arrangements, and currency future contracts.

The Risk Management Division of the Market Operations Department monitors the compliance of the modified 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 2015 and 2014) is disclosed in Notes 26–28.

25.1.2 CREDIT RISK

Credit risk is exposure to losses resulting from counterparty default. Latvijas Banka's exposure to credit risk results mainly from investments in foreign financial instruments, and as a result of monetary policy operations. Pursuant to the Statute of the ESCB and of the ECB, risks associated with the implementation of monetary policy (if any materialise) are shared among euro area NCBs in proportion to their share in the ECB's capital, except 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. Latvijas Banka is allowed to invest in financial instruments of certain credit quality of the OECD countries, as well as in Latvian government securities. 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, and 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 compliance with the Procedure, adopted by the Council of Latvijas Banka.

In 2015 and 2014, 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 issued and held in the Republic of Latvia and eligible for monetary policy operations.

Latvijas Banka's exposure to market risk (as at the end of 2015 and 2014) is disclosed in Notes 30–32.

25.1.3 LIQUIDITY RISK

Liquidity risk is associated with a failure to dispose investment in a short time and at a competitive market price. Along with Latvia's participation in the euro area, the need for liquidity as well as the risk associated with a failure to meet liabilities in a timely manner has moderated. Following 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, short-term deposits with foreign financial institutions and other financial instruments. The liquidity structure of Latvijas Banka's assets and liabilities as at the end of 2015 and 2014 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 related to a potential negative impact on Latvijas Banka's operation, reputation or finances resulting from inadequate or erroneous execution of processes, actions on the part of an official or employee of Latvijas Banka, inadequate operation or unavailability of the infrastructure of information systems or an information system or the infrastructure, or external events.

Latvijas Banka's operational risk management is implemented by the Board of Latvijas Banka according to the basic principles defined by the Council of Latvijas Banka. The Board of Latvijas Banka has established the Operational Risk Management Committee of Latvija Banka to coordinate, on a day-to-day basis, the activities under the operational risk management process and to provide support to the Board of Latvijas Banka on operational risk management issues. The Committee is chaired by a Member of the Board of Latvijas Banka and is composed of the Operational Risk Manager, Information Risk Manager, the Head of the Technical Support Department, and the Head of the Security Department.

The security management of the information and information systems of Latvijas Banka is organised and implemented in accordance with the Information and Information Systems Security Policy of Latvijas Banka approved by Latvijas Banka's Council. In order to ensure confidentiality, access to and integrity of information, information at Latvijas Banka is classified on the basis of its level of confidentiality and accessibility and is protected against its unauthorised processing, use or disclosure. The information systems of Latvijas Banka are classified into levels depending on their impact on the implementation of processes and the confidentiality, integrity and availability requirements regarding the processed information. The owners of Latvijas Banka's information systems in cooperation with the Information Systems Department have established rules for the usage and access rights of the information system, as well as ensure the implementation of risk analysis of the respective information system. The Head of Information Systems Department ensures that the functionality and performance of Latvijas Banka's information system infrastructure complies with the requirements set for the information systems, as well as the infrastructure's safe and continuous operation. Latvijas Banka conducts, on a regular basis, security risk analysis of information systems and electronically sorted information and improves security measures and tools.

27. REPRICING MATURITY

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

	(in thousands of euro)					
	Up to 3 months	3–6 months	6–12 months	1–3 years	Over 3 years	Total
As at 31 December 2015						
Claims on non-euro area residents denominated in foreign currency	279 286	40 846	71 092	693 441	1 700 697	2 785 362
Claims on euro area residents denominated in foreign currency	3 951	–	–	231 896	304 966	540 813
Claims on non-euro area residents denominated in euro	5 313	25 997	–	84 825	53 346	169 481
Lending to euro area credit institutions related to monetary policy operations denominated in euro	10 000	–	–	63 210	190 520	263 730
Other claims on euro area credit institutions denominated in euro	52	–	–	–	–	52
Securities of euro area residents denominated in euro	32 328	–	30 502	264 782	2 687 820	3 015 432
Intra-Eurosystem claims	3 687 513	–	–	–	–	3 687 513
Other assets	907	695	421	8 587	33 997	44 607
Total interest-sensitive assets	4 019 350	67 538	102 015	1 346 741	4 971 346	10 506 990
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	4 784 410	–	–	–	–	4 784 410
Other liabilities to euro area credit institutions denominated in euro	8 830	–	–	–	–	8 830
Liabilities to other euro area residents denominated in euro	145 008	–	–	–	–	145 008
Liabilities to non-euro area residents denominated in euro	8 584	–	–	–	–	8 584
Liabilities to euro area residents denominated in foreign currency	155 228	–	–	–	–	155 228
Liabilities to non-euro area residents denominated in foreign currency	478	–	–	–	–	478
Intra-Eurosystem liabilities	1 312 104	–	–	–	–	1 312 104
Total interest-sensitive liabilities	6 414 642	–	–	–	–	6 414 642
Net position on balance sheet	–2 395 292	67 538	102 015	1 346 741	4 971 346	4 092 348
Assets on financial instruments' off-balance sheet accounts	5 369 658	–	83 793	239 720	522 505	6 215 676
Liabilities on financial instruments' off-balance sheet accounts	5 733 023	–	–	6 797	442 439	6 182 259
Net position on balance sheet and off-balance sheet accounts	–2 758 657	67 538	185 808	1 579 664	5 051 412	4 125 765
As at 31 December 2014						
Total interest-sensitive assets	4 357 637	93 543	53 358	1 595 893	1 365 910	7 466 341
Total interest-sensitive liabilities	3 295 281	–	–	–	–	3 295 281
Net position on balance sheet	1 062 356	93 543	53 358	1 595 893	1 365 910	4 171 060
Assets on financial instruments' off-balance sheet accounts	4 004 686	–	–	280 929	283 887	4 569 502
Liabilities on financial instruments' off-balance sheet accounts	4 364 440	9 884	1 235	1 977	241 222	4 618 758
Net position on balance sheet and off-balance sheet accounts	702 602	83 659	52 123	1 874 845	1 408 575	4 121 804

28. TRACKING ERROR

The exposure to aggregate market risk and credit risk of investments, included in 1–3 year fixed income securities and 1–10 year government fixed income securities portfolios and mortgage-backed securities portfolios 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 2015 and 2014, the actual (ex-post) tracking errors of the 1–3 year fixed income securities portfolios were 25 basis points and 19 basis points respectively, whereas the tracking errors of the mortgage-backed securities portfolios were 76 basis points and 66 basis points respectively. The actual (ex-post) tracking error of the 1–10 year government fixed income securities portfolio was 37 basis points at the end of 2015.

The expected (ex-ante) tracking error 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
During 2015				
1–3 year fixed income securities portfolios	3 561 588	250	–	–
Mortgage-backed securities portfolios	536 233	60	165	25
1–10 year government fixed income securities portfolio	371 829	63	–	–
During 2014				
1–3 year fixed income securities portfolios	3 665 508	249	–	–
Mortgage-backed securities portfolios	267 672	–	41	208

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 2015				
Assets				
Gold and gold receivables	207 670	–	–	207 670
Claims on non-euro area residents denominated in foreign currency	2 949 979	–	–	2 949 979
Claims on euro area residents denominated in foreign currency	541 073	–	–	541 073
Claims on non-euro area residents denominated in euro	169 490	–	–	169 490
Lending to euro area credit institutions related to monetary policy operations denominated in euro	10 000	253 730	–	263 730
Other claims on euro area credit institutions denominated in euro	2 491	–	–	2 491
Securities of euro area residents denominated in euro	3 015 433	–	–	3 015 433
Intra-Eurosystem claims	28 931	–	3 773 665	3 802 596
Other assets	93 143	–	73 082	166 225
Total assets	7 018 210	253 730	3 846 747	11 118 687

<i>(cont.)</i>	(in thousands of euro)			
	Up to 3 months	Over 3 months	No fixed maturity	Total
Liabilities				
Banknotes in circulation	–	–	3 992 436	3 992 436
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	4 784 410	–	–	4 784 410
Other liabilities to euro area credit institutions denominated in euro	8 830	–	–	8 830
Liabilities to other euro area residents denominated in euro	145 894	–	–	145 894
Liabilities to non-euro area residents denominated in euro	9 099	–	–	9 099
Liabilities to euro area residents denominated in foreign currency	155 228	–	–	155 228
Liabilities to non-euro area residents denominated in foreign currency	478	–	–	478
Intra-Eurosystem liabilities	1 312 104	–	–	1 312 104
Other liabilities	70 819	–	188 034	258 853
Total liabilities	6 486 862	–	4 180 470	10 667 332
Net position on balance sheet	531 348	253 730	–333 723	x
As at 31 December 2014				
Assets				
Gold and gold receivables	210 774	–	–	210 774
Claims on non-euro area residents denominated in foreign currency	2 441 368	–	–	2 441 368
Claims on euro area residents denominated in foreign currency	486 242	–	–	486 242
Claims on non-euro area residents denominated in euro	214 953	–	–	214 953
Lending to euro area credit institutions related to monetary policy operations denominated in euro	–	85 520	–	85 520
Other claims on euro area credit institutions denominated in euro	4 475	–	–	4 475
Securities of euro area residents denominated in euro	1 095 446	–	–	1 095 446
Intra-Eurosystem claims	35 343	–	3 357 932	3 393 275
Other assets	21 264	–	71 191	92 455
Total assets	4 509 865	85 520	3 429 123	8 024 508
Liabilities				
Banknotes in circulation	–	–	3 849 170	3 849 170
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	2 423 356	–	–	2 423 356
Other liabilities to euro area credit institutions denominated in euro	540	–	–	540
Liabilities to other euro area residents denominated in euro	126 919	–	–	126 919
Liabilities to non-euro area residents denominated in euro	23 986	–	–	23 986
Liabilities to euro area residents denominated in foreign currency	144 579	–	–	144 579
Intra-Eurosystem liabilities	796 980	–	–	796 980
Other liabilities	71 580	–	108 509	180 089
Total liabilities	3 587 940	–	3 957 679	7 545 619
Net position on balance sheet	921 925	85 520	–528 556	x

30. SECTORAL STRUCTURE OF ASSETS

	Amount (in thousands of euro)		Proportion (%)	
	2015	2014	2015	2014
European Central Bank	3 802 877	3 393 621	34.2	42.3
Central governments and other governmental institutions	2 863 088	1 728 885	25.8	21.5
Other financial institutions	2 759 574	1 391 751	24.7	17.3
Central banks and credit institutions	1 296 377	1 049 801	11.7	13.1
International institutions	260 690	326 059	2.3	4.1
Local governments	85 998	76 882	0.8	1.0
Non-financial corporations	8 840	14 403	0.1	0.2
Unclassified assets	41 243	43 106	0.4	0.5
Total	11 118 687	8 024 508	100.0	100.0

