LATVIJAS BANKA
EIROSISTĒMA

LATVIJAS BANKA: ANNUAL REPORT 2013

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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 *the indicator is below 0.5 but over 0, or the result of the computation of the indicator is 0.*

Photos: Aivars Liepiņš and Andris Tenass.

The cut-off date is 29 April 2014.

CONTENTS

ABBREVIATIONS

ATM	Automated Teller Machine
BIS	Bank for International Settlements
CPI	Consumer Price Index
CRD IV	Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC Capital Requirements Directive
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
EMU	Economic and Monetary Union
ERM II	Exchange Rate Mechanism II
ESA 2010	European System of Accounts 2010
ESA 95	European System of Accounts 1995
ESCB	European System of Central Banks
ESFS	European System of Financial Supervision
ESRB	European Systemic Risk Board
EU	European Union
Eurostat	Statistical Bureau of the European Union
FCMC	Financial and Capital Market Commission
FRS	US Federal Reserve System
GDP	gross domestic product
HICP	Harmonised Index of Consumer Prices
IMF	International Monetary Fund
JSC	joint stock company
LCD	Latvian Central Depository
Ltd.	limited liability company
M0	monetary base
M1	narrow monetary aggregate
M2	intermediate monetary aggregate
M3	broad monetary aggregate
MFI	monetary financial institution
Ministry of Finance	Ministry of Finance of the Republic of Latvia
OECD	Organisation for Economic Co-operation and Development
OPEC	Organisation of Petroleum Exporting Countries
OTC	over-the-counter trading
RIGIBID	Riga Interbank Bid Rate
RIGIBOR	Riga Interbank Offered Rate
SAMS	Interbank Automated Payment System of Latvijas Banka
SDR	Special Drawing Rights
SEA	State Employment Agency
SEPA	Single Euro Payments Area
SEPA Regulation regarding the end-date for migration	Regulation (EU) No. 260/2012 of the European Parliament and of the Council of 14 March 2012 establishing technical and business requirements for credit transfers and direct debits in euro and amending Regulation (EC) No. 924/2009
SJSC	state joint stock company
UK	United Kingdom
UN	United Nations
US	United States of America
WTO	World Trade Organisation
VAT	Value Added Tax

FOREWORD OF THE GOVERNOR

When I think about what Latvia as a country and Latvijas Banka as an institution, with personal contribution of each and every employee, accomplished in 2013, I feel immense pride. We have fulfilled a historic mission of whose importance we may become fully cognisant only by looking back from the perspective of years.

1 January 2014 was one of the landmark dates in the history of the restored Republic of Latvia. On this day, we concluded a journey of over ten years to full membership in the European monetary union, and Latvijas Banka became a member of the Eurosystem. This is not just a monetary or economic measure but much more: we joined the European Union on 1 May 2004 and now are equal partners to those European Union countries that decide the most important matters related to the future of the monetary union. Moreover, Latvia and Latvijas Banka will actively participate with a firm attitude towards carrying out prudent economic policies and solutions with regard to challenges faced by the European Union.

We have passed important tests on our way towards euro introduction, and this process was filled with difficult decisions and choices. For the fact that we did not manage to introduce the euro as early as 2008, we can blame no one but ourselves, and namely, for the short-sighted economic policy, loss of competitiveness of both our country and our producers, and too liberal fiscal policy while the real estate price bubble formed. We can only hope that this will serve as a good lesson to other countries and, above all, to ourselves, particularly at this globally stressful time.

Despite worries among the Latvian public, the changeover to the single European currency – in cash circulation, non-cash transactions, and ensuring public awareness – took place smoothly and without significant problems. Various surveys indicate that the Latvian public considers the transition to have been comfortable and easy to understand in all main aspects. For that I would like to thank our partners in the government, the Ministry of Finance of the Republic of Latvia, the European Central Bank (ECB), the European Commission and central banks of the euro area countries as well as the employees of Latvijas Banka.

Cautious optimism – this is how we can characterise the development of Latvian economy in 2013 and expectations for 2014. In 2013, our country managed to maintain one of the fastest rates of growth in the EU. Yet the main engine of growth has changed from exports to domestic demand, and the external economic environment will hardly prove to be a powerful engine in 2014 either. In January 2014, the International Monetary Fund raised its global economic growth forecast for 2014, including also the US. Of Latvia's main trading partners, growth forecast was substantially reduced for Russia, whereas the euro area outlook for 2014 did not change.

For goods and services exports, a drop in the growth rate was observed in the second half of 2013; even though the competitiveness of exporters was still high, the weak external demand continued to limit export volumes. Yet the Latvian export shares in global markets kept on growing, albeit slower than the year before.

With the economy recovering from crisis, labour costs increased in 2013, yet their dynamics was compensated by a rise in productivity, which ensured that the competitiveness of Latvian entrepreneurs was maintained. Moreover, certain diversification of production and markets was observed, and the purchasing power of population grew.

In the pursuit of its monetary policy in 2013, Latvijas Banka took into account the development of the Latvian economy and financial market as well as the preparations for joining the euro area. Monetary policy decisions were also influenced by low inflation in Latvia determined by the tight fiscal policy of previous years, and a slower growth rate of the world economy which dampened the rises in raw material costs. In the medium term, a low risk for price stability in Latvia persisted. The economic growth rate, on the other hand, was among the fastest in Europe, albeit unemployment indicators and the rate of lending growth were not in line with expectations. In view of this, Latvijas Banka used the opportunity to gradually reduce its interest rates.

Year 2013 passed in expectations for the euro. Practical work to prepare for the euro changeover was carried out, the legal framework was in place, and skills necessary for fulfilling the tasks related to the participation in the Eurosystem were perfected. There have been changes in all areas of Latvijas Banka activities, yet they are most pronounced in the analysis of macroeconomic developments, so that Latvijas Banka can participate in the Eurosystem monetary policy decision making as an equal partner. The focus of Latvijas Banka economic analysis has expanded notably from Latvia to the economy of the entire euro area.

To supply the Latvian economy with the necessary amount of money after the euro changeover, several important measures were implemented. Latvijas Banka commissioned the striking of 400 million Latvian euro coins in Germany and borrowed 110.3 million euro banknotes from the Eurosystem. In November 2013 began the frontloading of euro banknotes and coins to credit institutions, to be sub-frontloaded to businesses; on 10 December, the euro starter kit sales to residents started. The efficient preparations for the euro cash circulation allowed the euro changeover process to proceed smoothly and without delay.

During the past year, the payment system infrastructure was prepared for the introduction of the euro. A crucially new element was the implementation of the Single Euro Payments Area (SEPA) Project, which will provide the Latvian population and entrepreneurs with more convenient, cheaper and quicker settlements in the single European currency. I would like to note that the interbank automated payments system of Latvijas Banka has been ready for euro introduction for several years now, and it made the transition process easier for the entire Latvian financial system. Continuing to upgrade its functioning, Latvijas Banka granted electronic data access to the customers and participants of the Credit Register in 2013.

In 2013, cooperation between Latvijas Banka and the ECB substantially expanded and grew closer not only with regard to the matters involving the basic functioning of the central bank but also enhancing awareness of the EU cultural diversity and promoting mutual understanding among Europeans. In 2013, Latvia was showcased in the traditional

European Cultural Days of the ECB that took place from 16 October to 15 November in Frankfurt am Main in the form of various events that introduced the most characteristic aspects of Latvian culture, including classical music and avant-garde rock, readings, film screenings, theatre projects, exhibitions dedicated to architecture and photography, and a special programme for children.

Last year was the right time to look back at what had been accomplished after regaining independence and to mark the 20th anniversary of the restored lats with the coin "Silver Salmon" and an exhibition focusing on the design of Latvian coins and banknotes already included in the Latvian Cultural Canon. The year contributed richly to the art of coin design: to mark the anniversaries important for Latvian culture, Latvijas Banka issued coins dedicated to Rūdolfs Blaumanis, Richard Wagner and Jāzeps Vītols. Other collector coins, like "365", "Baby Coin" and "Oh, Holy Lestene!", were also issued and gained popularity. Latvia's contribution to coin design does not end with the introduction of the euro: people all over the world will continue to encounter our beautiful money, and the interest is overwhelming.

The same can be said about the functioning of Latvijas Banka. We are now setting to our most important and complicated task of finding best solutions to ensure effective performance of the Latvian economy in the euro area. We will have to show much strength and energy to make a meaningful contribution to progress in Latvia and the entire euro area. This is my wish for every one of us, and I am convinced that we will make every effort to succeed, and the coming years will be as rich in accomplishments as was 2013.

Ilmārs Rimšēvičs
Governor of Latvijas Banka
Riga, 22 April 2014

STATEMENTS 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 and 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 in the public interest 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 goal of Latvijas Banka as the central bank and a participant of the Eurosystem is price stability promoting 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 cash currency circulation in Latvia and participate in shaping the cash currency circulation in the euro area;
– participate in promoting smooth functioning of payment systems in the Eurosystem;
– prepare and publish statistical information in compliance with the provisions of the European Union legislation.

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

Latvijas Banka raises public awareness of economics and is an active participant of the Eurosystem.

VALUES

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

Competence:
– our knowledge and skills are very good;
– we learn from the best practices of others and serve as a model for others;
– we find quality and effective solutions.

Credibility:
– we work in the public interest, 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

GLOBAL ECONOMIC ENVIRONMENT

In 2013, the global economic growth continued to be moderate. Most developed countries reported a modest GDP growth, while in some economies recession was going on. The expansionary monetary policy pursued by central banks of the developed countries and the economic support programmes of many other facilitated the revival of private demand and the recovery of the construction industry. The strengthening of stock markets and significantly rising residential property prices had a positive impact on private consumption. Inflation was generally on a downward trend. Political instability in oil producing regions and the stronger-than-expected demand for oil products from the US offset the demand for oil products in other countries, which diminished due to slower economic growth; hence the oil price changes in 2013 were negligible. Nevertheless, price declines for many other production-related commodities were recorded. The renewed confidence in financial markets as well as a weaker demand for gold by central banks and private investors caused a marked drop of almost 30% in the price of gold. In contrast to the developed countries which reported some vague signs of economic recovery, the previously observed robust growth momentum in emerging market economies was replaced by a much more modest one. In China, the GDP growth and annual inflation did not change vis-à-vis 2012. The growth was driven by investment and consumption, with the economy being redirected from export markets to domestic consumption. The dynamics of Japan's economic activity was determined by the expansion in exports as a result of depreciation of the Japanese yen, stronger domestic demand, and more accommodative monetary and fiscal policies. Somewhat rising consumer prices in Japan evidenced the success in the ongoing economic reform process aimed at attaining the 2% price stability target.

In the euro area, with exports and investment contracting, recession continued in the initial months of 2013. Unfavourable weather conditions caused deterioration in construction. The economic growth, however, spurred by the momentum in German and French economies, started again as early as the second quarter. Private consumption expanded and, with exports rising, production increased. The effects of the restrictive fiscal policy were waning, and the contribution of both government and private consumption to the GDP growth was positive. Yet the economic activity remained weak in peripheral countries, and unemployment rate went up in the euro area. The second half of the year also saw a slight rise in the euro area domestic demand, investment and inventories, whereas exports grew only slightly. Consumer and business sentiment indicators improved, pointing to an eventually better situation. The unemployment level in the euro area elevated from 11.9% at the close of 2012 to 12.0% at end-2013 (from 11.4% to 12.1% on an average annual basis). Inflation in the euro area has been below the ECB's target for a number of years now; moreover, it was lower than expected. In 2013, the economy of the euro area, supported by further fiscal consolidation measures of the euro area countries, improved current account balances of the euro area peripheral countries, higher competitiveness of these countries, successful performance of credit institutions, renewed confidence in the euro area, better economic and financial sentiment indicators, and accommodative monetary policy stance, managed overall to move out of recession.

In Germany, GDP grew. Even though exports lost some momentum due to the shrinking external demand, Germany's contribution to the overall euro area growth indicators was positive. Its unemployment rate continued to be among the lowest in the euro area, and the growth, albeit to a lesser extent, was spurred by the domestic demand and private consumption.

In Estonia, the GDP growth decelerated notably vis-à-vis previous years. Despite the rising domestic demand and private consumption, the government consumption was limited, and, in addition, investment shrank in the first half of the year, while exports declined in the second half of the year under the negative impact of a growth slowdown in its major trade partners.

Lithuania's economy advanced, and its GDP, supported by investment and private consumption, was on the rise. The financial situation of households was improving (higher wages and income on assets), thus adding momentum to private consumption. Lithuanian companies increased their investment in manufacturing equipment, which pushed up overall expenditure. Exports were losing their significance as a driver of economic advance due to the weak external demand. Restrictions were imposed on exports of some Lithuanian products to Russia.

Poland's GDP increased because exports, also supported by price competitiveness, expanded due to depreciating zloty; imports, at the same time, grew as well. The exchange rate volatility notwithstanding, inflation was still low in Poland. Private consumption, however, remained moderate. Labour market problems were still in place. Fiscal consolidation was a constraint to the GDP growth. Following the poor indicators in the initial part of the year, retail trade expanded and labour market situation improved somewhat in the second half. The unemployment rate is albeit high and still imposes restrictions on wage and private consumption growth.

The UK's GDP posted a pick-up of 1.9% (largest since 2007). The growth was on account of services, mining and quarrying, investment in infrastructure, support to the housing market, and the Bank of England's accommodative monetary policy stimulating economic advance. With the unemployment rate decelerating, private consumption strengthened, whereas export growth was subdued by generally weak external demand.

In Sweden, both exports and investment contracted at the beginning of the year, while an increase in inventories had a positive effect on GDP. The risks related to the high household debt level persisted. The economic development in Sweden in the second half of the year was driven by expanding industrial production.

At the beginning of the year, Denmark saw GDP growing only somewhat. Although the growth was supported by private consumption, the latter was still constrained by a slow wage rise and population's willingness to save more and repay debts. In the second half of the year, Denmark's GDP continued on an upward trend, and the country's labour market situation improved.

In 2013, the US economic advance continued. GDP picked up 1.9%, and the growth was driven by the domestic demand which, in turn, was promoted by housing and labour market improvements, a favourable financial situation and accommodative monetary policy as well as a positive contribution from stock building and trade. On the other hand, the growth was slowed down by tax increases following the January fiscal deal and budget cuts in force since March. Over the year, unemployment rate decreased from 7.9% to 6.7%. Towards the end of the year, wage rises decelerated, while consumer price rises remained moderate. In October, the US succeeded in striking a deal on raising the government debt ceiling, thus fiscal uncertainty was reduced to some extent. Budget deficit dropped from 6.8% of GDP in 2012 budget year to 4.1% of GDP in 2013 budget year, primarily on account of reduced government spending.

Russia's economic situation deteriorated in 2013. Country's foreign trade was adversely affected by low oil prices and sluggish external demand. The Russian ruble continued to depreciate. Private consumption was moderate, unemployment rate was soaring, and labour productivity was low. The economic development was decelerated by investment shortages, a weak production sector and unfavourable weather conditions that caused the agricultural indicators to deteriorate.

Expansionary economic and monetary policies of Japan underpinned the economic recovery and a pickup in GDP. The expenditure for infrastructure was increased, the creation of new jobs was boosted, and inflation target was raised to 2%. At the same time, Japan's foreign trade balance posted a record high deficit, which formed in 2013 on account of imports of relatively expensive fossil fuel, particularly urgently needed after the 2011 Fukushima disaster when the availability of nuclear power in the country dropped.

Despite its still buoyant economic growth vis-à-vis other countries (GDP in China picked up 7.7% in 2013), the domestic demand in China was modest. In 2013, anti-corruption initiatives in the public sector and measures to combat shadow banks were implemented, thus cutting down on the lending activity. The data on government debt suggest that it is not yet excessive; however, the focus is on it not to widen sharply. At this juncture, the rapidly swelling local government debt under Chinese government's guaranty is raising concerns. The development of the economy was driven by public investment in the infrastructure, foreign trade and consumption.

Recovery, which started in 2012, continued in the financial market of Europe. The financial market dynamics in Europe and other related regions continued to be influenced by debt crisis in some European countries and the central bank decisions of advanced economies. Better sentiment indicators and macroeconomic data as well as progress achieved towards banking union all had a positive impact on the financial market. Financial market participants opted for a shift from investing in investment grade securities to higher-yield securities. The second half of the year saw stock market prices rise, while bond yields in peripheral countries of Europe declined sharply.

The ECB decisions to decrease the euro base rate substantially impacted the development of the euro area financial market. The ECB decided to decrease the interest rate on the main refinancing operations of the Eurosystem twice (in May and November), each time by 25 basis points. The consideration underlying the first such interest rate decrease (to 0.5%) was an unexpected drop in inflation and the sluggish pace of euro area economic progress. The decision to decrease the base rate (to 0.25%) taken in November was likewise a reaction to a steeper-than-expected drop in euro area inflation, which gave rise to concerns about eventual growth deceleration. Over the year, the ECB held the rate on the deposit facility unchanged (0.0%), whereas the rate on the marginal lending facility was decreased from 1.5% to 1% in May and from 1% to 0.75% in November. At press conferences, the ECB President reiterated that the ECB would do whatever it takes to deliver on the key mandate of the ECB, which is to maintain price stability in the medium term. On 7 November, the Governing Council of the ECB resolved to continue the fixed rate tender procedure with full allotment for all main refinancing operations and longer-term refinancing operations until at least June 2015 and for as long as needed after this date. In addition, the ECB decided to conduct, on a monthly basis, one longer-term refinancing operation (LTRO) with a maturity of one month until June 2015. Overall, this move strengthened market participants' confidence in the ECB proceeding with its expansionary monetary policy in support of the financial system's recovery. In the same way and primarily due to low inflation and slow economic development, the central banks of the EU countries outside the euro area also pursued accommodative monetary policy over the year. The rates on the main refinancing operations were decreased in Poland, Romania, Hungary and Sweden.

The view repeatedly voiced by the FRS officials about tapering (the need to gradually reduce the asset purchase programme) was in the financial market participants' focus throughout the year. It was supported by the US macroeconomic indicators, which were gradually improving in the second half of the year. An eventual shift in the FRS monetary policy caused anxiety and volatility across the global financial markets.

In 2013, the euro area credit institutions intensified early repayment of the funds they had borrowed from the ECB in its 3-year longer-term refinancing operations (LTROs) conducted in December 2011 and March 2012. Although an early debt repayment generally signals certain improvements in credit institutions' fiscal position, it caused a decline in excess liquidity in the banking system. In the course of 2013, the amount outstanding from the ECB's LTROs decreased by 452 billion euro, while excess liquidity declined from 608 billion euro at end-2012 to 200 billion euro at end-2013. In line with the falling excess liquidity, the volatility of EONIA increased, also affecting other money market interest rates. During 2013, EONIA averaged at around 0.09%, whereas in December, on account of contracting excess liquidity and end-of-the-year effects, average EONIA rose to 0.17%. Over the year, the 3-month EURIBOR grew slightly, to an annual average of 0.22%, reaching a monthly average high (0.27%) in December.

In 2013, the focus was on sovereign debt crisis-related events: in March, Cyprus was the next to apply to international lenders for financial assistance to rescue its banking system. As the country boasts low tax rates and investor-friendly tax regulatory framework accounting for large foreign investment inflows, the case of Cyprus attracted particular interest in international financial markets. The country's broad-based dependence on the financial sector, combined with aggressive investment policy and bulky investment in debt-ridden Greece, triggered quality deterioration of the credit portfolio and incurred massive losses to credit institutions, which the latter were unable to absorb due to low-level capitalisation, thereby coming close to insolvency threshold. The initially reached agreement on all-inclusive taxing of deposits set off a wave of vast-scale protests in the country and international repercussions; hence, it was reviewed and a new deal on a 10 billion euro international rescue package for Cyprus' economy and banking sector made in March with the EC, the ECB and the IMF. The final agreement was reached at the end of April and provided for restructuring of the banking sector and fiscal consolidation, and the bank levy imposed thereby incurred losses on depositors whose deposits exceeded 100 000 euro.

Concerns about the situation of credit institutions in Slovenia also generated financial market worries. This country was likely to become the sixth economy in need for international lenders' assistance. The anxiety about Slovenia's future receded when towards the close of the year the credit institutions' stress test showed that for recapitalisation of its problem-hit credit institutions Slovenia would need 4.8 billion euro, which the country would be able to finance on its own, without assistance from international lenders.

The settlement of the Cyprus issue was followed by positive developments in the euro area countries overall. A new tranche of loan under the international loan programme was approved for crisis-hit Greece, while in December Ireland became the first euro area economy to exit the international bailout programme. Portugal is planning to follow Ireland's suit in the near future. The progress achieved in the economic development translated into a substantially easing insolvency risk for euro area peripheral countries; hence the international rating agencies upgraded credit ratings for a number of latter countries over the year. Greece earned the largest upgrade of its sovereign rating, with Spain, Ireland, Cyprus and Portugal to follow. However, as the economic growth indicators of some advanced European economies fell behind the expected thus giving rise to analysts' concerns about their economic outlook, their credit ratings were downgraded. France, Italy and the Netherlands were countries with their ratings going down over the year.

The financial market reacted positively to the agreement of December 2013 reached by ECOFIN ministers for finance and economy on the EU position regarding the proposed directive on the Single Resolution Mechanism, a central pillar of the upcoming banking union. The Single Resolution Mechanism would include a resolution authority and a single resolution fund. Its main objective will be to manage, in orderly manner, the resolution of a credit institution facing serious difficulties, with minimal costs to taxpayers and limited problem-transmission to the real economy.

During the year, economic growth indicators were improving and pointed to a positive outlook for the majority of countries. Operational results of businesses suggested a further upward growth dynamics and the development of stock markets, thus raising investors' confidence. Stock market price volatility eased along with the rising stock prices. The Global MSCI World index had increased by 24.0%. From a regional perspective, yields were the highest in Japan's stock market where Nikkei 225 rose by 57.0% over the year. The US stock market also boasted extremely high yields, with its Standard & Poor's 500 index picking up 30.0%. Likewise, the European stock market provided investors with gains, as all major indices, including Dow Jones EURO STOXX 50 (an increase of 18.0% over the year), recorded appreciation. The largest pickup of all European stock indices was posted by Germany's DAX (25.0%).

With financial market participants' risk appetite growing, the euro peripheral government bond yields tended to decline in 2013, while those of the countries so far traditionally deemed safer for investing rose. The yields on the Greek government 10-year bonds dropped most (from 11.6% at the beginning to 8.3% at the end of the year). The yields on the government bonds of Italy, Ireland, Portugal, Slovenia and Spain likewise posted notable contractions. As investors gradually became convinced of the global economic recovery and opted for investing in more risky assets, the demand for the safe securities of developed countries weakened, pushing up the yields. The yield on the German government 10-year bonds increased from 1.3% at the beginning of the year to 1.9% at its close, and the yield on the US government 10-year bonds picked up more than 1 percentage point (from 1.8% at the beginning of the year to 3.0% at its end). The yields on the government bonds of Austria, Belgium, France and other advanced economies also increased.

In the course of the year, the euro exchange rate vis-à-vis the US dollar fluctuated, overall increasing from 1.32 US dollars to 1.37 US dollars per euro. The euro exchange rate fluctuations were primarily related to monetary policy decisions and forecasts of countries' central banks, but were also affected by market participants' changing expectations regarding economic developments in the euro area vis-à-vis the economic growth in other countries. The appreciation of the euro, on the other hand, was mainly driven by the growing market participants' optimism about the economic outlook of the euro area and the rising demand for the euro as investors increased their asset purchases in the EU countries.

On the supply side, the prices of crude oil were most affected by geopolitical risks in oil producing countries, which generated uncertainty about oil supplies and their volumes, and the reduced oil production in some of the OPEC countries (Iraq, Libya and Nigeria). On the demand side, in turn, the price of crude oil was impacted by economic developments and the future perspective, particularly so in the US and China, the largest oil product consumers. A landmark deal between Iran and the UN to limit Tehran's nuclear programme was reached in November. This rendered the market more optimistic about oil supply volumes. During the year, the price of *Brent* crude oil fluctuated between 96 US dollars and 119 US dollars per barrel; in December, however, it stabilised at 110 US dollars per barrel, thus remaining unchanged in annual terms.

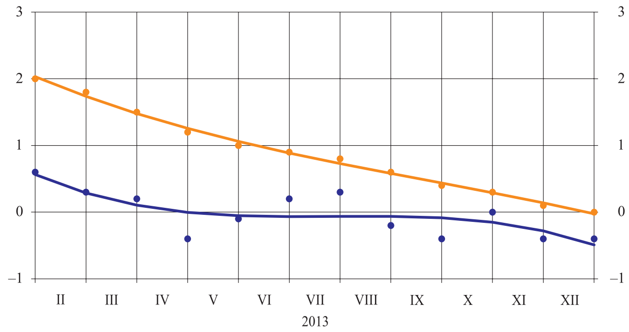
LATVIA'S ECONOMIC ENVIRONMENT

INFLATION AND PRICES

In the context of growth, the inflation rate was atypically low (0.0%) in 2013, primarily on account of external and supply-side factors (see Charts 1 and 2).

Chart 1

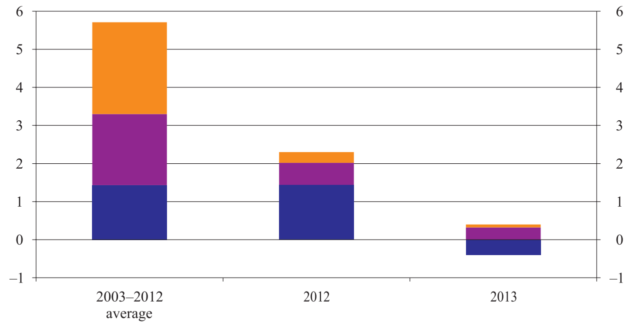
ANNUAL CONSUMER PRICE INFLATION
(%)



Source: CSB.

Chart 2

CONTRIBUTION OF INDIVIDUAL GROUPS TO ANNUAL CONSUMER PRICE CHANGES
(percentage points)



Global energy prices were declining. In 2013, the prices for *Brent* crude oil were on average lower than in 2012, both in terms of US dollars and lats (by 2.7% and 5.8% respectively). The related global price trends positively affected the domestic energy prices as well: in seven months of year 2013, a gradual drop in natural gas and heat prices was observed; several cities succeeded in reducing heat production costs also on account of restructured production process, e.g. by launching a cogeneration system or expanding the existing one.

Likewise, some food prices went down on global scale. According to the data of the Food and Agriculture Organisation of the United Nations, the price index for global food and agricultural products decreased by 1.6% year-on-year in 2013. In the course of the year, largest price rises (dairy product group) were quite notably offset by largest price declines (cereal product group), while the prices of other goods fluctuated within a narrower range.

The economic growth might have exerted an extra pressure on prices, yet it was not observed. The demand effects on consumer price level were set off by productivity and wages rising commensurately, without turning into a cost factor pushing up prices. Meanwhile, such essential cost factors as energy and food prices did not affect the prices of goods and services delivered by other industries. Competition continued to drive an on-going price decline in telecommunication services also in 2013. As a result, the average annual core inflation dropped to 0.2%.

In 2013, the average annual inflation rate (according to national methodology) and HICP both stood at 0.0%.

With the preparations for the euro changeover under way, Latvia launched consumer price monitoring in 2013, thus providing price level data in absolute terms. The data collected until December suggest that prices for some goods and services, if set in settlement-friendly or psychologically attractive manner in euro, both dropped and rose without essentially affecting the average level of consumer prices; the CSB data suggest the same.

The average annual growth rate of producer prices in manufacturing decelerated to 1.5% in 2013 (to 0.8% for domestically sold goods). This slow pace of the producer price growth partly reflected the trend of main resources' (agricultural goods and energy) average prices in major sectors but did not act as a driver of consumer price rises.

A more dynamic average increase in the prices of exported output than in the prices of domestically sold products over the year was, to some extent, determined by the structure of exported goods, in which a larger share of articles of wood dominated; meanwhile, producer price rises in the manufacture of wood were among the steepest, as the limited amount of locally available wood resources pushed up overall commodity costs. However, the contribution from food manufacturing prices to the growth in producer prices of exported output exceeded that from domestically sold output. This could be on account of assortment varieties and price levels in export partner countries.