31. ASSETS BY THEIR LOCATION OR THE COUNTERPARTY'S DOMICILE

	Amount (in thousands of euro)		Proportion (%)	
	2015	2014	2015	2014
European Central Bank	3 802 877	3 393 621	34.2	42.3
Euro area countries	3 859 903	1 681 741	34.7	21.0
US	1 137 245	531 739	10.2	6.6
UK	731 428	630 096	6.6	7.9
Japan	487 442	407 393	4.4	5.1
Canada	285 628	380 999	2.6	4.7
Other European Union countries	182 897	346 537	1.6	4.3
Other countries and international institutions	631 267	652 382	5.7	8.1
Total	11 118 687	8 024 508	100.0	100.0

32. ASSETS BY CREDIT RATING ASSIGNED TO THE COUNTERPARTY

	Amount (in thousands of euro)		Proportion (%)	
	2015	2014	2015	2014
European Central Bank	3 802 877	3 393 621	34.2	42.3
AAA	2 007 854	2 115 702	18.1	26.4
AA	3 664 525	1 845 629	32.9	23.0
A	1 317 148	521 962	11.8	6.5
BBB	18 938	17 843	0.2	0.2
Different assets	307 345	129 751	2.8	1.6
Total	11 118 687	8 024 508	100.0	100.0

Based on Standard & Poor's credit ratings or other equivalent credit ratings assigned by other international credit rating agency to the counterparty, the above table show the breakdown of Latvijas Banka's assets as at the end of the reporting period. The rating "AAA" is the highest possible long-term creditworthiness rating, which indicates an extremely strong capacity of the counterparty to meet its financial commitments. The rating "AA" confirms the counterparty's very strong capacity and the rating "A" – the counterparty's strong capacity to meet its financial commitments in the long term. "BBB" is a medium grade considered to be the lowest level of investment-grade rating.

PROFIT AND LOSS NOTES

33. NET INTEREST INCOME

	(in thousands of euro)	
	2015	2014
Interest income	64 696	50 097
Interest on investments	55 237	47 802
Interest on customer deposits	164	35
Interest on monetary policy operations	8 468	507
Interest on intra-Eurosystem claims	827	1 753
Interest expense	-19 743	-11 298
Interest on investments	-18 340	-7 806
Interest on customer deposits	-	-505
Interest on monetary policy operations	-113	-1 319
Interest on intra-Eurosystem liabilities	-1 290	-1 668
Net interest income	44 953	38 799

Net interest income was mainly derived from debt securities. In 2015, net interest income increased by 6 154 thousand euro in comparison with 2014. The increase in the amount of securities had a positive effect, while a pickup in the costs for hedging currency risks resulting from the widening of the spread between the interest rates of the euro and other investment currencies of Latvijas Banka had a negative impact.

Interest income from and interest expense on the intra-Eurosystem claims and liabilities are remunerated by applying the ECB's interest rate on the main refinancing operations and include income from foreign reserves transferred to the ECB and claims on allocation of banknotes in the Eurosystem, as well as expense on liabilities related to TARGET2 settlements.

According to the ECB Governing Council's decision on the allocation of monetary income for first six years following the euro changeover the remunerable part of the claims on banknote allocation in the Eurosystem is reduced in compliance with a definite coefficient to avoid significant NCB income fluctuations. The adjustment of the reduction of the remunerable part of Latvijas Banka's claims on banknote allocation in the Eurosystem in the course of the six years is as follows:

Reporting year	Coefficient (%)
2014	100.00000
2015	86.06735
2016	70.13472
2017	53.34835
2018	35.98237
2019	18.17225

In 2015, interest income on monetary policy operations increased on account of a lower negative deposit facility rate, higher average daily balance of credit institutions' demand deposits (see Note 16) and the implementation of the PSPP.

The application of the interest on deposits is stipulated in the Guideline of the ECB of 20 February 2014 on domestic asset and liability management operations by the national central banks (ECB/2014/9) (2014/304/EU) and Guideline of the ECB of 5 June 2014 amending Guideline ECB/2014/9 on domestic asset and liability management operations by the national central banks (ECB/2014/22) (2014/339/EU) (see Note 43).

Interest income and expense recognised in the profit and loss statement of Latvijas Banka for 2014 have been restated in line with the reporting of negative interest described in Note 2.24. Interest income and expense have been reclassified by 523 thousand euro, with the net total interest income remaining unchanged.

34. REALISED GAINS/LOSSES ARISING FROM FINANCIAL OPERATIONS

Realised gains or losses arising from financial operations comprise the gains and losses from the disposal of debt securities, as well as realised gains and losses on derivative financial instruments and foreign exchange transactions.

Gains from the disposal of debt securities decreased by 2 262 thousand euro in comparison with 2014.

The realised result from financial operations was positively affected by the result on derivative financial instruments posting an increase of 22 272 thousand euro in comparison with 2014, mostly on account of the result of interest rate future contracts as well as the result of currency future contracts concluded for the purpose of hedging currency risks. In view of Latvijas Banka hedging the risks related to gold price and foreign exchange fluctuations, the positive result of the currency future contracts concluded for the purpose of hedging currency and gold price risk exposure is offset in equal value by the negative revaluation result of the hedged balance sheet items reported under the balance sheet item "Capital and reserves" as the revaluation result of foreign currency and gold, and the realised gains on foreign exchange transactions recognised in the profit and loss statement.

The realised result from financial operations was also positively affected by the recognition of a part of the initial valuation account balance in profit and loss statement in the amount of 13 543 thousand euro (see also Note 23).

35. RECOGNITION OF REVALUATION RESULT ON FINANCIAL ASSETS AND POSITIONS IN PROFIT AND LOSS STATEMENT

The revaluation result of several debt securities, interest rate swap arrangements, and foreign currency positions at the end of 2015 and 2014 was negative, and it has been recognised in the profit and loss statement while the positive result on the revaluation of debt securities, interest rate swap arrangements, and foreign currency positions has been reported under the balance sheet item "Capital and reserves" as the revaluation result of securities and foreign currency (see also Note 23).

At the end of 2015, the negative result on revaluation of debt securities amounted to 13 371 thousand euro (1 512 thousand euro at the end of 2014). At the end of 2015, the negative result on revaluation of foreign currencies was 214 thousand euro (133 thousand euro at the end of 2014), and the negative result on revaluation of interest rate swap arrangements stood at 48 thousand euro at the end of 2015 (0 at the end of 2014).

36. PROVISIONS FOR MARKET RISK AND CREDIT RISK

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 assets are mostly exposed to market risk (interest rate and currency risks) and credit risk (credit rating downgrade and default risks). Latvijas Banka carries out assessment of its financial risks and financial buffers in compliance with the ECB's common methodology for Eurosystem financial risk assessment. According to the methodology for Eurosystem financial risk assessment, the Expected Shortfall measure with confidence level of 99% (ES99%) for a risk horizon of one year is used. ES99% describes the losses determined by the average value of 1% of the most unfavourable simulated profitability scenarios. The above methodology takes

account of various market risk and credit risk factors as well as uses historical data and assumptions of the Eurosystem/ESCB's Risk Management Committee. ES99% includes assumptions concerning development of adverse financial market factors, e.g. a drop in the gold price, euro appreciation, interest rate rise, widening of the interest rate spreads, credit rating downgrades. Market and credit risk factors are modelled simultaneously to derive the parameters characterising the market situation (credit ratings, yield curve parameters, exchange rates, stock and commodity prices, etc.) upon which the financial result of the Eurosystem's and NCB's financial assets under the specific scenario depends.

Based on the above risk estimates, in 2015 the Council of Latvijas Banka decided to establish provisions in the amount of 35 300 thousand euro (14 800 thousand euro in 2014) for market risk and credit risk with regard to investment management transactions of Latvijas Banka. The increase in provisions is affected by the higher levels of investments by Latvijas Banka in the existing investment portfolios of Latvijas Banka and those established in 2015 (see also Note 4), including a larger share of higher-yield instruments in aggregate investment. Considering the limitations applied in calculating ES99% and the conservative approach to risk estimates, the targeted amount of provisions for mortgage-based securities portfolios is smaller than the estimated ES99%, whereas no provisions have been created for the portfolio of Latvian government securities. It has been planned to continue accumulating provisions for market risk and credit risk for a longer time period, reaching the targeted amount in five years from starting the build-up of provisions in 2014. The above policy is based on the assessment of the overall level of financial risks, as well as the projected amount of income available for accumulating the provisions. Review of the targeted amount of provisions takes place on a regular basis; the level of financial risks, the available financial reserves and long-term prospects of the financial market development are taken account of when setting it. Provisions for the market risk and credit risk are reduced when financial risks materialise provided they are not offset against the accumulated revaluation result and other income, as well as when financial risks moderate.

37. INCOME FROM PARTICIPATING INTEREST

Income from participating interest comprises dividends received from the participating interest in the BIS in the amount of 305 thousand euro (261 thousand euro in 2014; see also Note 14.2) and income from the ECB's profit distribution in the amount of 3 852 thousand euro (3 389 thousand euro in 2014, see also Note 2.26).

38. NET RESULT OF POOLING OF MONETARY INCOME

	(in thousands of euro)	
	2015	2014
Monetary income pooled	-10 269	-8 247
Monetary income received	35 944	40 200
Net result of pooling of monetary income	25 675	31 953

In 2015, the net result of pooling of monetary income decreased by 6 278 thousand euro in comparison with 2014, mostly on account of lower total interest income of the Eurosystem on securities held for monetary policy purposes.

39. OTHER OPERATING INCOME

	(in thousands of euro)	
	2015	2014
Income from disposal of demonetised lats coins	-	1 583
Income from sale of collector coins	1 333	1 526
Other	429	557
Total	1 762	3 666

40. REMUNERATION AND SOCIAL SECURITY COSTS

(in thousands of euro)

	2015	2014
Remuneration		
Remuneration of Members of the Council and the Board	-1 556	-1 557
Remuneration of other personnel	-15 376	-15 282
Total remuneration	-16 932	-16 839
Social security costs	-3 518	-3 382
Total remuneration and social security costs	-20 450	-20 221

Remuneration of those Members of the Board of Latvijas Banka who are also Heads of Departments of Latvijas Banka includes remuneration for performance of these duties.