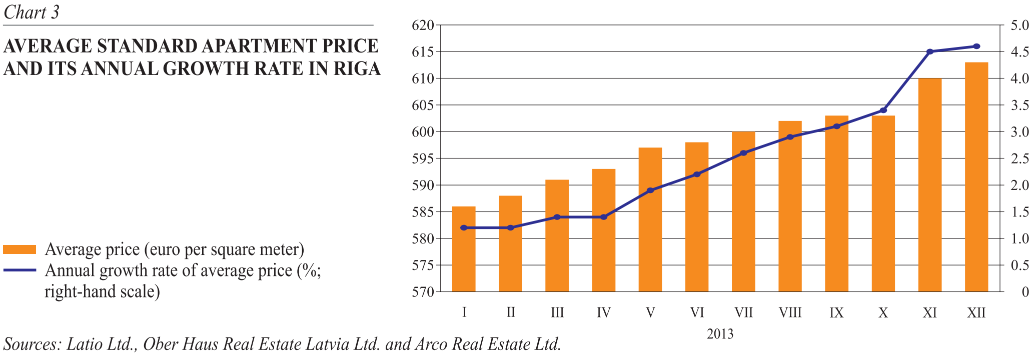
The average level of construction costs elevated 2.6% in 2013 vis-à-vis 2012. Labour remuneration rose by 5.9%, whereas the maintenance and operational costs of machinery and mechanical appliances grew by 2.2%. The building material costs posted the least increase (0.9%). In the breakdown by construction objects, annual costs rose most for engineering structures (by 3.2%), including transport objects (by 3.2%) and underground pipeline construction (by 3.3%).

In 2013, the real estate market activity continued to gradually gain momentum. In the year overall, the number of purchase agreements increased by 11.4% in comparison with 2012; moreover in Riga, the annual increase in the number of purchases soared to 15.9%. As real estate purchase in Latvia entitles to temporary residence permits, non-residents' influence in the real estate market persisted.

An ever stronger demand for real estate by both residents and non-residents underpinned the price rises for housing in new housing projects. On the other hand, more moderate price changes characterised the standard apartment market where, within the year, the average price increased by 4.6%. The average apartment purchase price at end-2013 stood at 613 euro per square meter (the average from Latio Ltd., Ober Haus Real Estate Latvia Ltd. and Arco Real Estate Ltd. prices; see Chart 3).

Chart 3

AVERAGE STANDARD APARTMENT PRICE AND ITS ANNUAL GROWTH RATE IN RIGA



Sources: Latio Ltd., Ober Haus Real Estate Latvia Ltd. and Arco Real Estate Ltd.

The housing rental market activity was buoyant in 2013, as quality housing for rent was much in demand among students, employees of foreign corporations and also residents with limited opportunities to purchase housing. As a result, the shortage of adequate housing for rent in Riga increased, and the rent was continuously going up.

GROSS DOMESTIC PRODUCT

The economic growth in Latvia in 2013 was sustainable, with GDP increasing by 4.1% (the best EU attainment).

Vis-à-vis 2012, when the growth was equally driven by exports, investment and private consumption, in 2013, the lead was taken by private consumption contributing 3.4 percentage points to the GDP growth.

The strengthening of private consumption (5.4%) was primarily on account of higher disposable income, underpinned by growing average wages and employment. In contrast to the pre-crisis period, the income growth is deemed to be more sustainable and based on commensurate improvements in productivity. Spending of saved funds also ranked as a significant consumption-driving factor. Even though a part of cash savings was placed on bank accounts in anticipation of the euro changeover, their other part was spent more actively, thus promoting consumption.

Gross fixed capital formation contracted by 4.3% in 2013, suggesting a subdued pace of investment growth. Non-financial investment data show that the pace of public sector investment (in public buildings, road infrastructure, pipelines, etc.), driven by the EU funding, was more dynamic. The expansion in private investment, on the other hand, was not so robust. The investment growth was slowed down by external uncertainties, the "wait-and-see" stance ahead of the euro changeover, and the completion of some major investment projects. With the effects from such factors easing or waning, investors are likely to intensify their investing activities in the future.

Real exports of goods and services posted some loss of impetus in 2013, with the respective growth rate becoming even negative in the third quarter. In 2013 in general, exports expanded by 1.0%. Despite the exporters sustaining their competitiveness, weak external demand had taken its toll of export volumes. Moreover, exports were adversely affected by the wind-up of the JSC *Liepājas Metalurgs*. In summer months, however, the export performance got a positive impetus from the JSC *Rīgas Kuģu būvētava*, which sold several vessels to Russia, and tourists visiting Latvia in large numbers.

Real imports of goods and services contracted 1.7% in 2013. It was on account of the weak investment dynamics, shrinking re-exports of some commodity groups and the wind-up of the JSC *Liepājas Metalurgs*.

In 2013 overall, net exports contributed 1.7 percentage points (slightly less than in 2012) to the GDP growth.

Total value added increased by 4.1% in 2013, primarily on account of higher value added in trade (a 0.6 percentage point contribution to the annual growth in total value added; a 4.3% increase at constant prices), construction (0.4 percentage point and 7.4% respectively), real estate (0.6 percentage point and 7.9% respectively), professional, scientific and technical activities, administrative and support services activities, other services (0.5 percentage point and 6.1% respectively) as well as public administration and defence, and compulsory social security, education, health and social care (0.4 percentage point and 6.8% respectively). In the meantime, the contribution of agriculture, forestry and fishing to total value added was almost neutral (0.0 percentage point and 0.7% respectively). The contribution of manufacturing to total value added was likewise close to neutral in 2013.

Manufacturing output, at constant prices, picked up 0.6% (working day adjusted data); at current prices, however, a decrease of 1.3% was recorded (data unadjusted for working-day effect). The growth in manufacturing was notably weaker in 2013 than in the previous years; yet it should be taken into account that in 2013 the JSC *Liepājas Metalurgs*, the largest actor in the industry, discontinued its economic activity, with the base metals manufacturing sub-sector and the entire manufacturing sector incurring negative consequences from it. In contrast to the previous years, when the development of manufacturing was driven by exports, in 2013, when the external demand weakened, the expanding sales in the domestic market took the lead. At current prices, the turnover of manufacturing output sold in the domestic market in 2013 grew by 5.5% (working-day adjusted data). Exports turnover, at the same time, contracted by 2.3%.

The contribution from manufacture of base metals to the annual growth of manufacturing was negative (5.5 percentage points) due to the problems of the JSC *Liepājas Metalurgs*. Likewise, the dynamics of manufacturing was impacted by a negative contribution from repair and installation of machinery and equipment (0.9 percentage point; fewer investment projects with installation and calibration of equipment) and manufacture of chemicals and chemical products (0.5 percentage point; on-going shrinkage of biodiesel fuel production due to dropping state subsidies). Meanwhile, the respective contribution from manufacture of food products (1.8 percentage points), wood and articles of wood and cork (1.3 percentage points), computer, electronic and optical products (0.5 percentage point), textiles (0.3 percentage point) and non-metallic mineral products (0.3 percentage point) was positive.

In 2013, retail trade turnover expanded by 3.8%, albeit at a pace twice falling behind the records of two previous years. Such deceleration in the growth was primarily on account of a higher basis. It was driven by consumption, postponed in the initial post-crisis years, and some other factors, e.g. curbed illegal sales volumes of automotive fuel. The growth of overall retail trade turnover, including motor vehicle sales, remained robust (6.8%). As re-exporting and purchases by legal persons also contributed to the motor vehicle sales, the above dynamics are not always on account of changes in population's purchasing power and current purchasing trends.

The pace of growth in transport and storage kept on decelerating in 2013. The volume of cargoes loaded and unloaded at Latvian ports stood at 70.5 million tons, posting a 6.3% decrease at large ports (1.6% at Riga port, 5.2% at Ventspils port, and 34.9% at Liepāja port) and a 3.4% increase at small ports. The given volume contraction was on account of several factors. First, the amount of coal loaded and unloaded fell due to the weakening demand for coal in Europe in close relation to restrictive regulations for coal-fired power plant operation. Second, the downslide of the Russian economy had a negative impact on the freight transit flow. Third, the problems with the JSC *Liepājas Metalurgs* pressed the volumes of cargoes reloaded at Liepāja port notably down. Fourth, the trend to direct the Russian freight transit flows to the ports that belong to Russia intensified; of late, Russian ports have seen significant investment in developing port infrastructure, thereby exerting a negative impact on freight turnover at Baltic ports. As to transportation by rail, 55.8 million tons of freight was transported (7.9% less than in 2012). The freight transportation volume shrank on account of contracting import freights (by 4.1%) and transit freights (by 42.3%; cargoes brought into and taken out of Latvia by rail). Meanwhile in 2013, 60.6 million tons of freight was transported by road (15.2% more than in 2012). The increase in the overall freight traffic was primarily on account of expanding domestic freight transport (by 17.3%), while international traffic picked up 5.9%.

In 2013, non-financial investment decreased by 11.2% (at current prices). This fall was determined by decelerating investment activity in several sectors. The largest negative contribution to the annual investment growth came from manufacturing (4.4 percentage points and a 31.7% decrease), transport and storage (2.2 percentage points and 12.9% respectively), wholesale trade and retail trade (1.9 percentage points and 29.7%) as well as electric energy, gas and heat supply, air conditioning (2.7 percentage points and 18.6%). Nevertheless, individual contribution of some sector to the overall investment dynamics was positive. Among the sectors with the largest positive contribution were professional, scientific and technical activities (0.7 percentage point and 103.8%), construction (0.5 percentage point and 26.8%), water supply, sewerage, waste management and remediation activities (0.9 percentage point and 40.4%) as well as arts, entertainment and recreation (0.5 percentage point and 53.0%).

LABOUR MARKET

In 2013, the labour market situation improved for employees. Having reached a high in early 2010, the unemployment rate declined by almost a half and stood at its historical average. It was even below the euro area average in 2013 and was ranked 10th in the EU (against the first position in the EU in 2010). At present, unemployment is basically structural, with its further decline increasingly determined by the efficiency of policy targeted at individual population groups and regions. Conventionally, creation of new jobs in the private sector has enhanced employment in Latvia; hence, instead of being a result of artificial anti-crisis measures, the employment growth in Latvia is sustainable. The 2013 average monthly full-time wage and salary in the economy (in lats) returned to its pre-crisis level. The low level of inflation underpinned robustly growing purchasing power of wage, while in the medium term the balance between wages and labour productivity was maintained. Higher remuneration observed in the economy as a whole, combined with employment growth, ensured a stronger retail trade and private consumption dynamics.

The monthly average wage and salary for full-time employment in 2013 was 503 lats (a 4.6% increase over the year). The wage momentum was similar in the private and public sectors. Productivity gains were also broadly based in terms of both per hour worked and per person employed. Mirroring a sustainable process of regaining competitiveness, unit labour costs rose moderately. In both nominal and real terms, in late-2013 they were respectively 15% and 21% lower than their historical highs at the close of 2008.

The number of employed rose buoyantly in 2013 overall and was recorded by all statistical data sources. For instance, according to the data of the CSB labour survey, the number of employed rose by 18.3 thousand or 2.1%. Nevertheless towards the end of the year, the upswing decelerated, with the further economic growth expected to rely increasingly on gains in labour productivity, an underpinning factor for remuneration increases.

In the course of the year, registered unemployment decreased by 1.0 percentage point, to stand at 9.5% of economically active population at year's end. In November and December, registered unemployment rose somewhat, mainly in Kurzeme (particularly in Liepāja), on account of the employees dismissed from the JSC *Liepājas Metalurgs* due to its wind-up. The estimated contribution to the country's registered unemployment rate of the latter, which resulted from its discontinued operation, is around 0.2 percentage point. The highest rate of registered unemployment was still observed in Latgale (18.8%), while the lowest was recorded in Riga (6.0%); at least in part, such a gap depends on distinctive motivations of job seekers to register with the SEA, because the CSB's labour survey data provide more moderate regional unemployment disparities.

According to the CSB's labour survey data, job seekers constituted 11.3% of economically active population at the end of 2013 (a year-on-year fall of 2.6 percentage points). Differences in job seekers' rates by education level still persisted: it was more complicated for less educated to find employment. For instance, at the end of 2013, the job seekers' ratio among those with university education fell several times behind the same ratio of individuals with elementary education (5.8% and 26.6% respectively). Relatively high youth unemployment (21.7%), in turn, can be partly associated with low economic activity of individuals aged 15–24 years.

Job vacancies in the economy increased only moderately, suggesting, on the one hand, better opportunities for finding employment and, on the other, implying that only some professions and companies, instead of the economy as a whole, might be experiencing labour shortages. The EC confidence survey data suggest that the number of businesses referring to labour shortages as the main obstacle to entrepreneurship is solidly moderate, hence a much more accelerated average wage rise in the economy vis-à-vis productivity should not be expected. Mostly the construction businesses refer to labour shortages as such an obstacle (14.5%), whereas in manufacturing and the services sector the respective figures for end-2013 were 10.4% and 7.0%.

FOREIGN TRADE, BALANCE OF PAYMENTS AND EXTERNAL DEBT

In 2013, with exports of goods gaining a larger share in the total foreign trade turnover, the deficit in Latvia's foreign trade in goods slightly eased and amounted to 11.0% of GDP. Despite stagnation ruling some of the export markets vital for Latvia and the wind-up of the JSC *Liepājas Metalurgs*, the annual growth in exports of goods was positive (1.3%) in 2013, suggesting robustness of the Latvian producers' competitiveness also in relatively tight circumstances. Likewise, despite a boost in domestic consumption, in 2013, imports of goods remained almost unchanged vis-à-vis the previous year (an increase of only 0.5%).

Falling exports of base metals and articles of base metals resulting from the wind-up of JSC *Liepājas Metalurgs*, of transport vehicles associated with contractions in re-exporting, and of grain due to the high reference point for 2013 grain exports because of the record-high harvest in 2012 all had an adverse effect on the annual growth in exports of goods.

In 2013, exports of goods generally picked up 7.8%, which was a moderate achievement vis-à-vis the steep annual 15%–30% rise in the post-crisis period (not including commodity groups strongly affected by one-off factors, i.e. base metals and vegetable products). Exports of several groups of goods, including those with large shares like wood, food products, machinery and mechanical appliances, electrical equipment, recorded expansion also in 2013. Real exports of goods decreased by 0.2%, while the export unit value of goods increased by 1.7%. The expansion in goods exports across almost all commodity groups, excluding base metals and articles of base metals and transport vehicles where real exports shrank notably, was on account of an increasing physical volume of goods.

As to the structure of goods exports, in 2013 the shares increased for wood and articles of wood (from 14.9% in 2012 to 16.1% in 2013), machinery and mechanical appliances, electrical equipment (from 13.7% to 15.5% respectively), and food products (from 8.5% to 9.4% respectively). In 2013 overall, machinery and mechanical appliances, electrical equipment, wood and articles of wood as well as food products contributed most to the annual growth in goods exports (2.2, 1.6 and 1.2 percentage points respectively). Also, the share of the high-tech sector in Latvian exports of goods grew (from 8.4% in 2012 to 9.8% in 2013).

According to the WTO data, Latvia's global export market shares continued to expand. In 2012, Latvian businesses managed to boost exports by increasing their volumes and by capturing new markets in so far less explored non-EU countries; by contrast, with the EU economies gradually strengthening, Latvian exports to the EU countries were on the upswing again in 2013.

Latvia's major partners in exports of goods were Lithuania (17.2% of total exports), Estonia (12.7%), Russia (11.5%) and Germany (7.3%). The share of the EU countries in the structure of Latvian exports picked up once again (from 70.1% in 2012 to 71.0% in 2013), and exports to the euro area countries accounted for 32.4% (33.1% in 2012).

In 2013, the value of imports of goods increased by 0.5%. This marginal rise, on the one hand, did not notably deteriorate the balance of foreign trade in goods and suggested no changes in Latvia's dependence on imports, because the opportunities for locally manufactured goods to replace the imported ones were still in place. Likewise, the declining imports of goods also signalled certain narrowing of re-exporting activities, e.g. in the car market. The dynamics of changes in imports, on the other hand, is related to the completion of some major investment projects and weaker new investment activities in the face of urgently needed ones for sustainable growth. In 2013, commodity groups whose imports contracted most were base metals and articles of base metals (by 15.2%), transport vehicles (by 12.4%), and vegetable products (by 9.1%). Latvia's major partners in imports of goods were Lithuania (20.2% of total imports), Germany (11.4%), Poland (9.9%), Estonia (8.4%) and Russia (8.4%).

Trade surplus was recorded for a number of commodity groups, such as wood and products of wood, agricultural and food products, building materials and miscellaneous articles. Mineral products retained the largest trade deficit. Of major trade partners, Latvia's foreign trade balance was positive with Estonia, Russia, the UK, and Scandinavian countries (Denmark, Norway and Sweden).

In 2013, the export price hikes slightly outpaced those in import prices: the export unit value picked up 1.7% in the course of the year, while import prices remained almost unchanged and recorded a mere 0.5% pickup. Export prices increased most for transport vehicles (by 19.8%), whereas the steepest import price rises were observed for animal products (6.7%). In 2013, the terms of trade improved by 1.1%.

Likewise, Latvia's price competitiveness strengthened slightly, with the CPI-deflated real effective exchange rate of the lats depreciating by 1.3%. This downward trend was characteristic vis-à-vis almost all trade partners' currencies, excluding the US dollar and the British pound sterling. The market shares in nearly all major trade partner countries, among them the EU and Russia, also expanded. Latvia's market share in the UK swelled, too, yet without positive moves in price competitiveness; hence, its expansion is underpinned by other factors (e.g. new or significantly improved products, etc.).

Net inflows of foreign direct investment in the amount of 427.9 million lats accounted for 2.6% of GDP in 2013. The largest share of these inflows, basically from Sweden and Russia, went into financial and insurance activities, with a significant portion also invested in manufacturing (inflows from Luxembourg, Cyprus, Denmark and other countries) and trade (inflows from Estonia, Lithuania and other countries). Sustainability of Latvia's economic advance was attested by its credit rating upgrades by Moody's Investors Service in March, Standard & Poor's in June, and Fitch Ratings in July 2013. Moreover, in late 2013 and early 2014, a number of international credit rating agencies confirmed Latvia's credit rating at the present level, but Standard & Poor's raised Latvia's credit rating outlook from stable to positive, a move that might spur investment in Latvia.

The current account deficit of Latvia's balance of payments fell to 134.3 million lats or 0.8% of GDP in 2013. A smaller deficit against the previous year was on account of contracting imports of goods and the growing foreign trade surplus in services. This current account deficit was covered by long-term capital in the form of foreign direct investment and capital-boosting EU funding.

The goods and services trade balance improved year-on-year, posting a deficit of 305.9 million lats or 1.9% of GDP in 2013. The annual growth in exports of goods was driven by goods competing well in foreign markets. Due to the weakening foreign demand in 2013, exports of all-type transportation services shrank, while those of other services grew, thus, in the year as a whole, enabling services exports to be still on an upward trend. Overall, services exports expanded at a faster pace than did services imports.

Against the previous year, the income account deficit eased over the year, to 233.5 million lats or 1.4% of GDP, as profit earned by foreign direct investors in Latvia decreased somewhat.

In comparison with the previous year, the surplus in current transfers slightly dropped, to 405.0 million lats or 2.5% of GDP. Financing from the EU funds accounted for largest inflows into the current transfers and capital accounts. All in all, Latvia received

739.8 million lats from the EU funds in 2013, slightly less than in the past year. Inflows from the EU agricultural funds (233.2 million lats) and the European Social Fund (64.4 million lats) into the current transfers account were significant. Speaking about the capital account of Latvia's balance of payments, the largest inflows of financing came from the European Regional Development Fund (230.0 million lats) and the Cohesion Fund (144.0 million lats).

In 2013, the financial account of Latvia's balance of payments posted a deficit of 135.2 million lats.

Latvia's gross external debt stood at 21.4 billion lats in 2013 (by 0.2 billion lats exceeding the indicator at the end of the previous year), albeit posting a drop to 130.5% of GDP (136.4% of GDP at the end of 2012). Meanwhile, net external debt decreased both in absolute terms and vis-à-vis GDP: at the end of 2013, it amounted to 5.8 billion lats or 35.3% of GDP (38.9% of GDP at the end of 2012).

External debt of the general government contributed 22.5% to total gross external debt at the end of 2013 (23.6% at the end of 2012). The difference was primarily on account of volatile exchange rate and government bond prices as well as moderate debt repayment.

As MFIs proceeded with the repayment of borrowed funds to parent credit institutions, their external debt share in total external debt stood at 45.7% at the end of 2013 (46.4% at the end of 2012); at the same time, the growth rate of deposits made by non-residents lost momentum somewhat. Liabilities of other sectors and the central bank accounted for the remaining part of external debt. In the breakdown by currency, the euro continued to dominate.

Latvia did not issue new debt securities in the external market in 2013.

FISCAL DEVELOPMENTS

On a cash flow basis, the consolidated general government budget posted a deficit of 90.2 million lats or 0.6% of GDP in 2013, whereas according to an accrual principle (ESA 95) used to evaluate compliance with the Maastricht criteria the estimated deficit was 157.3 million lats or 1.0% of GDP.

The surplus achieved on a cash flow basis in 2012 turned into a deficit in 2013 as a result of the surplus in the central government's basic budget shrinking from 137.3 million lats in 2012 to 49.3 million lats in 2013 and the deficit in the consolidated local government budget growing from 62.5 million lats in 2012 to 84.3 million lats in 2013. The deficit in the central government's special budget remained broadly similar to that reported in 2012: 40.7 million lats in 2013 as compared to 49.5 million lats in 2012.

In 2013, the contributions to the pension capital of the 2nd tier of the pension scheme were raised from 2% to 4%, affecting the budgetary balance as well as translating into a departure from the structural deficit in the amount of 0.5% of GDP achieved in 2012. The rise in overall expenditure was steeper than that in revenue in 2013: 4.5% and 2.6% respectively. Tax revenue was higher than planned on account of solid economic growth, reaching 103.6% of the target and representing a 5.3% increase over 2012.

The Fiscal Discipline Law came to effect on 6 March 2013 and the Fiscal Discipline Council was established at the turn of the year, ensuring that the future fiscal policy implementation will be based on the principle of sustainability.

Consolidated general government budget revenue amounted to 5 889.9 million lats or 36.1% of GDP in 2013. The annual increase in revenue totalled 147.1 million lats or 2.6% which is substantially smaller than the rise of 655.5 million lats or 12.9% achieved in 2012. The increase in the consolidated general government budget revenue continued to be fully based on tax revenue which grew by 227.0 million lats. However, with the economic growth decelerating, the rate of increase was lower than that in 2012: 5.3% and 10.6% respectively. Revenue from taxes on labour and VAT continued to demonstrate positive trends. Non-tax revenue contracted by 24.4 million lats year-on-year in 2013 on account of lower revenue from the use of state (local government) capital and higher reimbursements of pre-financing received from EU funds made in 2012. Revenue from foreign financial assistance was also 63.9 million lats or 7.5% lower in 2013 in comparison with 2012.

Expenditure of the consolidated general government budget totalled 5 980.1 million lats or 36.6% of GDP in 2013, representing an annual increase of 256.5 million lats. The rise of expenditure outpaced that of revenue and was also higher in comparison with the 2012 spending increase: 4.5% and 3.5% respectively. This increase in the overall expenditure was mainly attributable to social spending which grew by 76.6 million lats or 4.8% due to an increase in the average size of benefits (an annual rise of 2.9% in the average unemployment benefit, with the number of beneficiaries growing by 29.7 percentage points, inter alia on account of the wind-up of JSC *Liepājas Metalurgs*; an annual increase of 32.6% in average maternity benefit) as well as the indexation of all types of pensions up to 200 lats as of 1 September. Wage and salary expenditure also grew by 61.3 million lats or 6.8% year-on-year in 2013 and, as a result of better economic performance, contributions to the EU budget increased by 34.1 million lats.

According to the cash flow principle, the general government debt amounted to 5 739.1 million lats or 35.0% of GDP at the end of 2013, whereas according to the ESA 95 methodology it reached 6 236.2 million lats or 38.1% of GDP. Looking beyond the effect of methodology changes introduced at the beginning of the year, the general government debt decreased by 68.5 million lats since December 2012. External debt shrank by 65.7 million lats in 2013. External debt service costs declined from 247.9 million lats in 2012 to 169.7 million lats in 2013. An important step in the development of the domestic financial market was the introduction of savings bonds. The market invested mostly in long-term savings bonds.

As at the end of 2013, the local government debt totalled 645.1 million lats and consisted primarily of domestic borrowing from the Treasury. The respective liabilities increased by 67.5 million lats year-on-year.

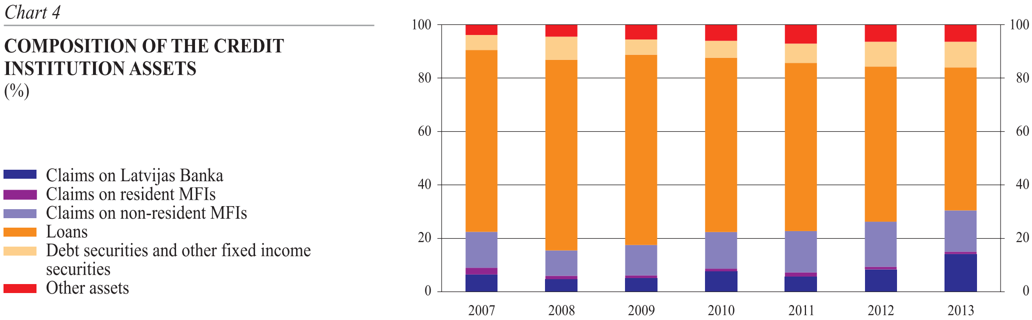
CREDIT INSTITUTION DEVELOPMENTS

At the end of 2013, 28 credit institutions, including nine branches of foreign credit institutions, 35 credit unions of which two credit institutions launched business during the year, seven electronic money institutions and two money market funds were registered in the Republic of Latvia. JSC GE Money Bank wound up its business in 2013. Moreover, based on the applications submitted by the particular credit institutions, as of 1 January 2014 credit institution licences were cancelled for JSC UniCredit Bank which left the Baltic market due to changes in the group strategy and SJSC *Latvijas Hipotēku un zemes banka* which was transformed into SJSC *Latvijas Attīstības finanšu institūcija Altum*. The government's participating interest in the paid-up share capital of credit institutions remained broadly unchanged during the year, amounting to 17.1% at the end of 2013.

Latvia's economy continued to develop in 2013, and the assets of credit institutions resumed growth for the first time following a longer period of decline, increasing by 1.4% as opposed to a 3.3% decrease in 2012. Nevertheless, lending activity remained low; therefore, the credit institution loans to resident and non-resident non-MFIs continued to shrink, contracting by 6.5% in comparison with a 10.9% decline in 2012 (see Chart 4). With the credit portfolio shrinking, on the liability side, non-resident MFI financing also

Chart 4

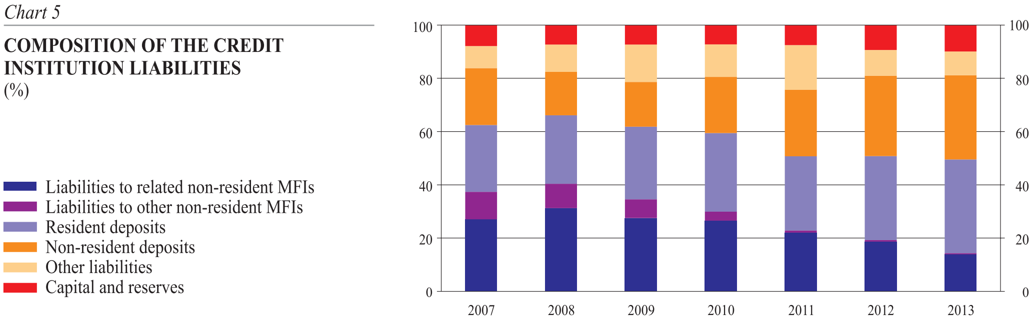
COMPOSITION OF THE CREDIT INSTITUTION ASSETS
(%)



contracted further by 24.7% in comparison with a 18.3% decrease in 2012, accounting for 14.3% of the credit institutions' total assets at the year-end (including financing from parent credit institutions amounted to 13.9%; see Chart 5). Conversely, resident deposits grew by 13.3%, whereas non-resident deposits increased by 6.3%.