The number of employees in 2015 and 2014 was as follows:

	2015	2014
Number of employees at the end of the year		
Members of the Council and the Board	13	13
Other personnel	527	527
Total at the end of the year	540	540
Average number of employees per period	543	569

41. BANKNOTE AND COIN ACQUISITION COSTS

(in thousands of euro)

	2015	2014
Acquisition of circulation coins	-1 203	-1 775
Acquisition of collector coins	-752	-858
Total	-1 955	-2 633

42. OTHER OPERATING EXPENSES

(in thousands of euro)

	2015	2014
Maintenance and operation of information systems	-3 341	-2 763
Municipal services	-832	-944
Business travel	-622	-606
Maintenance of buildings, territory and equipment	-581	-626
Personnel training	-280	-228
Telecommunication services and system maintenance	-263	-235
Risk insurance	-252	-299
Information and public relations	-235	-538
Acquisition of low value office supplies	-181	-178
Tax on real estate	-149	-152
Event services	-101	-130
Transport provision	-79	-162
Disposal of material values	-20	-837
Other	-342	-548
Total	-7 278	-8 246

Other expenses also comprise the remuneration in the amount of 29 thousand euro paid to SIA KPMG Baltics for the audit of 2015 financial statements of Latvijas Banka (34 thousand euro in 2014 to SIA Ernst & Young Baltic).

OTHER NOTES

43. TRANSACTIONS WITH THE LATVIAN GOVERNMENT

Latvijas Banka, whose capital is wholly owned by the Republic of Latvia, carries out transactions with the Treasury, acting as the financial agent of the Latvian government. Performing this function, Latvijas Banka services the Treasury's accounts in euro and foreign currencies. Latvijas Banka is independent in making its own decisions on entering into the above transactions. The Treasury demand deposits are recorded under the balance sheet items "Liabilities to other euro area residents denominated in euro" and "Liabilities to euro area residents denominated in foreign currency".

The interest rates and foreign exchange rates used in the transactions with the Latvian government are market-based according to the ECB's decisions. No commission fees are applied to transactions with the Latvian government.

Pursuant to Guideline of the ECB of 20 February 2014 on domestic asset and liability management operations by the national central banks (ECB/2014/9) (2014/304/EU) and Guideline of the ECB of 5 June 2014 amending Guideline ECB/2014/9 on domestic asset and liability management operations by the national central banks (ECB/2014/22) (2014/339/EU), Latvijas Banka applies the euro overnight index average (EONIA) rate (it was negative at the end of 2015 (-0.127%), but positive at the end of 2014 (0.144%)) to the Treasury's deposits in euro in the amount of up to 200 million euro. As regards the total outstanding amount of the Treasury's settlement accounts in euro and foreign currencies exceeding 200 million euro, Latvijas Banka applies the deposit facility rate set by the ECB (it was negative both at the end of 2015 (-0.30%) and at the end of 2014 (-0.20%)).

At the end of 2015 and 2014, the breakdown of Latvijas Banka's claims and liabilities to the Latvian government were as follows:

	Amount	
	(in thousands of euro)	
	2015	2014
Claims		
Securities held for monetary policy purposes	472 158	–
Other securities	48 468	–
Accrued interest on debt securities	10 929	–
Total claims	531 555	–
Liabilities		
Demand deposits in euro	38 055	50 900
Demand deposits in foreign currencies	155 228	144 579
Tax liabilities	197	175
Total liabilities	193 480	195 654

In 2015 and 2014, the breakdown of Latvijas Banka's income and expense related to the Latvian government, as well as Latvijas Banka's profit of the previous reporting year appropriated to the state budget was as follows (see also Notes 22.2 and 23):

	(in thousands of euro)	
	2015	2014
Income (-)/expense and Latvijas Banka's profit appropriated to the state budget		
Interest on debt securities	-1 154	-
Negative interest (-) on government deposits	-57	-
Recognition of revaluation result on debt securities in profit and loss statement	412	-
Interest expense on government deposits	-	504
Taxes	8 941	9 200
Profit appropriated to the state budget	23 894	38 349
Total net expense and Latvijas Banka's profit appropriated to the state budget	32 036	48 053

44. PLEDGED ASSETS

Securities and other financial instruments purchased by Latvijas Banka with the market value of 5 778 thousand euro, as at the end of 2015 (25 142 thousand euro at the end of 2014), have been pledged to provide collateral for forward exchange rate contracts and interest rate and currency future contracts.

45. 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.

To improve securities market liquidity, in 2015 Latvijas Banka, simultaneously with other euro area NCBs, started lending securities purchased under the PSPP; Latvijas Banka conducts the above lending under the automated security lending programme.

At the end of 2015, the fair value of the securities lent, determined using quoted prices in an active market, was 53 692 thousand euro (305 181 thousand euro at the end of 2014); inter alia, the fair value of securities purchased and lent under the PSPP stood at 7 050 thousand euro at the end of 2015 (0 at the end of 2014).

At the end of 2015 and 2014, the fair value of collateral provided in securities lending transactions was as follows:

	(in thousands of euro)	
	2015	2014
Foreign currency cash	35 771	284 876
Debt securities	18 587	26 196
Total	54 358	311 072

Foreign currency cash or securities received in the agent account of Latvijas Banka's automated security lending programme as collateral for securities lending transactions is not recognised in Latvijas Banka's balance sheet (see also Note 2.12).

46. 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 2015 the uncalled portion of the BIS share holding was 4 013 thousand SDR (5 108 thousand euro; 4 013 thousand SDR (4 785 thousand euro) at the end of 2014; see also Note 14.2).

At the end of 2015, Latvijas Banka had issued euro collector coins, lats collector coins and precious metal circulation coins in the nominal value of 5 787 thousand euro (5 627 thousand euro at the end of 2014). These coins may be represented to Latvijas Banka at a nominal value. In the opinion of management of Latvijas Banka, the probability that Latvijas Banka will be required to repurchase these coins from their holders is considered low and no provisions have been made.

In 2015, the Eurosystem's TARGET2-Securities platform was launched enabling the central securities depositories and NCBs to provide cross-border securities settlement services. Latvijas Banka is carrying out preparations for migration of securities market participants in Latvia to TARGET2-Securities platform in 2017 and shares its costs together with other NCBs. Latvijas Banka plans to contribute approximately 1.2 million euro in 2016–2019. TARGET2-Securities platform is expected to operate on a full cost-recovery basis and income from commission fees in the medium term will cover its costs.

TO THE COUNCIL OF LATVIJAS BANKA

Report on the Financial Statements

We have audited the accompanying financial statements of Latvijas Banka ("the Bank"), which comprise the balance sheet as at 31 December 2015, and the profit and loss statement and the statement of total recognised gains and losses for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 69 to 114.

Board's Responsibility for the Financial Statements

The Board of the Bank is responsible for the preparation and fair presentation of these financial statements in accordance with the Guideline of the European Central Bank of 11 November 2010 on the legal framework for accounting and financial reporting in the European System of Central Banks (recast) (ECB/2010/20), "Financial Accounting Policy of Latvijas Banka" approved by the Council of the Bank, and the requirements of the Law on Latvijas Banka governing financial reporting. The Board of the Bank is also responsible for such internal controls as the Board of the Bank determines are necessary to enable the preparation of these financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether these financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of these financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the Bank's preparation and fair presentation of these financial statements 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 controls. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by the Board of the Bank, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Latvijas Banka as at 31 December 2015, and of its financial performance for the year then ended in accordance with the Guideline of the European Central Bank of 11 November 2010 on the legal framework for accounting and financial reporting in the European System of Central Banks (recast) (ECB/2010/20), "Financial Accounting Policy of Latvijas Banka" approved by the Council of the Bank, and the requirements of the Law on Latvijas Banka governing financial reporting.

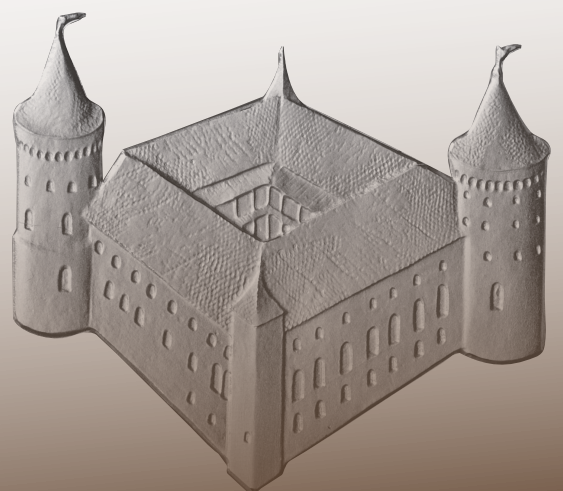
Other matters

The respective corresponding figures are based on the Bank's financial statements for the year ended 31 December 2014, which were audited by another independent audit firm who expressed an unqualified opinion on those financial statements in their report dated 10 March 2015.

KPMG Baltics SIA
Licence No 55

Armine Movsisjana
Chairman of the Board
Sworn Auditor
Certificate No 178
10 March 2016
Riga, Latvia

APPENDICES



MONETARY INDICATORS IN 2015

(at the end of the period; in 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	5 105.7	5 716.5	5 826.0	6 485.8	6 573.3	6 696.0	6 799.1	6 826.1	7 199.9	7 238.1	7 511.1	8 964.8
Currency in circulation	3 883.8	3 894.7	3 929.1	3 966.3	3 986.1	4 023.6	4 079.3	4 070.2	4 063.0	4 068.9	4 087.7	4 180.4
Current accounts (covering the minimum reserve system)	1 221.9	1 821.8	1 896.9	2 519.5	2 587.2	2 672.4	2 719.8	2 755.9	3 136.9	3 169.2	3 423.4	4 784.4
Deposit facility and other liabilities related to monetary policy operations	0	0	0	0	0	0	0	0	0	0	0	0
Foreign assets outside the euro area	3 296.7	3 183.8	3 237.8	3 113.4	3 248.4	3 189.3	3 193.1	3 264.7	3 358.9	3 417.8	3 430.2	3 327.1
Foreign liabilities outside the euro area	27.3	14.7	10.4	14.0	5.0	5.8	20.6	22.5	2.3	0.6	3.5	9.6
Credit	1 987.3	2 069.1	2 285.9	2 437.7	2 659.7	2 902.1	3 103.0	3 132.6	3 325.2	3 554.9	3 676.3	3 819.9
To MFIs in the euro area	673.8	690.8	730.1	713.5	721.0	753.5	757.9	714.9	732.0	760.1	767.6	772.0
To the general government sector in the euro area	505.6	518.6	597.7	773.2	1 030.5	1 064.5	1 065.2	1 051.7	1 129.7	1 142.8	1 133.4	1 139.1
To other euro area residents	807.9	859.7	958.1	951.1	908.2	1 084.1	1 279.9	1 366.0	1 463.5	1 652.0	1 775.3	1 908.8
MFI												
Overnight deposits (Latvia's contribution to M1 of the euro area)	8 245.2	8 383.1	8 424.0	8 462.3	8 522.0	8 493.0	8 661.5	8 719.5	8 890.5	8 855.7	9 165.9	9 457.2
Deposits with an agreed maturity of up to 2 years	1 421.4	1 451.0	1 440.4	1 457.2	1 386.9	1 446.6	1 368.1	1 347.4	1 311.2	1 357.8	1 327.3	1 270.0
Deposits redeemable at notice of up to 3 months	697.6	713.8	698.7	715.5	706.6	703.4	724.2	724.6	733.7	738.8	748.9	779.4
Latvia's contribution to M2 of the euro area	10 364.2	10 547.9	10 563.1	10 635.0	10 615.5	10 643.0	10 753.8	10 791.5	10 935.4	10 952.3	11 242.1	11 506.6
Money market fund shares and units	23.5	17.4	15.2	12.8	10.7	5.4	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities with a maturity of up to 2 years	31.1	52.5	48.9	47.6	52.6	47.8	61.0	60.0	59.3	57.8	51.1	65.1
Latvia's contribution to M3 of the euro area	10 418.8	10 617.8	10 627.2	10 695.4	10 678.8	10 696.2	10 814.8	10 851.5	10 994.7	11 010.1	11 293.2	11 571.7
Net foreign assets outside the euro area	-284.7	-316.5	184.6	-494.7	-547.4	-247.7	-516.1	-323.3	-287.6	-681.7	-1 018.8	-2 183.1
Credit to euro area financial institutions, non-financial corporations and households	14 028.4	13 929.4	13 789.3	13 749.4	13 796.9	13 752.4	13 674.2	13 736.4	13 777.3	13 810.3	13 820.9	13 741.9
Loans to resident financial institutions, non-financial corporations and households	12 568.1	12 501.7	12 470.6	12 442.2	12 503.4	12 459.8	12 425.3	12 469.9	12 457.0	12 469.8	12 449.6	12 342.1
Deposits by resident financial institutions, non-financial corporations and households	9 275.8	9 391.1	9 439.5	9 492.9	9 456.7	9 533.5	9 669.4	9 703.9	9 765.7	9 804.8	9 990.8	10 333.6
INTEREST RATES												
Interest rate on the main refinancing operations (at end of period; %)	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
Weighted average interest rates on transactions in euro (%)												
Interbank loans	0.00	0.00	0.00	-0.10	-0.15	-0.15	-0.14	-0.15	-0.15	-0.15	-0.19	-0.20
Loans to non-financial corporations and households with a floating interest rate and an initial rate fixation of up to 1 year (new business)	4.0	3.8	3.6	3.0	2.9	3.8	3.7	3.3	3.5	3.8	3.1	3.4
Time deposits by non-financial corporations and households (new business)	0.2	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.3

MONTH-END BALANCE SHEETS OF LATVIJAS BANKA FOR 2015

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

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
ASSETS	8 740 892	8 729 216	9 052 950	9 222 177	9 526 523	9 774 845	10 041 617	10 213 104	10 468 951	10 781 858	10 954 792	11 118 687
Gold and gold receivables	238 488	228 761	235 369	229 138	231 551	223 463	210 796	215 087	213 888	221 499	213 616	207 670
Claims on non-euro area residents denominated in foreign currency	2 818 311	2 739 228	2 784 797	2 670 987	2 813 154	2 774 286	2 792 392	2 861 689	2 974 791	3 011 753	3 033 942	2 949 979
Receivables from the IMF	150 484	151 391	155 003	151 632	153 200	151 908	153 587	151 388	151 291	153 164	156 740	153 780
Balances with credit institutions and security investments, external loans and other external assets	2 667 827	2 587 837	2 629 794	2 519 355	2 659 954	2 622 378	2 638 805	2 710 301	2 823 500	2 858 589	2 877 202	2 796 199
Claims on euro area residents denominated in foreign currency	598 021	655 767	617 231	578 373	582 671	598 862	636 981	591 546	558 337	577 972	563 986	541 073
Claims on non-euro area residents denominated in euro	239 940	215 775	217 598	213 241	203 673	191 540	189 870	187 883	170 255	184 581	182 681	169 490
Lending to euro area credit institutions related to monetary policy operations denominated in euro	85 520	85 520	160 520	170 520	170 520	200 520	201 520	200 520	235 520	235 520	230 520	263 730
Main refinancing operations	–	–	–	–	–	–	1 000	–	5 000	5 000	–	–
Longer-term refinancing operations	85 520	85 520	160 520	170 520	170 520	200 520	200 520	200 520	230 520	230 520	230 520	263 730
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	23 361	1 124	4 388	1 868	7 976	432	210	100	2 724	13 580	10 099	2 491
Securities of euro area residents denominated in euro	1 280 432	1 326 708	1 503 752	1 686 976	1 898 553	2 102 216	2 264 358	2 340 465	2 528 549	2 727 818	2 871 714	3 015 433
Securities held for monetary policy purposes	–	–	190 294	354 840	531 807	723 303	901 061	1 053 519	1 238 919	1 442 707	1 658 771	1 808 374
Other securities	1 280 432	1 326 708	1 313 458	1 332 136	1 366 746	1 378 913	1 363 297	1 286 946	1 289 630	1 285 111	1 212 943	1 207 059
Intra-Eurosystem claims	3 349 773	3 372 733	3 412 165	3 456 298	3 500 415	3 554 660	3 614 196	3 640 644	3 649 632	3 674 719	3 708 623	3 802 596
Participating interest in the ECB	115 082	115 082	115 082	115 082	115 082	115 082	115 082	115 082	115 082	115 082	115 082	115 082
Claims equivalent to the transfer of foreign reserves to the ECB	163 480	163 480	163 480	163 480	163 480	163 480	163 480	163 480	163 480	163 480	163 480	163 480
Claims related to TARGET2 and national central bank correspondent accounts (net)	–	–	–	–	–	–	–	–	–	–	–	–
Claims related to other operational requirements within the Eurosystem	3 071 211	3 094 171	3 133 603	3 177 736	3 221 853	3 276 098	3 335 634	3 362 082	3 371 070	3 396 157	3 430 061	3 524 034
Items in course of settlement	–	–	–	–	–	–	–	–	–	–	–	–
Other assets	107 046	103 600	117 130	214 776	118 010	128 866	131 294	175 170	135 255	134 416	139 611	166 225

Appendix 2 (cont.)

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

120

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
LIABILITIES	8 740 892	8 729 216	9 052 950	9 222 177	9 526 523	9 774 845	10 041 617	10 213 104	10 468 951	10 781 858	10 954 792	11 118 687
Banknotes in circulation	3 699 161	3 709 822	3 744 760	3 782 277	3 802 452	3 839 409	3 894 577	3 885 276	3 877 523	3 883 080	3 901 302	3 992 436
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	1 221 864	1 821 820	1 896 915	2 519 502	2 587 199	2 672 381	2 719 759	2 755 907	3 136 934	3 169 173	3 423 412	4 784 410
Current accounts (covering the minimum reserve system)	1 221 864	1 821 820	1 896 915	2 519 502	2 587 199	2 672 381	2 719 759	2 755 907	3 136 934	3 169 173	3 423 412	4 784 410
Deposit facility	–	–	–	–	–	–	–	–	–	–	–	–
Fixed-term deposits	–	–	–	–	–	–	–	–	–	–	–	–
Fine-tuning reverse operations	–	–	–	–	–	–	–	–	–	–	–	–
Deposits related to margin calls	–	–	–	–	–	–	–	–	–	–	–	–
Other liabilities to euro area credit institutions denominated in euro	–	3 750	–	4 840	–	650	2 670	10 540	1 060	–	2 150	8 830
Liabilities to other euro area residents denominated in euro	95 364	83 197	88 624	58 967	45 060	71 697	95 534	95 204	84 166	94 268	125 602	145 894
General government	38 848	28 151	34 008	33 226	20 175	47 369	28 226	28 380	16 853	21 210	23 100	38 055
Other liabilities	56 516	55 046	54 616	25 741	24 885	24 328	67 308	66 824	67 313	73 058	102 502	107 839
Liabilities to non-euro area residents denominated in euro	27 319	14 694	10 388	11 593	5 011	5 800	20 576	18 635	2 096	624	3 536	9 099
Liabilities to euro area residents denominated in foreign currency	150 675	152 306	156 949	152 525	153 234	153 659	155 036	152 113	151 491	154 426	157 914	155 228
Liabilities to non-euro area residents denominated in foreign currency	–	–	–	2 434	–	–	–	3 843	232	–	–	478
Intra-Eurosystem liabilities	2 735 345	2 212 201	2 386 924	1 983 237	2 207 625	2 330 783	2 450 172	2 587 395	2 502 876	2 705 352	2 571 357	1 312 104
Liabilities related to TARGET2 and national central bank correspondent accounts (net)	2 735 345	2 212 201	2 386 924	1 983 237	2 207 625	2 330 783	2 450 172	2 587 395	2 502 876	2 705 352	2 571 357	1 312 104
Liabilities related to other operational requirements within the Eurosystem	–	–	–	–	–	–	–	–	–	–	–	–
Items in course of settlement	–	–	–	–	–	–	–	–	–	–	–	–
Other liabilities	314 944	236 889	265 197	227 462	245 284	231 546	231 091	225 950	224 065	284 039	281 037	258 853
Capital and reserves	496 220	494 537	503 193	479 340	480 658	468 920	472 202	478 241	488 508	490 896	488 482	451 355

ORGANISATIONAL UNITS OF LATVIJAS BANKA AT THE END OF 2015**1. ACCOUNTING DEPARTMENT**

(Head of Department, Chief Accountant of Latvijas Banka – Jānis Caune; Deputy Head of Department, Deputy Chief Accountant of Latvijas Banka – Iveta Medne)

1.1 Financial Statements and Accounting Policy Division (Head of Division – Gatis Gersons)

1.2 Internal Banking Operations Division (Head of Division – Anita Jakāne)

2. CASH DEPARTMENT

(Head of Department – Jānis Blūms; Deputy Heads of Department – Veneranda Kausa, Vilnis Kepe)

2.1 Cash Operations Division (Head of Division – Ģirts Jansons)

2.2 Coin Division (Head of Division – Maruta Brūkle)

2.3 Cash Technology Division (Head of Division – Andris Tauriņš)

2.4 Riga Branch (Branch Manager – Jānis Strēlnieks)

2.5 Liepāja Branch (Branch Manager – Gundars Lazdāns)

3. FINANCIAL STABILITY DEPARTMENT

(Head of Department – Elmārs Zakulis; Deputy Head of Department – Andris Ņikitins)

3.1 Financial Stability Division (Head of Division – Armands Pogulis)

4. GOVERNOR'S OFFICE¹

(Head of Office – Guntis Valujevs)

5. INFORMATION SYSTEMS DEPARTMENT

(Head of Department – Harijs Ozols; Deputy Head of Department – Krišs Rauhvargers)

5.1 System Design and Programming Division (Head of Division – Ilgvars Apinis)

5.2 Computer Network and Server Systems Division (Head of Division – Uldis Kristapsons)

5.3 Bank Information System Maintenance and Development Division (Head of Division, Deputy Head of Department – Valdis Spūlis)

5.4 Information Systems Security Division (Head of Division – Ilona Etmāne)

5.5 Information Systems Quality Assurance Division (Head of Division – Askolds Kālis)

5.6 Systems Maintenance Division (Head of Division – Valērijs Kondratjevs)

6. INTERNAL AUDIT DEPARTMENT

(Head of Department – Leo Ašmanis; Deputy Heads of Department – Jānis Stražinskis, Juris Ziediņš)

7. INTERNATIONAL RELATIONS AND COMMUNICATION DEPARTMENT

(Head of Department – Juris Kravalis)

7.1 Document Management and Library Division (Head of Division – Ineta Strade)

7.2 Publications Division (Head of Division, Deputy Head of Department – Aina Raņķe)

7.3 Public Relations Division (Head of Division, Deputy Head of Department – Kristaps Otersons)

7.4 International Relations and Protocol Division (Head of Division, Deputy Head of Department² – Aleksandra Bambale)

8. LEGAL DEPARTMENT

(Head of Department – Ilze Posuma; Deputy Heads of Department – Maija Āboliņa, Iveta Krastiņa)

¹ As of 1 March 2016 the functions of the Office have been transferred to International Relations and Communication Department.