Chart 5

COMPOSITION OF THE CREDIT INSTITUTION LIABILITIES
(%)

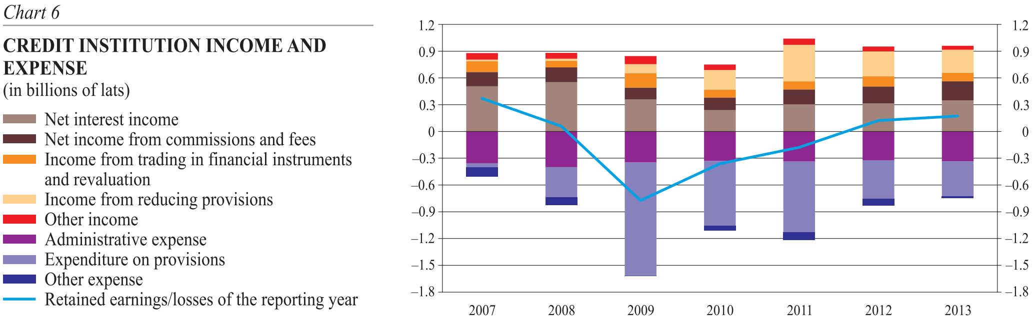


With the loan portfolio continuing to shrink, the share of liquid assets in total assets expanded to 36.5%. As a result of further robust economic development, the loan portfolio quality of credit institutions improved and the share of loans past due over 90 days in the aggregate loan portfolio of credit institutions contracted to 8.3% at the end of 2013. The quality improvements in the portfolio of loans to non-financial corporations were again more substantial.

Most Latvia's credit institutions operated with profit in 2013, overall earning 173.0 million lats in comparison with 122.3 million lats profit earned in the previous year (see Chart 6). The operating income of credit institutions totalled 664.9 million lats in 2013, representing a year-on-year increase of 5.3%. Net interest income remained the most sizeable component of the operating income and grew by 10.4% year-on-year, accounting for slightly more than a half of the operating income. This particular item increased on account of the interest expenditure shrinking more substantially than the interest income. Net commissions and fees, the second most important income component, continued to expand growing by 13.6% (14.7% in 2012), still accounting for about 30% of the operating income. The operating costs of credit institutions remained at the level of the previous year.

Chart 6

CREDIT INSTITUTION INCOME AND EXPENSE
(in billions of lats)



The capital adequacy ratio of credit institutions continued to improve and stood at 18.9% at the end of the year (the minimum capital requirement set by the FCMC is 8%), whereas Tier I capital ratio amounted to 17.3%. Six credit institutions increased their capital by a total of 41.0 million lats in the course of the year.

MONEY SUPPLY

The principal monetary aggregates of the Latvian MFIs and Latvijas Banka are featured in Appendix 1. The development of the monetary aggregates in 2013 mirrored the steady growth of the Latvian economy and the ample liquidity surplus accumulated by credit institutions. Following the final decision on Latvia joining the euro area, significant shifts were registered in the money supply in the second half of the year. Starting from July when Latvia received the invitation to join the euro area from the EC, the demand for cash contracted notably month by month. At the same time, household deposits with credit institutions and, with the year-end approaching, also those of non-financial corporations grew considerably. With the growing deposits under the circumstances of stable economic development more than offsetting the impact of the shrinking demand for cash, money supply grew by 2.8% in 2013 overall, at a rate equal to that of the previous year. At the same time, shifts into overnight deposits, one of the most liquid money supply components, continued reflecting the impact of the low deposit rates discouraging the economic agents from longer-term savings. Nevertheless, as the inflation rate approached zero, investment into less liquid instruments also increased, with deposits redeemable at notice expanding swiftly, although still remaining quite insignificant in terms of the value.

Currency outside MFIs contracted by 56.6% in 2013 and the amount of lats remaining in circulation as at the moment of the euro changeover totalled 469.3 million lats. Overnight deposits, another most liquid and substantial component of the money supply, grew by 26.7% in 2013 (by 13.0% in 2012). The growth rate of other monetary aggregates, M2 and M3, was lower than that of M1: 1.9% and 2.8% respectively in comparison with 3.8% and 2.8% in 2012 respectively. The annual overall M3 growth reached 189.1 million lats in 2013 in comparison with a 186.1 million lats increase in 2012, and M3 totalled 7 034.8 million lats at the end of 2013 (see Table 1 and Chart 7). Money supply increased in the second half of the year: in the first half of the year, M3 contracted by 0.2%, whereas in the second half it grew by 3.0%. The steepest monthly rise in M3 (183.8 million lats or 2.7%) was registered in December with deposits with MFIs (excluding Latvijas Banka) expanding significantly. By contrast, the most notable monthly drop of 114.2 million lats or 1.7% was recorded in March and it was related to a relatively significant, yet short-lived contraction of deposits by non-financial corporations.

Table 1

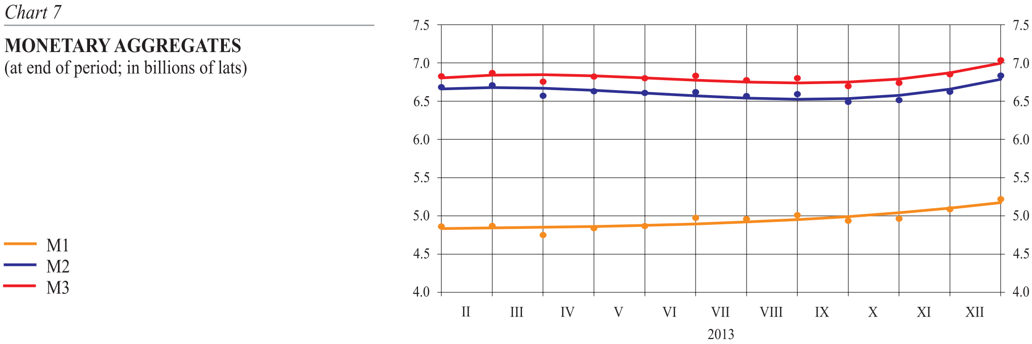
ANNUAL CHANGES IN MONETARY AGGREGATES
(%)

	2013	2012
Currency outside MFIs	**–56.6**	4.1
Overnight deposits	**26.7**	13.0
M1	**8.0**	10.9
Deposits with an agreed maturity of up to 2 years	**–21.6**	–12.0
Deposits redeemable at a notice of up to 3 months	**45.7**	–1.7
M2	**1.9**	3.8
Money market fund shares and units and debt securities with a maturity of up to 2 years	**44.1**	–29.2
M3	**2.8**	2.8

Money supply increased primarily as a result of the growing demand deposits, while the share of currency in circulation in M3 shrank by 9.1 percentage points to 6.7% as opposed to a 0.2 percentage point increase reported in 2012. The approaching euro changeover as well as the financial and economic stability overall supported the return of cash to credit

Chart 7

MONETARY AGGREGATES
(at end of period; in billions of lats)

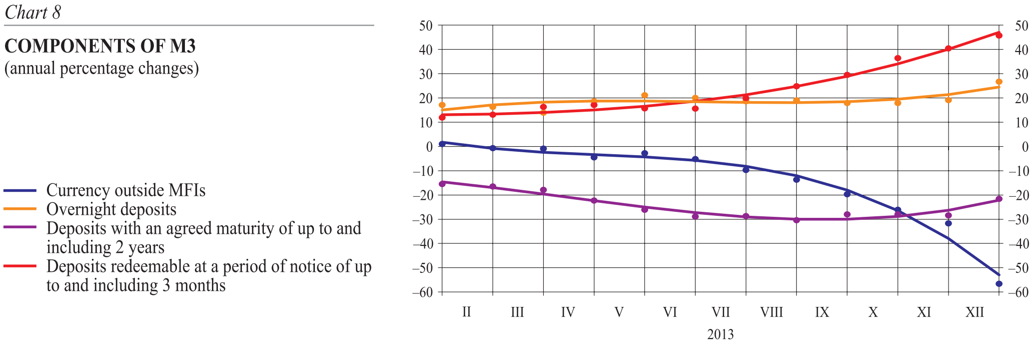


institutions. June was the only month in 2013 when demand for cash increased under the impact of seasonal factors, albeit merely by 0.7%. Currency in circulation (the lats banknotes and coins issued by Latvijas Banka less vault cash of other MFIs) contracted by 613.1 million lats in the course of the year in comparison with an increase of 42.4 million lats reported in 2012.

Deposits by resident financial institutions, non-financial corporations and households grew by 13.2% in 2013 as compared to 4.5% reported in 2012. This masked an increase in overnight deposits and deposits redeemable at a notice of up to 3 months with MFIs and a decline in the respective deposits with an agreed maturity of up to 2 years. As a result, the share of overnight deposits in broad money grew from 54.8% at the end of 2012 to 67.5% at the end of 2013 (see Chart 8 for the annual changes in the components of M3).

Chart 8

COMPONENTS OF M3
(annual percentage changes)

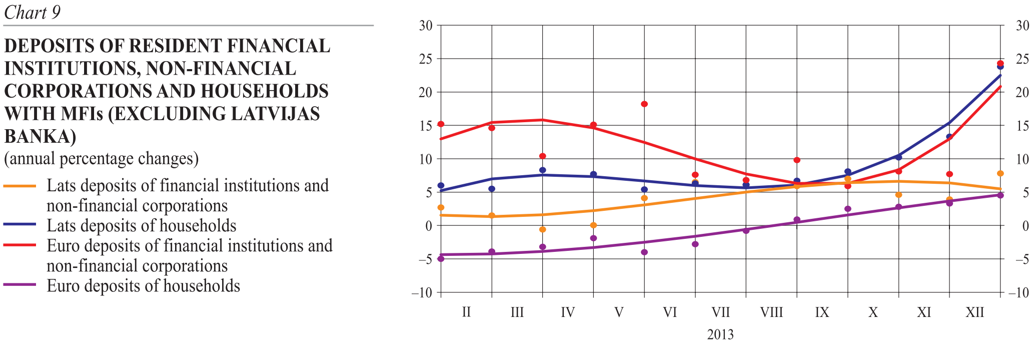


Aggregate deposits remained relatively stable almost throughout the year, with the annual growth rate lingering around 5%. In December, however, when the increase in household deposits observed all year was complemented by a sharp rise in deposits by non-financial corporations, deposits with credit institutions increased substantially. Deposits by financial institutions and non-financial corporations placed with credit institutions grew by 13.1% in 2013, whereas household deposits expanded by 13.2%, reflecting both the cash substitution effect as well as the acceleration of the economic activity. The share of household deposits in aggregate deposits remained broadly unchanged, increasing from 52.5% at the end of 2012 to 52.6% at the end of 2013. Household deposits accounted for 62.7% of all time deposits and 48.6% of overnight deposits (60.7% and 47.7% at the end of 2012 respectively).

The currency composition of deposits was characterised by a slight increase in the shares of both lats and euro deposits in 2013, with deposits in other currencies (mainly in the US dollars) shrinking accordingly. In absolute terms, the deposits made in lats and euro expanded by 15.9% and 13.7% respectively during the year, whereas deposits in other currencies shrank by 2.0% (see Chart 9 for the annual developments in lats and euro deposits made by resident households, financial institutions and non-financial corporations). At the end of 2012, lats deposits accounted for 45.4% of resident non-MFI deposits, whereas at the end of 2013 the percentage had declined to 44.9%, while the

Chart 9

DEPOSITS OF RESIDENT FINANCIAL INSTITUTIONS, NON-FINANCIAL CORPORATIONS AND HOUSEHOLDS WITH MFIs (EXCLUDING LATVIJAS BANKA)
(annual percentage changes)



share of the respective euro deposits had expanded from 45.6% to 47.2%. The share of the US dollar deposits contracted from 6.9% at the end of 2012 to 5.9% at the end of 2013.

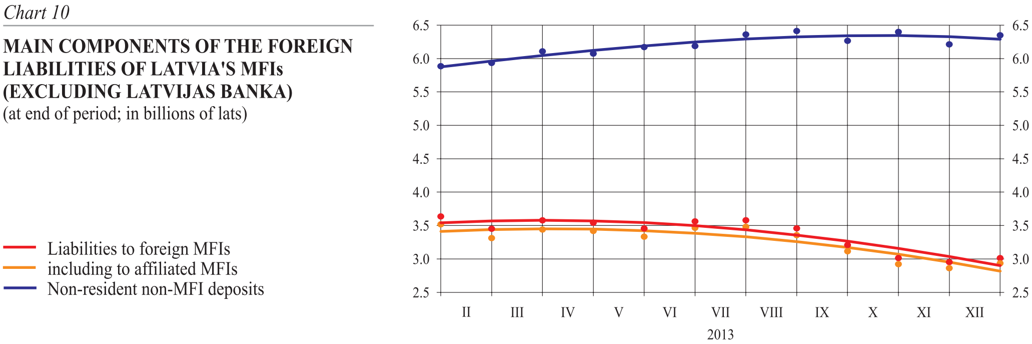
The contribution of additional components comprised in M3 remained relatively low. Several credit institutions launched new bond issues; therefore, the outstanding amount of MFI debt securities with a maturity of up to 2 years doubled during the year, reaching 154.7 million lats at the end of December. Money market fund shares and units totalled 46.6 million lats at the end of the year, representing a decrease of 24.8% over a year.

The money multiplier decreased in 2013 and was 2.23 in December 2013 in comparison with 2.57 in December 2012. As the macroeconomic risks remained relatively unchanged, the velocity of money was constant: 2.3 both in 2012 and 2013.

Non-resident non-banks increased their deposits with Latvian credit institutions by 10.4% over the year (by 16.9% in 2012), confirming their confidence in the stability of Latvia's financial sector. Contrary to that, financing received from foreign parent credit institutions decreased as a result of persistently low lending activity and consolidation of credit institutions. Liabilities to parent credit institutions shrank by 21.0% in 2013 and to foreign MFI's overall by 21.3% (see Chart 10). In 2013, net foreign assets of MFIs grew by 230.4 million lats and totalled 844.1 million lats, with the net foreign assets of the Latvijas Banka expanding by 48.0 million lats and amounting to 4 073.8 million lats at the end of the year.