² As of 1 March 2016 – Head of Division, Deputy Head of Department, Head of Governor's Office.

Appendix 3 (cont.)

9. MARKET OPERATIONS DEPARTMENT

(Head of Department – Raivo Vanags; Deputy Head of Department – Daira Brunere)

9.1 Trading and Investment Division (Head of Division, Deputy Head of Department – Vadims Zaicevs)

9.2 Risk Management Division (Head of Division – Zane Volkopa)

10. MONETARY POLICY DEPARTMENT

(Head of Department – Uldis Rutkaste; Deputy Head of Department – Mārtiņš Bitāns)

10.1 Macroeconomic Analysis Division (Head of Division – Santa Bērziņa)

10.2 Financial Market Analysis Division (Head of Division – Gunārs Bērziņš)

10.3 Monetary Research and Forecasting Division (Head of Division – Gundars Dāvidsons)

11. PAYMENT SYSTEMS DEPARTMENT

(Head of Department – Egons Gailītis; Deputy Heads of Department – Irēna Krūmane, Anda Zalmane)

11.1 Payment Systems Policy Division (Head of Division – Deniss Fiļipovs)

11.2 Payment Systems Operations Division (Head of Division – Natālija Popova)

11.3 Payment and Settlement Division (Head of Division – Una Ruka)

11.4 Credit Register Division (Head of Division – Laura Ausekle)

12. PERSONNEL DEPARTMENT

(Head of Department – Liene Glāzniece; Deputy Heads of Department – Helmūts Ancāns, Vineta Veikmane)

13. SECURITY DEPARTMENT

(Head of Department – Romualds Namnieks; Deputy Heads of Department – Imants Kravals, Sandis Mackēvičs)

13.1 Analytical Unit (Head of Unit – Māris Dzelme)

13.2 Armament Unit (Head of Unit – Juris Kušķis)

13.3 Central Division (Head of Division – Ivars Geriņš)

13.4 Rīga Division (Head of Division – Igo Peičs)

13.5 Liepāja Division (Head of Division – Gints Liepiņš)

14. STATISTICS DEPARTMENT

(Head of Department – Agris Caune; Deputy Head of Department – Ilmārs Skarbnieks)

14.1 Financial Market and Monetary Statistics Division (Head of Division – Zigrīda Aušta)

14.2 Balance-of-Payments Statistics Division (Head of Division – Daiga Gaigala-Ližbovska)

14.3 General Economic and Financial Statistics Division (Head of Division – Iveta Salmiņa)

15. TECHNICAL SUPPORT DEPARTMENT

(Head of Department – Reinis Jakovļevs)

15.1 General Service Division (Head of Division – Einārs Cišs)

15.2 Building Systems Division (Head of Division, Deputy Head of Department – Jānis Kreicbergs)

15.3 Security Systems Division (Head of Division – Viesturs Balodis)

16. TRAINING CENTRE

(Acting Head of Centre – Gundega Vizule¹)

¹ As of 21 January 2016 – Head of Centre.

PARTICIPATION OF LATVIJAS BANKA IN THE EUROSISTEM AND THE EUROPEAN SYSTEM OF CENTRAL BANKS

Governing Council of the ECB

Ilmārs Rimšēvičs, Governor of Latvijas Banka

General Council of the ECB

Ilmārs Rimšēvičs, Governor of Latvijas Banka

Supervisory Board of the ECB

Zoja Razmusa, Deputy Governor of Latvijas Banka (banking supervisory institution is represented by Kristaps Zakulis¹, Chairman of the FCMC)

Accounting and Monetary Income Committee (AMICO)

Jānis Caune, Member of the Board of Latvijas Banka, Chief Accountant of Latvijas Banka, Head of Accounting Department

Gatis Gersons, Head of Financial Statements and Accounting Policy Division, Accounting Department

Banknote Committee (BANCO)

Jānis Blūms, Member of the Board of Latvijas Banka, Head of Cash Department

Veneranda Kausa, Deputy Head of Cash Department

Budget Committee (BUCOM)

Jānis Caune, Member of the Board of Latvijas Banka, Chief Accountant of Latvijas Banka, Head of Accounting Department

Iveta Medne, Deputy Chief Accountant of Latvijas Banka, Deputy Head of Accounting Department

Committee on Controlling (COMCO)

Iveta Medne, Deputy Chief Accountant of Latvijas Banka, Deputy Head of Accounting Department

Gatis Gersons, Head of Financial Statements and Accounting Policy Division, Accounting Department

Financial Stability Committee (FSC)

Elmārs Zakulis, Head of Financial Stability Department

Eurosistem/ESCB Communications Committee (ECCO)

Kristaps Otersons, Deputy Head of International Relations and Communication Department, Head of Public Relations Division

Varis Vagotīņš-Vagulis, Chief Communication Project Manager of Public Relations Division, International Relations and Communication Department

Eurosistem IT Steering Committee (EISC)

Arvils Sautiņš, Member of the Council of Latvijas Banka

Human Resources Conference (HRC)

Liene Glāzniece, Head of Personnel Department

Vineta Veikmane, Deputy Head of Personnel Department

Information Technology Committee (ITC)

Harijs Ozols, Member of the Board of Latvijas Banka, Head of Information Systems Department

Valdis Spūlis, Deputy Head of Information Systems Department, Head of Bank Information System Maintenance and Development Division

¹ As of 11 February 2016 – Pēters Putniņš.

Appendix 4 (cont.)

Internal Auditors Committee (IAC)

Leo Ašmanis, Head of Internal Audit Department
Juris Ziediņš, Deputy Head of Internal Audit Department

International Relations Committee (IRC)

Juris Kravalis, Head of International Relations and Communication Department
Andris Strazds, Adviser to International Relations and Communication Department

Legal Committee (LEGCO)

Ilze Posuma, Deputy Chairperson of the Board of Latvijas Banka, Head of Legal Department
Iveta Krastiņa, Deputy Head of Legal Department

Market Operations Committee (MOC)

Raivo Vanags, Member of the Board of Latvijas Banka, Head of Market Operations Department
Harijs Zuļģis, Chief Analyst of Financial Market Operations, Market Operations Department

Monetary Policy Committee (MPC)

Mārtiņš Bitāns, Deputy Head of Monetary Policy Department
Gundars Dāvidsons, Head of Monetary Research and Forecasting Division, Monetary Policy Department

Organisational Development Committee (ODC)

Jānis Caune, Member of the Board of Latvijas Banka, Chief Accountant of Latvijas Banka, Head of Accounting Department
Igoris Fleitmanis, Business Risk Manager of Latvijas Banka

Payment and Settlement Systems Committee (PSSC)¹

Egons Gailītis, Head of Payment Systems Department
Anda Zalmane, Deputy Head of Payment Systems Department

Risk Management Committee (RMC)

Daira Brunere, Deputy Head of Market Operations Department
Zane Volkopa, Head of Risk Management Division, Market Operations Department

Statistics Committee (STC)

Agris Caune, Head of Statistics Department
Ilmārs Skarbnieks, Deputy Head of Statistics Department

¹ As of 1 April 2016 – Market Infrastructure and Payments Committee (MIPC).

REPRESENTATION OF LATVIJAS BANKA IN INTERNATIONAL ORGANISATIONS

EUROPEAN UNION

ESRB

Ilmārs Rimšēvičs, Governor of Latvijas Banka (banking supervisory institution is represented by Kristaps Zakulis¹, Chairman of the FCMC)

Advisory Technical Committee of the ESRB

Elmārs Zakulis, Head of Financial Stability Department (banking supervisory institution is represented by Ludmila Vojevoda, Member of the Council of the FCMC)

Economic and Financial Committee for the Council of the EU (EFC)

Juris Kravalis, Head of International Relations and Communication Department
Santa Bērziņa, Head of Macroeconomic Analysis Division, Monetary Policy Department (Alternate)

EFC's Euro Coin Sub-Committee (ECSC)

Maruta Brūkle, Head of Coin Division, Cash Department

EFC's Sub-Committee on IMF and Related Issues (SCIMF)

Aleksandra Bambale, Deputy Head of International Relations and Communication Department, Head of International Relations and Protocol Division²

Board of Supervisors of the EBA

Vita Pilsuma, Member of the Council of Latvijas Banka (banking supervisory institution is represented by Kristaps Zakulis¹, Chairman of the FCMC)

Permanent Representation of Latvia to the EU

Inese Allika, Counsellor of Latvijas Banka at the Permanent Representation of Latvia to the EU

Committee on Monetary, Financial and Balance of Payments Statistics (CMFB)

Agris Caune, Head of Statistics Department
Ilmārs Skarbnieks, Deputy Head of Statistics Department

EC Public Administration Network (PAN II)

Antra Trenko, Senior Economist of International Relations and Protocol Division, International Relations and Communication Department

INTERNATIONAL MONETARY FUND

Board of Governors

Ilmārs Rimšēvičs, Governor of Latvijas Banka

Nordic-Baltic Monetary and Financial Committee (NBMFC)

Zoja Razmusa, Deputy Governor of Latvijas Banka

Nordic-Baltic Monetary and Financial Committee, Group of Alternates (NBMFC Alternates)

Juris Kravalis, Head of International Relations and Communication Department

Nordic-Baltic IMF Office in Washington

Agnija Jēkabsons, Advisor to the Executive Director of the Nordic-Baltic Constituency of the IMF, Latvia's representative in IMF

¹ As of 11 February 2016 – Pēters Putniņš.

² As of 1 March 2016 – Ieva Skrīvere, Chief Economist of International Relations and Protocol Division, International Relations and Communication Department.

LATVIJAS BANKA PUBLICATIONS AND MAJOR PUBLICATIONS BY THE EXPERTS OF LATVIJAS BANKA IN 2015

The following Latvijas Banka publications are available on Latvijas Banka website (www.bank.lv).