Chart 10

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

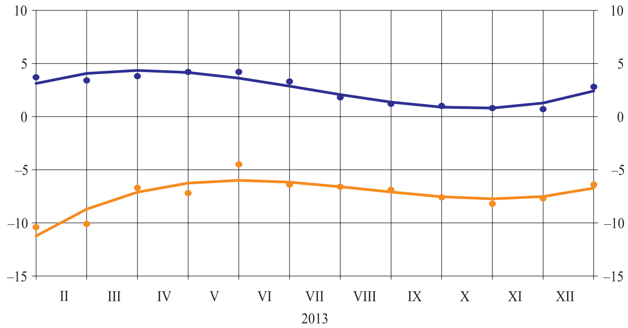


Changes in the external items of the balance sheet of MFIs (excluding Latvijas Banka) were relatively minor during the year: foreign liabilities contracted by 137.6 million lats, whereas foreign assets grew by 44.9 million lats, with the shrinking of claims on non-resident MFIs being offset by the growing loans to foreign non-MFIs as well as the foreign government and non-MFI private sector securities portfolio. Thus, the negative net foreign assets of MFIs (excluding Latvijas Banka) had shrunk by 182.5 million lats year-on-year at the end of 2013 (in 2012, the negative net foreign assets of MFIs decreased by 247.8 million lats year-on-year).

Of the counterparts, the decline in the MFI loans to private sector retained its downward effect on the monetary aggregates (see Chart 11), with loans to resident financial

Chart 11

M3 AND LOANS TO RESIDENT FINANCIAL INSTITUTIONS, NON-FINANCIAL CORPORATIONS AND HOUSEHOLDS
(annual percentage changes)



M3
Loans

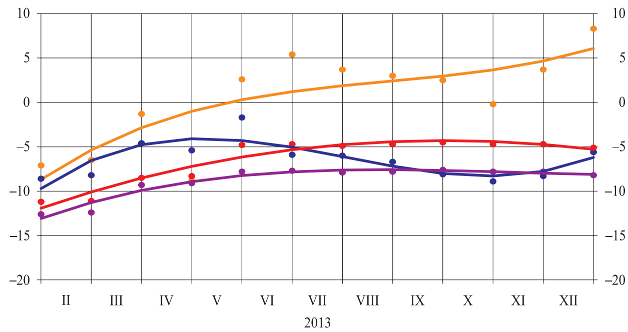
institutions, non-financial corporations and households shrinking by 6.4% (by 10.6% in 2012). The overall decline decelerated on account of a less substantial decrease in loans to financial institutions and non-financial corporations, with the corporate loan portfolio even increasing in four months of 2013, as well as a lower annual rate of decrease in the case of household loans. With the loan portfolio shrinking further and GDP growth persisting, the ratio of domestic loans to GDP decreased notably from 79.6% in 2011 to 65.5% in 2012 and to 58.1% in 2013. The shrinking of the loan portfolio was partly explained by the write-offs of lost loans, yet even overall no revival in lending activity was still observed, with the situation affected by both supply and demand factors.

With loans continuing to contract, resident loans decreased from 51.0% of the aggregate balance sheet assets of MFIs (excluding Latvijas Banka) at the end of 2012 to 46.3% at the end of 2013. The stability of the financial sector was supported by the reduction of the loan to deposit ratio in 2013: resident deposits covered 67.7% of loans at the end of 2013 in comparison with 56.0% reported at the end of 2012.

Government deposits with Latvijas Banka were reduced significantly, while there was a relatively minor increase in government deposits with credit institutions. As a result, the negative net MFI liabilities to the government contracted by 416.4 million lats during the year.

Chart 12

CHANGES IN LOANS TO RESIDENT FINANCIAL INSTITUTIONS, NON-FINANCIAL CORPORATIONS AND HOUSEHOLDS
(%)



Loans to financial institutions
Loans to non-financial corporations
Loans to households
including loans for house purchase

The annual rate of decline in loans to non-financial corporations decelerated from 8.9% in 2012 to 5.6% in 2013, whereas in the case of household loans it went down from 12.6% to 8.2% respectively. In 2013, loans to financial institutions saw a reversal of the downward trend which persisted in 2012, with those loans growing by 8.3% (see Chart 12 for the developments in loans granted to financial institutions, non-financial corporations and households).

Lending decreased in most economic sectors in 2013, with the exception of some sub-sectors like forestry, water supply, wholesale trade and transportation by road where loan investment increased by 5.7%, 10.9%, 11.3% and 11.6% respectively. Moreover, loan investment grew also in financial and insurance as well as other services sectors, administrative and support services activities and public administration. Meanwhile, the shrinking of the loan portfolio was the most substantial in construction, energy, manufacturing and real estate activities: 17.3%, 14.0%, 9.7% and 7.1% respectively. Despite the deceleration in lending observed over the year, a major share of overall corporate loans was still concentrated in real estate activities at the end of 2013 (31.3%; 32.1% at the end of 2012), followed by loan investment in manufacturing (13.0%; 13.7% at the end of 2012), trade (10.8%; 10.9% at the end of 2012), financial and insurance activities (7.5%; 5.7% at the end of 2012) and energy (7.1%; 7.9% at the end of 2012).

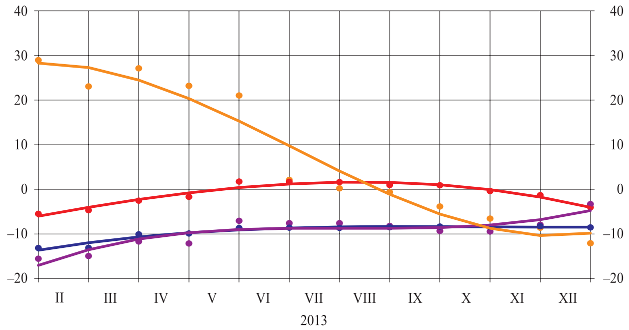
The most substantial decrease in annual terms was reported for consumer loans granted to households (33.3%; mostly as a result of reclassification carried out by individual credit institutions) as well as corporate mortgage loans (11.0%). The decline in loans for house purchase and industrial credit was more moderate at 5.1% and 8.3% respectively, whereas the portfolio of commercial credit grew by 2.4% over the year. At the end of December 2013, loans for house purchase totalled 3.6 billion lats or 83.7% of all household loans, representing a year-on-year decrease of 0.1 billion lats. Household loans, commercial credit and industrial credit accounted for 37.4%, 17.9% and 17.0% of aggregate loans respectively at the end of 2013 (36.9%, 16.3% and 17.4% at the end of 2012 respectively).

In 2013, the approaching euro changeover and the similarity of remuneration rates prevented the increase in lats loans and their share in aggregate loans which was observed in the previous two years. Lats loans shrank by 9.2% and amounted to 13.2% of the aggregate loans at the end of 2013 (13.6% at the end of 2012), whereas the share of euro loans grew by 0.5 percentage point, to 81.9% (see Chart 13 for the developments in lats and euro loans granted to households as well as financial institutions and non-financial corporations). Other currency loans contracted by 8.2% and their share in aggregate loans decreased to 4.9% in 2013. As at the end of 2013, 47.0% of those loans were granted in the US dollars, 29.6% in Swedish krona, 14.1% in Swiss francs and 8.8% in British pound sterling.

Chart 13

CHANGES IN LOANS TO RESIDENT FINANCIAL INSTITUTIONS, NON-FINANCIAL CORPORATIONS AND HOUSEHOLDS
(%)

Lats loans to financial institutions and non-financial corporations
Lats loans to households
Euro loans to financial institutions and non-financial corporations
Euro loans to households



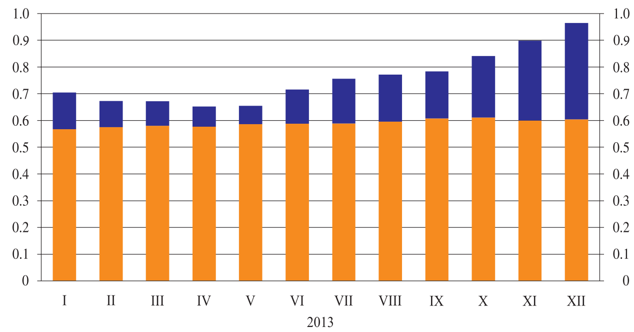
MONETARY BASE

With the minimum reserve ratio remaining unchanged and deposit base growing, minimum reserves on credit institution accounts with Latvijas Banka increased slightly in 2013, while excess reserves expanded very substantially (see Chart 14). Thus overnight

Chart 14

CREDIT INSTITUTION RESERVES WITH LATVIJAS BANKA
(in billions of lats)

Minimum reserves on credit institution accounts with Latvijas Banka
Excess reserves



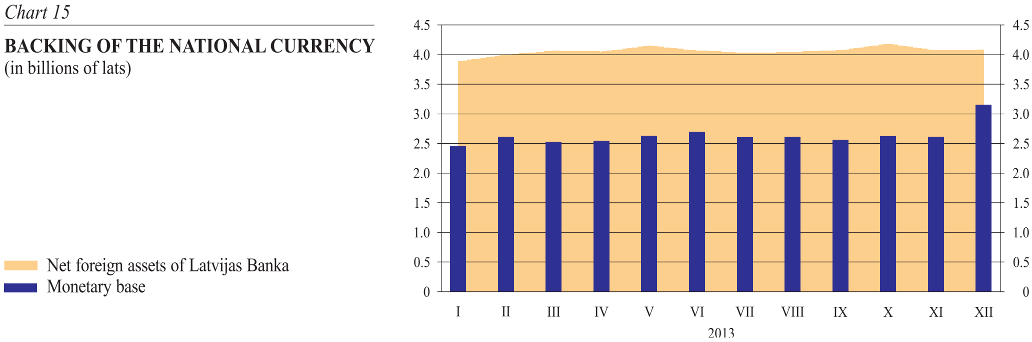
deposits of credit institutions and other financial institutions with Latvijas Banka grew by 1.1 billion lats or 76.3% over the year as opposed to an increase of 42.1% reported in 2012. Both foreign currency deposits of credit institutions as well as, particularly strongly in the last months of the year, balances of credit institution accounts in lats continued to grow, primarily on account of the shrinking cash currency. At the same time, an increase in the recourse to Latvijas Banka deposit facilities had a compressing effect on the monetary base. With the demand for cash weakening significantly, currency in circulation contracted by 603.4 million lats or 48.9% in contrast with a 6.4% increase reported in 2012. As a result, the monetary base M0 expanded by 18.4% and totalled 3 158.3 million lats at the end of 2013, whereas the cash component of the monetary base as at the moment of the euro changeover shrank to 20.0% in comparison with 46.3% at the end of 2012.

The improvement of the negative value of Latvijas Banka net domestic assets by 442.7 million lats had an upward effect on the monetary base. At the same time, the negative value of the net credit to general government decreased by 522.0 million lats with government deposits with Latvijas Banka shrinking accordingly. Higher recourse to the deposit facility resulted in an increase of the negative net value of other assets. In the circumstances of ample liquidity, Latvijas Banka granted no loans to credit institutions, with the exception of the end of December when a loan in the amount of 10.0 million lats was granted via a main refinancing operation.

Although Latvia's government reduced foreign currency deposits with the central bank substantially during 2013, as a result of the growing foreign currency deposits of credit institutions, Latvijas Banka net foreign assets grew by 48.0 million lats or 1.2%. At the end of 2013, the reserve assets of Latvijas Banka covered the goods imports of 5.5 months, whereas the backing of the monetary base with foreign currencies and gold (see Chart 15) was 129.0%.

Chart 15

BACKING OF THE NATIONAL CURRENCY
(in billions of lats)



LENDING AND DEPOSIT RATES

MFI interest rates on lending to households and non-financial corporations continued to decline gradually. This was supported by lower euro money market rates and the falling lats money market rates in anticipation of Latvia joining the euro area. Lower interest rates on MFI loans eased the interest burden on Latvian households and non-financial corporations. This burden was decreased even further by the contraction in outstanding loans, as the repayments of existing loans made by households and non-financial corporations exceeded their new loans. The decline in deposit rates was roughly similar to that in the lending rates. The spread between the lending and deposit rates was 3.2 percentage points in December 2013, with Latvian credit institutions earning profits from interest income and expenditure related activities. In comparison with December 2012, this spread remained broadly unchanged; therefore, it had no significant impact on the profitability of credit institutions. The interest rates on new loans in euro fluctuated within a narrow range in all major lending segments in 2013.

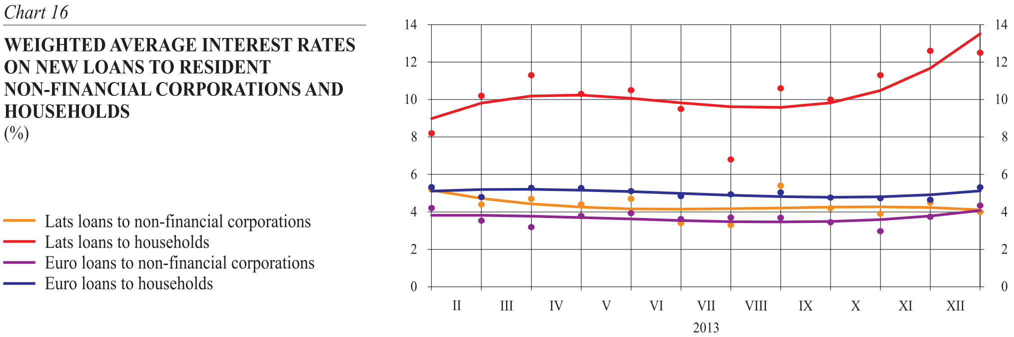
Against the background of persistently low demand for loans and tight lending conditions, the weighted average rates on new household loans for house purchase granted in euro ranged from 3.1% to 3.5% in 2013. The weighted average rate on new household loans for house purchase granted in lats was close to the respective euro rate in the first half of 2013 as, ahead of Latvia joining the euro area, the foreign exchange risk (which inter alia has an indirect effect on lending rate developments) had approached zero. In the second half of the year, the weighted average rate on new household loans for house purchase granted in lats rose slightly, with some credit institutions granting more risky loans and the credit institutions offering lower interest rates cutting their household lending in lats more substantially. Interest rates with an initial rate fixation period of over 1 year on new household loans for house purchase were considerably higher and more volatile than the floating rates and interest rates with an initial rate fixation period of up to 1 year. The differences in the levels and volatility of the interest rates explain why households mostly preferred to take floating interest loans or loans with a short initial rate fixation period to finance their house purchases. In the case of new household loans for house purchase, the effective interest rate, which includes the fee for considering loan applications, loan administration costs and similar costs, was close to the respective annualised agreed rate, confirming that the above additional expenses are quite small relative to the size of the loans for house purchase.