REGULAR PUBLICATIONS AND SERIAL PUBLICATIONS

Latvijas Banka: Annual Report 2014
 Financial Stability Report (2015)
Latvijas Maksājumu Bilance. Latvia's Balance of Payments. 2014
 Macroeconomic Developments Report (June and December; No. 21 and No. 22, 2015)

WORKING PAPERS

BESSONOV, Andrejs (2015) – *Suite of Latvia's GDP Forecasting Models*. Latvijas Banka Working Paper, No. 1. 39 p.
 FADEJEVA, Ludmila, KRASNOPJOROVS, Oļegs (2015) – *Labour Market Adjustment during 2008–2013 in Latvia: Firm Level Evidence*. Latvijas Banka Working Paper, No. 2. 178 p.
 VILERTS, Kārlis, KRASNOPJOROVS, Oļegs, BRĒĶIS, Edgars (2015) – *Does Education Affect Wages during and after Economic Crisis? Evidence from Latvia 2006–2012*. Latvijas Banka Working Paper, No. 3. 50 p.
 BUŠS, Ginters (2015) – *Search-and-Matching Frictions and Labour Market Dynamics in Latvia*. Latvijas Banka Working Paper, No. 4. 73 p.
 BEŅKOVSKIS, Konstantīns (2015) – *Misallocation of Resources in Latvia: Did Anything Change During the Crisis?* Latvijas Banka Working Paper, No. 5. 31 p.
 BEŅKOVSKIS, Konstantīns, TKAČEVŠ, Oļegs (2015) – *Everything You Always Wanted to Know about Latvia's Service Exporters (but Were Afraid to Ask)*. Latvijas Banka Working Paper, No. 6. 48 p.

DISCUSSION PAPERS

LIELKALNE, Olga, SIŅENKO, Nadežda (2015) *Cobweb Diagram as a Tool for Assessing Changes in the Most Important Financial Stability Risks*. Latvijas Banka Discussion Paper, No. 1. 21 p.
 KRASNOPJOROVS, Oļegs (2015) – *Natural and Cyclical Unemployment in Latvia: New Insights from the Beveridge Curve Model*. Latvijas Banka Discussion Paper, No. 2. 25 p.
 BEŅKOVSKIS, Konstantīns, BĒRZIŅA, Santa, ZORGENFREIJA, Līva (2015) – *Evaluation of Latvia's Re-Exports Using Firm-Level Trade Data*. Latvijas Banka Discussion Paper, No. 3. 23 p.

PUBLICATIONS

AJEVSKIS, Viktors (2015) – *Semi-Global Solutions to DSGE Models: Perturbation around a Deterministic Path*. Dynare Working Papers Series, No. 44, May. 35 p.
 BENKOVSKIS, Konstantīns, WÖRZ, Julia (2015) – The Interpretation of Changes in Global Market Shares: Adding the Global Value Chain Dimension. *In: The Age of Global Value Chains: Maps and Policy Issues*. Ed. by J. Amador and F. di Mauro. 9 July 2015, pp. 148–162.
 BENKOVSKIS, Konstantīns, WÖRZ, Julia (2015) – Non-price Competitiveness of Exports from Emerging Countries. *Empirical Economics*, Springer, 2 November, pp. 1–29.
 BENKOVSKIS, Konstantīns, WÖRZ, Julia (2015) – Summary Measure for Price and Non-price Competitiveness for ASEAN+3. *Asian Economic Journal*, vol. 29, No. 2, 16 June, pp. 165–180.
 BUSS, Ginters (2015) – *Financial Frictions in a DSGE Model for Latvia*. Dynare Working Papers, No. 42, May. 78 p.

Appendix 6 (cont.)

BUSS, Ginters (2015) – Financial Frictions in Latvia. *Empirical Economics*, Springer, 31 October, pp. 1–29.

BUSS, Ginters (2015) – Real-Time Signal Extraction with Regularized Multivariate Direct Filter Approach. *Journal of Forecasting*, vol. 35, issue 3, 25 November, pp. 206–216.

CHRISTODOULOPOULOU, Styliani, TKAČEVŠ, Oļegs (2015) – Measuring the Effectiveness of Cost and Price Competitiveness in External Rebalancing of Euro Area Countries: What Do Alternative HCIs Tell Us? *Empirica*, Springer, 6 August, pp. 1–45.

KASJANOVŠ, Igors (2015) – Is Part of the Latvian Economy already in the Middle-Income Trap? *World Economics*, vol. 16, issue 1, March, pp. 58–69.

*Appendix 7***HIGHLIGHTS OF EUROSISTEM'S MONETARY POLICY AND OTHER IMPORTANT TASKS IN 2015**

On 16 January, the Governing Council of the ECB reviewed the list of acceptable non-regulated markets for assets eligible as collateral for Eurosystem monetary policy operations and the list of issuers classified as agencies in haircut category II (the lists are available on the ECB website).

On 22 January, the Governing Council of the ECB decided that the key interest rates used in Eurosystem monetary operations (hereinafter, the key ECB interest rates) would remain unchanged.

On 22 January, the Governing Council of the ECB approved an expanded asset purchase programme (APP) to include bonds issued by euro area central governments, agencies and European institutions as well as announced the procedure for the implementation of the programme.

On 22 January, the Governing Council of the ECB decided that the interest rate for the remaining six TLTROs would be equal to the rate on the Eurosystem's main refinancing operations prevailing at the time when each TLTRO is conducted.

On 3 February, the Governing Council of the ECB adopted Recommendation ECB/2015/3 to the Council of the European Union on the external auditors of Latvijas Banka.

On 5 February, the Governing Council of the ECB approved the publication of the "Ninth survey on correspondent banking in euro" and an overview on virtual currency schemes "Virtual currency – a further analysis" prepared by the Eurosystem/ESCB Payment and Settlement Systems Committee.

On 6 February, the Governing Council of the ECB approved the Eurosystem Oversight Report 2014 prepared by the Eurosystem/ESCB Payment and Settlement Systems Committee.

On 10 February, the Governing Council of the ECB adopted Decision ECB/2015/5 amending Decision ECB/2014/34 on measures relating to targeted longer-term refinancing operations.

On 18 February, the Governing Council of the ECB adopted Decision ECB/2015/9 repealing Decision ECB/2013/6 on the rules concerning the use as collateral for Eurosystem monetary policy operations of own-use uncovered government-guaranteed bank bonds, Decision ECB/2013/35 on additional measures relating to Eurosystem refinancing operations and eligibility of collateral and Articles 1, 3 and 4 of Decision ECB/2014/23 on the remuneration of deposits, balances and holdings of excess reserves (with effect from 1 May 2015). Decision ECB/2013/6 and Article 1 of Decision ECB/2014/23 have been incorporated into Guideline ECB/2014/60 (with effect from 1 May 2015). Articles 3 and 4 of Decision ECB/2014/23 have been incorporated into Guideline ECB/2012/27 and Guideline ECB/2014/9 respectively.

On 20 February, the Governing Council of the ECB decided that the ECB and the names of the euro area central banks would be included in the list of organisations that support the objectives of the Banknote Ethics Initiative.

On 23 February, the Governing Council of the ECB approved the "Guide for the assessment of card payment schemes against the oversight standards" prepared by the Eurosystem/ESCB Payment and Settlement Systems Committee.

On 26 February, the Governing Council of the ECB decided that the introduction of a

Appendix 7 (cont.)

minimum size threshold of 500 000 euro for domestic credit claims, initially planned for March 2015, will be further postponed until at least the end of September 2018.

On 2 March, the Governing Council of the ECB approved a revised questionnaire for the Bank Lending Survey and compilation guide (with effect from April 2015) to enhance the Eurosystem's knowledge of financing conditions in the euro area and hence to help the Governing Council of the ECB to assess monetary and economic developments as an input for monetary policy decisions.

On 4 March, the Governing Council of the ECB adopted Decision ECB/2015/10 on a secondary markets public sector asset purchase programme (with effect from 9 March 2015).

On 5 March, the Governing Council of the ECB decided that the key ECB interest rates would remain unchanged.

On 18 March, in accordance with the Treaty on the Functioning of the European Union, which assigns the ECB the task of monitoring the compliance of EU central banks with the prohibitions referred to in Articles 123 and 124 thereof and the related Regulations, the Governing Council approved the report covering the year 2014 (for more information see Section "Compliance with the prohibition of monetary financing and privileged access" of ECB Annual Report 2014).

On 18 March, the Governing Council of the ECB decided that the Eurosystem would purchase mezzanine tranches of asset-backed securities, provided that those mezzanine tranches were subject to a guarantee complying with the criteria for guarantees in the Eurosystem collateral framework (as outlined in Chapter 6.3.2(c) of Guideline ECB/2011/14; from 1 May 2014, Article 114 of Guideline ECB/2014/60).

On 18 March, the Governing Council of the ECB noted that the ninth edition of the ECB's report on "Financial integration in Europe" would be published on 27 April 2015 on the occasion of the joint conference of the ECB and the European Commission on financial market integration and stability in Europe.

On 20 March, the Governing Council of the ECB approved the annual assessment of the availability and standard of quality of the various kinds of statistics that are compiled by the Eurosystem on the basis of an ECB legal act. It also authorised the publication of the "Euro area monetary and financial statistics. 2014 quality report".

On 25 March, the Governing Council of the ECB approved the list of the first wave of reporting agents (available on the ECB website) classified as such under Article 2(2) of Regulation ECB/2014/48 concerning statistics on the money markets (with effect from 1 January 2015).

On 2 April, the Governing Council of the ECB adopted Guideline ECB/2015/15 amending Guideline ECB/2012/27 on a Trans-European Automated Real-time Gross settlement Express Transfer system (TARGET2).

On 15 April, the Governing Council of the ECB decided that the key ECB interest rates would remain unchanged.

On 15 April, the Governing Council of the ECB approved amendments to the initial list of agencies located in the euro area issuing securities that are eligible for the PSPP (available on the ECB website).

On 16 April, the Governing Council of the ECB adopted Guideline ECB/2015/20

Appendix 7 (cont.)

amending Guideline ECB/2014/60 on the implementation of the Eurosystem monetary policy framework.

On 16 April, the Governing Council of the ECB adopted Regulation (EU) 2015/730 amending Regulation (EU) No 1011/2012 concerning statistics on holdings of securities (ECB/2012/24) (ECB/2015/18). The amending Regulation aligns Regulation (EU) No 1011/2012 with Regulation (EU) No 1374/2014 on statistical reporting requirements for insurance corporations (ECB/2014/50), and establishes statistical reporting requirements for holdings of securities of insurance corporations.

On 16 April, the Governing Council of the ECB adopted Guideline ECB/2015/19 amending Guideline ECB/2013/7 concerning statistics on holdings of securities to define the necessary procedures for national central banks to report to the ECB.

On 7 May, the Governing Council of the ECB approved the recommendations set out in the report on the measures adopted to safeguard the confidentiality of the statistical information referred to in Council Regulation (EC) No 951/2009 of 9 October 2009 amending Regulation (EC) No 2533/98 of 23 November 1998 concerning the collection of statistical information by the European Central Bank.

On 20 May, the Governing Council of the ECB authorised the publication of the "Financial Stability Review. May 2015".

On 28 May, the Governing Council of the ECB took note of the TARGET Annual Report 2014.

On 3 June, the Governing Council of the ECB decided that the key ECB interest rates would remain unchanged.

On 17 June, the Governing Council of the ECB took note of the status of preparation of the TARGET2-Securities project in view of the go-live date of the first migration wave on 22 June 2015.

On 17 June, the Governing Council of the ECB authorised the publication of the 14th annual review of "The international role of the euro. July 2015".

On 18 June, the Governing Council of the ECB took note of the ruling of the Court of Justice of the EU confirming that the Outright Monetary Transactions programme announced in 2012 is compatible with EU law and within the ECB's competences.

On 25 June, the Governing Council of the ECB approved important technical aspects of relevance to the conduct of the TLTROs, in particular those relating to the impact of data revisions on the calculation of the initial and additional allowance.

On 25 June, the Governing Council of the ECB decided to reduce the tolerance levels for legacy information technology systems and for legacy assets in the context of loan-level data requirements for asset-backed securities, following an adaptation period of one year.

On 1 July, the Governing Council of the ECB decided to publish a set of guiding principles in order to illustrate the Eurosystem's preferences with regard to the asset-backed securities that it considers for purchase in the context of the ABSPP.

On 9 July, the Governing Council of the ECB took note of the "Fourth report on card fraud. July 2015" prepared by the Eurosystem/ESCB Payment and Settlement Systems Committee, and authorised its publication.

On 16 July, the Governing Council of the ECB decided that the key ECB interest rates would remain unchanged.

Appendix 7 (cont.)

On 19 August, the Governing Council of the ECB approved the publication in each ECB Economic Bulletin of end-of-month individual TARGET balances of the euro area national central banks and the ECB.

On 27 August, the Governing Council of the ECB adopted Guideline ECB/2015/27 amending ECB Guideline ECB/2014/60 on the implementation of the Eurosystem monetary policy framework.

On 2 September, the Governing Council of the ECB approved the ECB response to the EC's public consultation on the review of the European Market Infrastructure Regulation (Regulation (EU) No 648/2012 on clearing and settlement arrangements for over-the-counter derivatives, central counterparties and trade repositories).

On 3 September, the Governing Council of the ECB decided that the key ECB interest rates would remain unchanged.

On 3 September, following the announced review of the PSPP's issue share limit after the first six months of purchases, the Governing Council of the ECB decided to increase the issue share limit from the initial limit of 25% to 33%, subject to a case-by-case verification that this would not create a situation whereby the Eurosystem would have blocking minority power, in which case the issue share limit would remain at 25%.

On 4 September, the Governing Council of the ECB adopted Decision ECB/2015/29 amending Decision ECB/2014/8 on the prohibition of monetary financing and the remuneration of government deposits by national central banks, and Guideline ECB/2015/28 amending Guideline ECB/2014/9 on domestic asset and liability management operations by the national central banks.

On 4 September, the Governing Council of the ECB approved the regular (quarterly) external publication of a new Household Sector Report, which will provide an overview on financial and non-financial accounts of households of the euro area countries.

On 10 September, the Governing Council of the ECB adopted Decision ECB/2015/31 amending Decision (EU) 2015/5 on the implementation of the asset-backed securities purchase programme. This Decision implements the decision taken on 18 March 2015 by the Governing Council of the ECB that the Eurosystem would purchase mezzanine tranches of asset-backed securities under the ABSPP provided that those mezzanine tranches were subject to an appropriate guarantee that complies with the Eurosystem collateral framework criteria.

On 10 September, the Governing Council of the ECB approved amendments to the Eurosystem oversight policy framework and to the Standards for the use of central counterparties in Eurosystem foreign reserve management operations with a view to complying with the ruling of 4 March 2015 of the General Court of the EU, which annulled the Eurosystem location policy for central counterparties.

On 10 September, the Governing Council of the ECB adopted Regulation ECB/2015/30 amending Regulation ECB/2014/48 concerning statistics on the money markets (with effect from October 2015) with a view to refining a number of significant terms that appear in the detailed reporting instructions provided for in Regulation ECB/2014/48.

On 16 September, the Governing Council of the ECB decided that the national central banks of the EU countries would from now on have the option to communicate publicly about the provision of Emergency Liquidity Assistance to the banks in their country, in cases where they deemed that such communication is necessary.

Appendix 7 (cont.)

On 17 September, the Governing Council of the ECB approved changes to the governance structure of the ABSPP.

On 29 September, the Governing Council of the ECB took note of the results of the Euro money market survey 2015.

On 9 October, the Governing Council of the ECB approved the publication of the ECB "Report on financial structures. October 2015".

On 22 October, the Governing Council of the ECB decided that the key ECB interest rates would remain unchanged.

On 5 November, the Governing Council of the ECB adopted Decision ECB/2015/33 amending Decision (EU) 2015/774 on a secondary markets public sector asset purchase programme, which gives legal force to the decision taken by the Governing Council of the ECB on 3 September 2015 to increase the PSPP issue share limit from 25% to 33% per international securities identification number.

On 18 November, the Governing Council of the ECB adopted Guideline ECB/2015/34 amending Guideline (EU) 2015/510 on the implementation of the Eurosystem monetary policy framework (General Documentation Guideline), and Guideline ECB/2015/35 on the valuation haircuts applied in the implementation of the Eurosystem monetary policy framework.

On 18 November, the Governing Council of the ECB authorised the publication of the "Financial Stability Review. November 2015".

On 18 November, the Governing Council of the ECB approved in principle a draft ECB Regulation on the collection of granular credit and credit risk data ("AnaCredit"). A final decision on the adoption of the draft Regulation will be reached only after the Governing Council of the ECB has been informed of the estimates related to the relevant information technology project, and of the merits and costs procedure to be used.

On 26 November, the Governing Council of the ECB adopted Guideline ECB/2015/39 amending Guideline ECB/2011/23 on the statistical reporting requirements of the European Central Bank in the field of external statistics and Guideline ECB/2015/40 amending Guideline ECB/2013/24 on the statistical reporting requirements of the European Central Bank in the field of quarterly financial accounts.

On 3 December, the Governing Council of the ECB decided that:

- the interest rate on the deposit facility would be decreased by 10 basis points to –0.30% (with effect from 9 December 2015);
- the interest rate on the main refinancing operations and the interest rate on the marginal lending facility would remain unchanged at 0.05% and 0.30% respectively.

On 3 December, the Governing Council of the ECB decided on a number of measures in the context of its reassessment of the appropriateness of the ECB's monetary policy stance. They are as follows:

- to extend the APP and carry out monthly purchases of 60 billion euro until the end of March 2017, or beyond, if necessary;
- to reinvest the principal payments on the securities purchased under the APP as they mature, for as long as necessary;
- to include, in the PSPP, euro-denominated marketable debt instruments issued by regional and local governments located in the euro area in the list of assets that are eligible for regular purchases by the respective national central banks;
- to continue conducting the main refinancing operations and 3-month longer-term

Appendix 7 (cont.)

refinancing operations as fixed rate tender procedures with full allotment for as long as necessary, and at least until the end of the last reserve maintenance period of 2017.

On 4 December, the Governing Council of the ECB approved a new publication schedule for the euro foreign exchange reference rates whereby the daily publication will be moved from around 14.30 CET to around 16.00 CET from 1 July 2016.

On 4 December, the Governing Council of the ECB adopted Guideline ECB/2015/44 amending Guideline ECB/2014/15 on monetary and financial statistics.

On 4 December, the Governing Council of the ECB adopted Decision ECB/2015/41 amending Decision ECB/2014/53 on the approval of the volume of coin issuance in 2015, Decision ECB/2015/42 on the approval of the volume of coin issuance in 2016 and Decision ECB/2015/43 on the procedural framework for the approval of the volume of euro coin issuance.

On 16 December, the Governing Council of the ECB adopted Decision ECB/2015/48 amending Decision ECB/2015/774 on a secondary markets public sector asset purchase programme.

On 18 December, the Governing Council of the ECB adopted Decision ECB/2015/50 amending Decision ECB/2010/10 on non-compliance with statistical reporting requirements in order to align Decision ECB/2010/10 with amendments made to Regulation ECB/2013/33 and Regulation ECB/2013/34, and in order to reflect the reporting requirements set out in Regulation ECB/2013/38, Regulation ECB/2013/40 and Regulation ECB/2013/39 in Decision ECB/2010/10.

On 18 December, the Governing Council of the ECB reviewed the list of acceptable non-regulated markets for assets eligible as collateral for Eurosystem monetary policy operations and the list of issuers classified as agencies in haircut category II (the updated lists are available on the ECB website).

On 30 December, the Governing Council of the ECB decided to clarify the acceptance criteria for External Credit Assessment Institutions (credit rating agencies) in the Eurosystem Credit Assessment Framework as well as to publish minimum coverage requirements in terms of rated assets, rated issuers and rated volume diversified across the asset classes that are eligible as collateral in monetary policy operations and across euro area countries.

2015 HIGHLIGHTS OF REGULATORY DOCUMENTS ADOPTED IN PURSUIT OF THE MAIN TASKS OF LATVIJAS BANKA

Regulatory document	No.	Date of adoption (effective date)	Title of the regulatory document adopted by the Council of Latvijas Banka
Procedure	231/2	12.03.2015 (05.05.2015)	"Amendments to Procedure No. 183/3 'Participation Procedure in the Electronic Clearing System of Latvijas Banka' of the Council of Latvijas Banka of 9 September 2010"
Procedure	232/4	27.04.2015 (01.05.2015)	"Amendments to Procedure No. 217/1 'Participation Procedure in the Eurosystem Monetary Policy Operations Organised by Latvijas Banka' of the Council of Latvijas Banka of 12 December 2013"
Procedure	232/5	27.04.2015 (15.06.2015)	"Participation Procedure in Cash Transactions at Latvijas Banka"
Regulation	142	12.05.2015 (01.07.2015)	"Amendments to Regulation No. 130 'Regulation for Electronic Information Exchange with Latvijas Banka' of Latvijas Banka of 12 December 2013"
Procedure	233/3	12.05.2015 (08.06.2015)	"Amendments to Procedure No. 213/9 No. 'On the Regulation for Servicing of Customer Accounts of Latvijas Banka' of the Council of Latvijas Banka of 16 September 2013"
Procedure	234/1	01.06.2015 (22.06.2015)	"Amendments to Procedure No. 186/4 'Participation Procedure in TARGET2-Latvija' of the Council of Latvijas Banka of 4 November 2010"
Regulation	143	09.07.2015 (01.10.2015)	"Amendments to Regulation No. 93 'Regulation for the Credit Register' of Latvijas Banka of 13 September 2012"
Procedure	238/1	20.10.2015 (02.11.2015)	"Amendment to Procedure No. 217/1 'Participation Procedure in the Eurosystem Monetary Policy Operations Organised by Latvijas Banka' of the Council of Latvijas Banka of 12 December 2013"

GLOSSARY

Asset-backed securities purchase programme (ABSPP): a programme under which the Eurosystem purchases eligible asset-backed securities.