The interest rates on new consumer loans to households increased in 2013. Interest rates on new consumer loans granted to households in euro rose on account of the growing share of subprime loans in new household loans in euro, whereas higher interest rates on new consumer credit granted to households in lats primarily mirrored the changes in the lending rate reporting methodology at individual credit institutions. The spread between the annualised agreed rate and effective rate on consumer credit granted to households was wide. This means that households had to pay quite big additional charges (e.g. commissions and fees for considering loan applications as well as loan administration fees) relative to the size of their loans on top of the interest payments.

Interest rates on new euro loans to non-financial corporations over 1 million euro ranged from 2.6% to 4.3% in 2013. Meanwhile, the interest rates on new euro loans to non-financial corporations up to 1 million euro, traditionally considered more risky loans, ranged from 4.0% to 4.9%. Thus the interest rates on new small-sized euro loans granted to non-financial corporations were only slightly higher than those on less risky large-size loans granted to non-financial corporations. The interest rates on new lats loans to non-financial corporations were quite close to those on the respective euro loans in 2013 primarily due to reduced foreign exchange risk. More than 90% of the new loans granted to non-financial corporations were with a floating interest rate and initial rate fixation period of up to 1 year (see Chart 16 for the developments in weighted average interest rates on new loans to resident non-financial corporations and households).

Chart 16

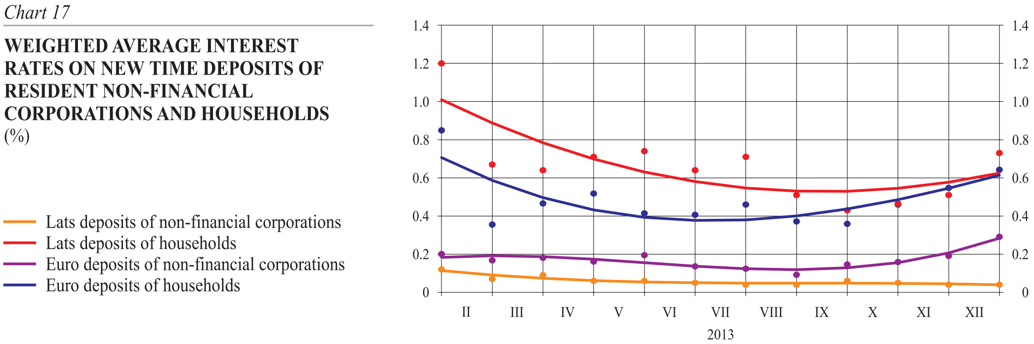
WEIGHTED AVERAGE INTEREST RATES ON NEW LOANS TO RESIDENT NON-FINANCIAL CORPORATIONS AND HOUSEHOLDS
(%)



Interest rates on new deposits from resident non-financial corporations and households remained at an all-time-low (see Chart 17 for the developments in weighted average interest rates on new time deposits by resident non-financial corporations and households).

Chart 17

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



The interest rates on new deposits by resident households tended to increase during the most significant public holidays in 2013 when credit institutions offered more favourable terms and conditions, as was the case in other years as well.

INTERBANK MARKET

Developments on Latvia's interbank market remained favourable in 2013: the interest rates and the respective money market indices continued to go down, the market participants' risk perception decreased, and business volumes increased, although the trends observed in the business volumes of certain currencies were affected by the approaching euro changeover. Latvia's credit institutions retained an ample lats liquidity surplus in 2013. Foreign currency lending rates declined also on the domestic interbank market, as those national central banks which issue foreign currencies that are significant for Latvia's market continued to implement accommodative monetary policies.

Unsecured overnight transactions dominated both resident and non-resident business segments in lats as well as in euro of Latvia's interbank market also in 2013, thereby continuing the previously-observed trend. As concerns the domestic market, the weighted average interest rate on unsecured overnight transactions in lats decreased from 0.26% in 2012 to 0.07% in 2013, whereas the weighted average interest rate on unsecured overnight transactions in foreign currencies shrank from 0.26% in 2012 to 0.13% in 2013.

Interbank loans granted in lats contracted to 7.6 billion euro in 2013, representing a year-on-year decline of 28.0%. Part of this fall in business conducted in lats was reflected by a rise in interbank business in other foreign currencies: business in all foreign currencies totalled 22.3 billion euro in 2013, representing a 19.0% increase over the previous year.

The money market index RIGIBOR to which the floating interest rates on non-MFI borrowing in lats are linked continued to descend in 2013, albeit at a considerably slower pace than in the previous year. Moreover, the fall of RIGIBOR was steeper in the first half of the year when the 3-month RIGIBOR decreased from 0.53% to 0.37%, whereas the second half of the year only saw a 0.11 percentage point decline in RIGIBOR. The 6-month RIGIBOR and 12-month RIGIBOR also followed a steeper downward path in the first half of the year. In 2013 overall, the 3-month RIGIBOR and 6-month RIGIBOR averaged 0.36% and 0.61% respectively, representing a decline of 0.53 percentage point and 0.81 percentage point in comparison with the previous year.

With the economic performance of the euro area countries improving and the liquidity surplus of euro area credit institutions shrinking significantly in the second half of the year, EURIBOR, the euro money market index to which the floating interest rates on non-MFI borrowing in euro are traditionally linked, even rebounded slightly. In the first half of the year, the euro money market indices reached their historical lows, whereas closer to the turn of the year EURIBOR followed an upward trend. The 3-month EURIBOR grew from 0.19% at the beginning of January 2013 to 0.29% at the end of the year, while in the case of the 6-month and also longer-term EURIBOR the rise was less notable.

The 3-month EURIBOR and 6-month EURIBOR averaged 0.22% and 0.34% in 2013 reaching at their all-time-lows and representing a 0.35 and 0.49 percentage point decrease respectively over the previous year.

The spread between the lats and euro money market indices continued to narrow in 2013 in the context of the euro changeover. In the first half of the year, the spread between RIGIBOR and EURIBOR reflected a more notable drop in the lats money market rates, whereas in the second half of the year the spread narrowed even further, inter alia on account of the declining lats interest rates and the EC decision concerning the euro changeover but also due to the rising euro interest rates. Thus the spread between the 3-month RIGIBOR and 3-month EURIBOR turned from positive (0.34 percentage point at the beginning of January) to negative (–0.03 percentage point at the end of December). The spread between the 6-month RIGIBOR and 6-month EURIBOR narrowed from 0.63 percentage point to 0.04 percentage point respectively.

FOREIGN EXCHANGE MARKET

In 2013, the most significant changes in the US dollar exchange rate were recorded vis-à-vis the Japanese yen (21.4% appreciation), whereas the rates against the euro and the British pound sterling went down by 4.2% and 1.9% respectively.

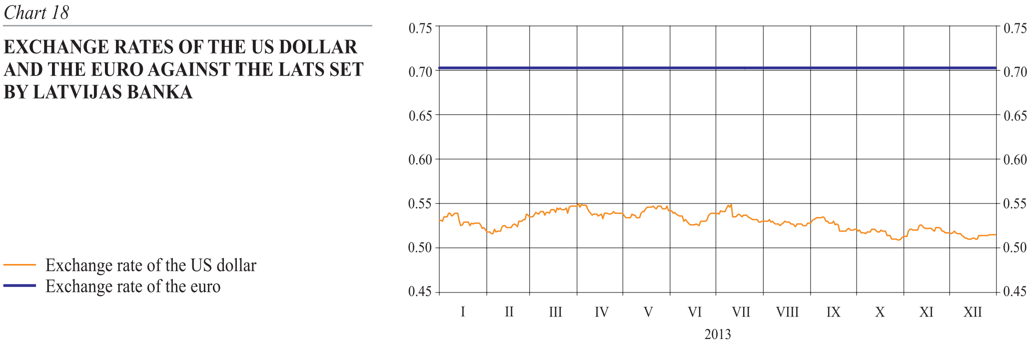
The central banks of developed countries pursued expansionary monetary policies in 2013, aimed at providing maximum liquidity to financial markets in a hope to stimulate a faster recovery of economic growth. The policy rates set by the central banks were close to zero. The FRS continued purchasing both government and agency mortgage-backed securities in 2013. Despite the high volatility caused in the financial markets by the FRS announcement about tapering off the securities purchase programme in May, the first real step was only made at the end of the year when the monthly securities purchase amount was cut from 85 billion USD to 75 billion USD. The FRS also announced its intention not to raise the federal funds rate until the US unemployment rate falls below 6.5%. The ECB reduced the key interest rate in two steps of 25 basis points each, to a new all-time-low of 0.25% in 2013. Market concerns over the potential disintegration of the euro area eased in 2013, credit institutions stabilised their positions; therefore, many credit institutions made early repayments of the longer-term loans previously received from the ECB. Similarly to the FRS, the ECB also announced its intention of keeping the interest rates low for a longer period of time. Bank of England under the leadership of its new Governor, Mark Carney, announced the intention to preserve the currently low level of the Bank Rate until the unemployment rate has fallen to a threshold of 7%, provided that this does not result in heightened inflation or pose a threat to financial stability. In April 2013, the Bank of Japan announced that, in order to achieve the inflation target of 2% at the earliest possible time, it would double the monetary base by purchasing government securities in two years.

The euro appreciated by 4.2% against the US dollar (from 1.3193 at the end of 2012 to 1.3743 at the end of 2013) in 2013 overall, reaching its high at 1.3893 on 27 December and hitting a low at 1.2746 on 4 April. The euro strengthened even though the ECB reduced the key interest rates. Investor confidence in the euro area returned and was reflected by increased purchases of the euro area assets (shares and peripheral euro area government securities) in 2013. The establishment of a single euro area supervisory framework for credit institutions also added to the optimism of market participants. The US dollar depreciated vis-à-vis the currencies of all G10 countries, except Japan. Following the FRS announcement about tapering off the securities purchase programme, the initial optimism dominating the market was replaced by disappointment as it became clear that no raise of the federal funds rate could be expected in the near future. That was one of the main reasons behind the US dollar depreciation vis-à-vis the euro in the second half of the year. The US dollar appreciated vis-à-vis the Japanese yen from 86.75 at the end of 2012 to 105.31 at the end of 2013, representing a rise of 21.4%, peaking at 105.41 on 30 December and hitting a low at 86.53 on 1 January. Expansionary monetary policy in conjunction with lower financial market risks as well as rising long-term US government security yields supported the steepest fall of the Japanese yen exchange rate in the last 10 years. Higher-than-expected economic growth and housing market improvements translated in an appreciation of the British pound sterling vis-à-vis the US dollar of 1.9%, the exchange rate rising from 1.6255 at the end of 2012 to 1.6557 at the end of 2013, peaking at 1.6580 on 31 December and hitting a low at 1.4814 on 9 July.

In the Latvian foreign exchange market, the US dollar depreciated against the lats from 0.5290 at the end of 2012 to 0.5112 at the end of 2013, representing a 3.4% decrease. The US dollar reached its high at 0.5507 on 9 July and a low at 0.5055 on 27 December. The lats volatility against the euro was low in 2013: the exchange rate fluctuated in a narrow range of 40 basis points around the lats peg rate to the euro (see Chart 18 for the changes in the US dollar exchange rate set by Latvijas Banka and the euro exchange rate). In the first half of the year, the lats exchange rate vis-à-vis the euro in the interbank market started to drift away gradually from the lower limit of the intervention band (±1% of the peg rate EUR 1 = LVL 0.702804) set by Latvijas Banka where it had lingered since the second half of 2012. In 2013, Latvijas Banka conducted no market interventions, and the changes in the lats exchange rate were inspired by the expectations ahead of the invitation to join the euro area and the EC's decision of 9 July 2013 to invite Latvia to join the euro area on 1 January 2014. Following the publication of this decision, the lats rate remained close to the conversion rate established in the EC decision, i.e. the lats peg rate to date, showing very little volatility.

Chart 18

EXCHANGE RATES OF THE US DOLLAR AND THE EURO AGAINST THE LATS SET BY LATVIJAS BANKA



According to the monthly reporting data of credit institutions on foreign currency purchase and sales transactions, the overall turnover of foreign exchange market in Latvia grew by 3.5% in 2013, to 801.1 billion lats.

The contribution of swaps to the overall foreign exchange turnover continued to increase, reaching 66.3% of all foreign exchange transactions in 2013 in comparison with 59.0% reported in 2012. The contribution of spot transactions decreased to a roughly equal extent, to 33.1% in comparison with 40.3% recorded in 2012.

Swap and spot transactions turnover dynamics was determined by those of non-resident MFIs. Business with non-resident MFIs continued to dominate in the overall turnover of both swap and spot foreign exchange transactions. Moreover, specifically the rising turnover with non-resident MFIs determined the changes in the overall breakdown of foreign exchange market transactions by type of business: swap transactions with non-resident MFIs grew by 30.0% year-on-year in 2013, whereas spot transactions decreased by 27.0%. Overall, business with non-resident MFIs grew by 13.3% in 2013.

Looking at the overall foreign exchange turnover, business with non-resident non-bank financial sector corporations also experienced changes. Business with non-resident other financial intermediaries and other non-resident non-bank financial sector corporations, including insurance corporations and pension funds, expanded significantly in 2013, by 77.6%. Foreign exchange transactions with other counterparties decreased year-on-year in 2013, except business with households.

Foreign exchange transactions involving lats grew to 98.7 million lats in 2013 representing a year-on-year increase of 22.2%. Moreover, the increase at 26.7% was the steepest particularly for transactions with the lats and the euro currency pair.

The euro changeover expectations introduced certain adjustments in the monthly composition of foreign exchange transactions: in the case of the lats and euro transactions, the annual rate of growth increased in the first half of the year, whereas in the second half of the year, following the EC's invitation for Latvia to join the euro area, it decelerated before rising sharply again towards the turn of the year. Thus in December the transactions with the lats and euro currency pair grew by 30.4% year-on-year, including an increase for almost one third in lats and euro cash exchange transactions in credit institutions and at currency exchange offices, despite the weighted average euro rate in cash selling transactions in credit institutions and at currency exchange offices being 0.7061 lats for 1 euro in December and the respective weighted average euro cash buying rate standing at 0.6998 lats for 1 euro.