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

Bank for International Settlements (BIS): an international financial organisation, founded in May 1930, 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.

Banknote Ethics Initiative (BnEI): an initiative launched at the Currency Conference in May 2013 to provide ethical business practice, with a focus on the prevention of corruption and on compliance with anti-trust law within the banknote industry. ECB, Latvijas Banka and other euro area central banks are included in the list of organisations supporting the objectives of the initiative (the list is published on the website of the Banknote Ethics Initiative).

Capital account: a balance of payments component reflecting gross acquisitions/disposals of non-produced non-financial assets and capital transfers between Latvia's residents and the rest of the world (non-residents).

Central government: public institutional units, including ministries, embassies, representative offices, agencies, councils, educational, healthcare, law enforcement, cultural and other public institutions whose competence covers the whole economic territory of the country, except for the administration of social security funds. The list of the institutional units of the Latvian central government is prepared by the CSB.

Clearing: the process of transmitting, processing and reconciling payment documents or securities transfer orders prior to settlement, resulting in 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 repayment of a loan, as well as those sold under repurchase agreements. The collateral used in the Eurosystem's reverse transactions should 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 Council of the EU 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.

Covered bond purchase programme (CBPP): a programme under which the Eurosystem purchases eligible covered bonds.

Credit institutions: capital companies whose business is to receive deposits or other

Appendix 9 (cont.)

repayable funds from the public and to grant credits on its own account and provide other financial services.

Current account: a balance of payments component reflecting flows in goods, services, primary income and secondary income between Latvia's residents and the rest of the world (non-residents).

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 rate of interest (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 the Republic of Latvia and branches, registered 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.

Deposits redeemable at notice: funds deposited with an MFI without any specified maturity, with the possibility of withdrawing on demand either subject to notifying the MFI within an agreed period of notice or subject to payment of a substantial penalty.

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.

EBA Clearing (*EBA Clearing S.A.S. à capital variable*): a capital company established by the major European and international banks, which provides pan-European payment infrastructure solutions, offering clearing and settlement services for both high-value and low-value euro payments to a wide community of banks in the EU.

Economic and Financial Committee (EFC): a counselling body set up to promote economic and financial policy coordination among the EU countries. In its fields of competence, the EFC provides opinions at the request of the Council of the EU or the EC, as well as ensures a dialogue between the Council and the ECB and provides assistance related to the preparatory work for the Council. The EFC is composed of representatives of the governments (usually Ministries of Finance) and central banks of the EU Member States as well as representatives of the EC and ECB.

Electronic Clearing System of Latvijas Banka (EKS): net settlement system of Latvijas Banka ensuring the processing of retail payment orders and the settlement of net positions.

EONIA (euro overnight index average): a measure of the effective interest rate prevailing in the euro interbank overnight market. It is calculated as a weighted average of the interest rates on unsecured overnight loans denominated in euro, as reported by a panel of contributing banks.

Equities: securities representing ownership of a stake in a commercial company. They comprise shares traded on stock exchanges (quoted shares), unquoted shares and other forms of equity. Equities usually produce income in the form of dividends.

EURIBOR (euro interbank offered rate): the rate at which euro interbank term deposits are being offered within the euro area by one bank which is an active euro money market participant to another credit institution of such type in the euro area at 11.00 a.m. CET.

Appendix 9 (cont.)

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 2015, the euro area comprised Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the 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 Supervisors and works to ensure effective and consistent prudential regulation and supervision across the European 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 of the ECB in cooperation with the national central banks of the EU Member States.

European Council: an EU institution defining the EU's overall political direction and priorities. It is comprised of the heads of state or government of the EU Member States, the President of the European Council and the President of the EC.

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, so as 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 euro area countries. The decision-making bodies of the Eurosystem are the Governing Council and the Executive Board of the ECB.

Expanded asset purchase programme (expanded APP): adds the purchase programme for public sector assets to the existing private sector asset purchase programmes. It includes the third covered bond purchase programme (CBPP3), ABSPP and PSPP.

Financial account: a balance of payments component reflecting financial assets and financial liabilities (direct investment, portfolio investment, financial derivatives, other investment and reserve assets) between Latvia's residents and the rest of the world (non-residents).

Financial stability: the condition in which the financial system (financial intermediaries, markets and market infrastructures) is capable of withstanding shocks, without significant disruptions in the financial intermediation process and the supply of general financial services.

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.

Appendix 9 (cont.)

Fixed rate instrument: a financial instrument for which the coupon is fixed throughout the life of the instrument.

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 production of non-market goods or provision of services intended for individual or collective consumption, or public institutions engaged in redistribution of national income or wealth, primarily financed from the contributions (taxes and duties) imposed on economic agents. General government in the Republic of Latvia includes central government, social security funds and local government. The list of the institutional units of the Latvian central government is prepared by the CSB.

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.

Gross settlement system: a transfer system in which the settlement concerning each cash or securities transfer order occurs on an instruction-by-instruction basis in the order of receipt.

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 engaged in its professional practice or working at its farm (fishery) with the aim of gaining income or benefits, without employing any other person and without registering its activity with the Commercial Register of the Enterprise Register of the Republic of Latvia.

International investment position: a statistical statement reflecting the value and composition of financial assets and financial liabilities between Latvia's residents and the rest of the world (non-residents), on a specific date, as well as changes in the residual values in the respective time period.

International Monetary Fund (IMF): an international organisation, conceived in July 1944, 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 covers only a local economic territory. The list of the institutional units of the Latvian central government is prepared by the CSB.

Longer-term refinancing operation (LTRO): an open market operation with a maturity of over one week executed by the Eurosystem in the form of a reverse transaction. The regular monthly operations are conducted with a maturity of three months; the maturity of the supplementary operations initiated at varying frequency in August 2007 may vary from one reserve maintenance period to 36 months.

M1: a narrow monetary aggregate comprising currency in circulation and overnight deposits held with MFIs by euro area residents.

M2: an intermediate monetary aggregate comprising M1 and deposits held with MFIs

Appendix 9 (cont.)

by euro area residents and redeemable at a period of notice of up to and including three months (i.e. short-term savings deposits) and those with an agreed maturity of up to and including two years (i.e. short-term time deposits).

M3: a broad monetary aggregate comprising M2 and marketable instruments, in particular repurchase agreements, money market fund shares/units, and debt securities with a maturity of up to and including two years issued by MFIs.

Main refinancing operation: a regular open market operation executed by the Eurosystem in the form of reverse transactions. Such operations are carried out through weekly standard tender procedures 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 eligible 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 base (base money): currency (banknotes and coins) in circulation, the minimum reserves credit institutions are required to hold with the Eurosystem as well as any excess reserves they may hold under the Eurosystem's deposit facility or as other liabilities related to the monetary policy operations.

Monetary financial institution (MFI): a central bank, 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. Latvijas Banka sets up, maintains and regularly updates the List of Monetary Financial Institutions of the Republic of Latvia (see section Statistics on 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 2015, there were 61 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.

Non-financial corporation: an economic entity producing goods or providing non-financial services, including an individual merchant registered with the Commercial Register of the Enterprise Register of the Republic of Latvia.

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.

Outright transactions: open market operations where the Eurosystem purchases or sells eligible assets outright in the market. Outright transactions are executed only for structural purposes.

Price stability: the maintenance of price stability is the primary objective of the Eurosystem. The Governing Council of the ECB has defined price stability as a year-on-year

Appendix 9 (cont.)

increase in the HICP for the euro area that is below 2%. The Governing Council has also stated that, in the pursuit of price stability, it aims to maintain inflation rates below, but close to, 2%.

Public sector purchase programme (PSPP): a programme within the framework of which the Eurosystem purchases bonds issued by the euro area central and local governments, agencies and European institutions in the secondary market.

Real-Time Gross Settlement (RTGS) system: a settlement system in which processing of cash or securities transfer orders and settlement takes place on an individual basis and in a consecutive order (without netting) in real time.

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.

Residual maturity: time remaining until the maturity date of a debt instrument or a loan or time remaining until the final date of any other financial operation.

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

Securities settlement system: an agreement between at least three participants, apart from the operator of the system, on the execution of securities' transfer orders between those participants in accordance with uniform regulations and standardised procedures.

Single Euro Payments Area (SEPA): a project proposed by the European banks and supported by the Eurosystem and the EC to harmonise the way retail payments in euro are made, making payments in euro across European countries as fast, secure and effective as domestic payments. SEPA enables consumers, businesses and other economic agents to make both domestic and cross-border payments in euro on the same main terms and conditions, with the same rights and obligations, regardless of their location. As at the end of 2015, SEPA encompassed all EU Member States, Iceland, Liechtenstein, Monaco, Norway, San Marino and Switzerland.

Single Supervisory Mechanism (SSM): an EU-level framework for a prudential supervision of credit institutions in the euro area countries and in those EU countries outside the euro area opting to participate in the mechanism. The SSM is one of the central pillars of the banking union, comprising the ECB as the final responsible supervisory authority and the relevant national competent authorities of the EU countries.

STEP2: a payment system maintained by the EBA Clearing for the processing of retail payments in euro. STEP2 is a Pan-European Automated Clearing House (PE-ACH) system that fully complies with the requirements for SEPA clearing and settlement infrastructures set out by the European Payments Council, and is the sole system providing reachability of all EU credit institutions within SEPA.

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: the risk that the inability of one participant to meet its obligations in a system will cause other participants to be unable to meet their obligations when they become due, potentially with spillover effects threatening the stability of or confidence in the financial system. That inability to meet obligations can be caused by operational or financial problems.

Appendix 9 (cont.)

TARGET (Trans-European Automated Real-time Gross settlement Express Transfer system): the Eurosystem's real-time gross settlement system for the euro. The first generation TARGET system was replaced by TARGET2 in May 2008.

TARGET2: the second-generation TARGET system. It 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-Latvija: a component system of TARGET2 in Latvia. Its operation is ensured by Latvijas Banka in conjunction with the national central banks of the ESCB participating in TARGET2.

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.

Targeted longer-term refinancing operations (TLTROs): liquidity providing reverse operations executed in the Eurosystem through standard tenders, over a window of two years, by way of fixed-rate tender procedures, aiming to promote lending to households and non-financial corporations by credit institutions in euro area countries.