Overall, cash foreign exchange transactions where one of the deal currencies was the lats in credit institutions and at currency exchange offices grew by 2.9% in 2013, similarly as in the previous year, reaching 1.7 billion lats. 2013 saw a continuation of the tendency of using currency exchange offices in order to exchange lats cash for foreign currencies increasingly more often: 69.5% of all cash transactions in comparison with 66.9% reported in 2012.

Both in credit institutions and at currency exchange offices cash lats were most often exchanged for the euro in 2013. These particular transactions accounted for 58.8% of all cash foreign exchange transactions, representing a year-on-year increase of 2.9 percentage points. The significance of the US dollar in cash foreign exchange transactions against the lats diminished, similarly as before: the share of those transactions totalled 20.4% in 2013, representing a year-on-year decrease of 2.3 percentage points. The significance of other foreign currencies in cash foreign exchange transactions against the lats remained broadly unchanged: 8.0% of all transactions were with Russian rubles, whereas 5.9% were transactions with British pound sterling.

The most significant share of all foreign exchange transactions, including the lats transactions accounting for slightly over 12% of the overall foreign exchange turnover in 2013, belonged to transactions where euro where exchanged for the US dollars and vice versa. The trancations involving this particular currency pair accounted for 56.6% of the overall foreign exchange turnover, whereas the Russian ruble and US dollar pair transactions constituted 10.7%. This currency pair was the third most significant foreign exchange market segment. The share of the US dollar/British pound sterling transactions contracted slightly, to stand at 6.0% of the overall foreign exchange turnover.

SECURITIES MARKET

The year 2013 was successful for Latvia's securities market. This was confirmed by the high activity on corporate debt securities and stock market as well as the fact that Latvia had no need to resort to external borrowing.

In 2012, Latvian bond yields decreased significantly, primarily on account of lower risk perception concerning Latvia. In 2013, the fall continued up to April and May. Later, however, under the impact of external factors the yields resumed growth. The above scenario was more characteristic to Latvia's secondary market, whereas the primary market of government securities managed to partly avoid it.

Global markets did not favour debt securities in 2013. At the time when stock prices were on a rise, the prices of sovereign debt securities of developed countries went down, with their yields growing accordingly. The rise in the bond yields was caused by changes in the expectations concerning the future development path of the bond yields. Higher yields on the bonds of developed countries were supported by the FRS announcements about tapering off the bonds purchase programme, problems with the US sovereign debt and its ceiling as well as the growing local government risk (for example, Detroit bankruptcy).

The Treasury offered securities in the amount of 310.0 million lats at the primary government securities market auctions in 2013 (22.5% more than in the previous year), at the same time the amount of maturing securities was 11.2% higher than in 2012. The bids exceeded the supply 3.1 times in comparison with 3.5 times in 2012. 99.9% of the amount supplied was allotted, representing a 4.0 percentage point increase over the previous year.

6- and 12-month Treasury bills and 3- and 5-year bonds were offered at the primary auctions of government securities in 2013, while the last auctions of 10-year bonds were held in 2011 and 2012. The yield on the 12-month Treasury bills decreased from 0.52% in January to 0.37% in December, whereas that on the 3-year bonds declined from 1.42% in January to 1.16% in August. The government managed to avoid raising the yields in the primary market in the second half of the year as the domestic demand remained high.

The amount of government securities outstanding increased by 0.6%, to 679.3 million lats. The share of the government securities held by insurance corporations and pension funds grew from 24.6% at the end of 2012 to 32.9% at the end of 2013, with the holdings of credit institutions contracting from 54.0% to 49.4% respectively.

Latvia's government had no need to launch new bond issues in external markets in 2013, as it drew all the required funding from the two bond issues carried out in 2012.

All currency corporate debt securities registered with the LCD grew by 188.5 million lats, reaching 452.0 million lats. Five securities issues matured (inter alia, two issues were redeemed prior to the maturity), 18 new issues and 2 more additional issues were launched.

As in the previous year, corporate debt securities were dominated by US dollar denominated debt securities (240.5 million lats), followed by euro denominated debt securities (197.3 million lats). The outstanding amount of lats denominated corporate debt securities was small at 14.2 million lats, remaining unchanged in 2013. In 2013, major issuers of corporate debt securities (based on newly-registered issues with the LCD) were ABLV Bank JSC (147.7 million lats; nine issues), JSC *Latvenergo* (24.6 million lats; one issue) and JSC BBG (9.5 million lats; two issues).

The steep rise in the outstanding amounts of corporate debt securities observed in 2013 was supported by both the intentions of credit institutions to diversify their funding sources as well as the financing needs of corporations at a time when credit institutions were reluctant to lend.

The bid yield on Latvian government bonds maturing in October 2022 quoted by NASDAQ OMX Riga decreased from 3.50% to 3.20% in May before resuming growth in June and reaching 3.65% at the end of the year. The bid yield on the government securities with the time to maturity less than a month shrank to 0.20% in 2013, down from 0.49%.

In the secondary market, the quoted bid yield of US-dollar-denominated Latvian government bonds launched on external markets and maturing in 2021 rose from 3.09%

to 4.03% in 2013. The spread between the bid yields and the yields on the respective maturity US government bonds narrowed from 165 basis points to 143 basis points, suggesting that the risk perception associated with Latvia was overall declining further, despite of the rising nominal yields.

In 2013, the turnover of debt securities on NASDAQ OMX Riga was 78.8 million lats, representing a year-on-year increase of 3.1 times. The same as in the previous year, the bonds of ABLV Bank JSC and those of the Latvian government posted the largest turnover in the amount of 67.6 million lats and 10.0 million lats respectively. The increase in the turnover was achieved on account of higher activity in the primary market.

Stock turnover on NASDAQ OMX Riga grew from 11.6 million lats in 2012 to 15.2 million lats in 2013. The highest turnover was recorded for the shares of the JSC Grindeks (6.3 million lats), JSC Olainfarm (4.1 million lats) and JSC *Latvijas Kuģniecība* (1.5 million lats). Higher turnover was achieved primarily on account of the rising sales of the Main List shares. Investors continued to view manufacture of pharmaceutical products as one of the most promising economic sectors in Latvia.

NASDAQ OMX Riga index OMXR rose by 16.2% in 2013, whereas the Baltic gross index OMXBBGI climbed 12.2%. OMXR development benefitted from Latvia's economic growth and from its joining the euro area in 2014. Overall, joint stock companies performed even better than in the previous year in terms of turnover and profit. Moreover, already the 2012 results were considered very good, with the joint stock companies continuing to develop their export capacity.

At the end of 2013, the shares of 30 corporations were listed on NASDAQ OMX Riga (two companies less than at the end of 2012). Five corporations were listed on the Baltic Main List and 25 corporations were included on the Baltic Secondary List. Following default, JSC *Liepājas Metalurgs* was crossed off the Baltic Secondary List at the end of 2013.

OPERATIONS AND ACTIVITIES OF LATVIJAS BANKA

LEGAL FRAMEWORK AND FUNCTIONS. LATVIJAS BANKA IN THE EUROPEAN SYSTEM OF CENTRAL BANKS AND INSTITUTIONS OF THE EUROPEAN UNION

Latvijas Banka is the central bank of the Republic of Latvia. Like the national central banks of other EU countries, Latvijas Banka is participating in the ESCB. 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 European System of Central Banks and the European Central Bank (hereinafter, the Statute of the ESCB and ECB).

The objectives and tasks of Latvijas Banka are set forth by the Law on Latvijas Banka. The primary goal of Latvijas Banka as a participant in the Eurosystem is to maintain price stability.

In 2013, the primary tasks of Latvijas Banka were as follows:
– establishment and implementation of monetary policy;
– management of foreign reserves;
– issuance of the national currency, both banknotes and coins;
– promotion of a smooth operation of the payment systems in Latvia and organisation and management of the interbank payment system;
– compiling and publishing statistical information in order to ensure the fulfilment of the tasks of Latvijas Banka;
– maintaining of the Credit Register;
– issuing 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;
– representation of Latvia in foreign central banks and international financial institutions;
– acting as a financial agent for the Latvian government.

Latvijas Banka is acting as a consultant of the Parliament (Saeima) and the Cabinet of Ministers of the Republic of Latvia in monetary policy issues and other issues related to the fulfilment of the tasks of Latvijas Banka.

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 2013, the Governor of Latvijas Banka participated in the work of the General Council of the ECB. In compliance with the Statute of the ESCB and ECB, the General Council of the ECB in its meetings discussed the macroeconomic situation, financial stability and readiness for the euro changeover in the EU countries, reports on functioning of ERM II as well as addressed other issues concerning the national central banks of all EU countries. The Governor of Latvijas Banka participated as an observer in the meetings of the Governing Council of the ECB since July 2013, but, as of 1 January 2014, the Governor of Latvijas Banka became a full-fledged member of the Governing Council of the ECB. The responsibilities of the Governing Council of the ECB are to adopt the guidelines and take the decisions necessary to ensure the fulfilment of the tasks entrusted to the Eurosystem as well as to formulate the monetary policy of the euro area, including, as appropriate, decisions relating to monetary objectives, key interest rates and the supply of reserves in the Eurosystem, and to establish the necessary guidelines for their implementation.

The representatives of Latvijas Banka actively participated in the ESCB committees (see Appendix 8) and working groups, dealing with issues related to monetary policy, market operations, financial stability, payment systems, euro banknotes, statistics, international relations, communication and accounting etc.

In October and November 2013, Latvijas Banka participated in the project of the European Cultural Days of the ECB dedicated to Latvia and organised in Frankfurt am Main where Latvian artists brought the cultural richness and diversity of Latvia closer to the people living in Frankfurt am Main and visitors, thus fostering the recognisability of Latvia.

The experts of Latvijas Banka participated in committees and working groups of the Council of the EU and EC.

Sitting on the EFC and its subcommittees, the representatives of Latvijas Banka regularly participated in the decision-making concerning the economic and financial development of the EU, discussed relations with third countries and policies of international financial institutions as well as took part in drafting proposals addressing the economic policy strategy and instruments. In 2013, the EFC paid particular attention to the issues of the EU financial stability and the supervision of the financial sector as well the strengthening of the economic policy coordination instruments. The representatives of Latvijas Banka participated in the EC and Eurostat working groups addressing issues related to euro coins, payment systems, economic forecasting and statistics.

In 2013, 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. The representatives of Latvijas Banka participated in the Advisory Technical Committee of the ESRB and its working groups assessing risks to stability of the EU financial system, improving the operational solutions to the macro-prudential policy of the EU countries and dealing with other issues. In 2013, the ESRB developed a "Handbook on the follow-up to ESRB recommendations" and assessed the implementation of the ESRB Recommendation on lending in foreign currencies in the EU countries. A representative of Latvijas Banka also participated in the working group carrying out the assessment.

Latvijas Banka in close cooperation with the EC and ECB updated the euro changeover plan and implemented the tasks provided for in this plan successfully, thus ensuring the smooth introduction of euro cash and non-cash settlements in Latvia.

In 2013, the representatives of Latvijas Banka participated in the Euro Team lecturer project delivering lectures to interested individuals and publishing analytical articles about the importance and changeover of the euro.

In compliance with the requirements of the Statute of the ESCB and ECB, Latvijas Banka ensured translation of the ECB Annual Report 2012, the ECB Convergence Report of June 2013, and the summary of the ECB's Monthly Bulletin (published on the internet).

DEVELOPMENT, ADOPTION AND IMPLEMENTATION OF MONETARY POLICY

ECONOMIC RESEARCH, ANALYSIS AND FORECASTING

National central banks perform economic research and analysis to obtain quantitative and scientifically sound accounts of economic processes. Research is necessary to develop econometric models for forecasting macroeconomic indicators and analyse alternative scenarios. With Latvia becoming a full-fledged member of the EMU, the role of quantitative analysis is going to increase, as now the research focuses not only on the economy of Latvia, but also on that of the euro area.

Following the decision of the EU Council on the introduction of the euro in Latvia, the forecasting process in Latvijas Banka saw significant changes. Already beginning with the second half of 2013, Latvijas Banka has participated in all ESCB forecasting procedures, both drafting the macroeconomic forecasts for the Latvian economy and taking part in the discussions of the forecasts of other members of the EMU. In order to successfully integrate in the forecasting procedures of the Eurosystem, Latvijas Banka made the necessary changes in the forecasting models by expanding the range of indicators used in the analysis.

Despite the fact that a large part of work focused on the adjustment to the forecasting procedures of the Eurosystem, economic research was also carried out: in 2013 Latvijas Banka published three research papers on its website; moreover, another three papers were created in cooperation with researchers of other national central banks and were published in the working paper series of the ECB and the discussion paper series of Suomen Pankki – Finlands Bank. Two articles written by experts of Latvijas Banka were published in international peer-reviewed journals.

One of the working papers provides analysis of the inflation effect of recent VAT rate changes in Latvia (see Working Paper No. 1/2013 of Latvijas Banka). The access to consumer price data at the outlet level provided a unique opportunity to evaluate the impact of changes in VAT rate by analysing the frequency and size of price changes. The case of Latvia is especially interesting for analysis, as during a relatively short period there were three major VAT rate adjustments (January 2009, January 2011, and July 2012); in addition, the tax was reduced in the latter case. Overall, the CPI micro data evidence suggests that the pass-through of VAT rate to prices is strong in case of increasing the tax rate (especially when there are no restrictions from the demand side), while the effect is much smaller for cases of VAT rate reduction. For example, the immediate effect of VAT rate reduction in mid-2012 was 0.2 percentage point (the pass-through to inflation was only 36%). The above VAT reduction seems to have given no significant impact on prices of services due to high demand expectations, with the main effect on inflation observed in food, transport (mainly as a result of a rise in fuel prices), alcoholic beverages and tobacco products groups.

Another research paper of Latvijas Banka gives an overview of labour market internal and occupational mobility in Latvia comparing periods before, during and after the crisis (see Working Paper No. 2/2013). It uses both the labour flow analysis and the survival analysis to evaluate labour mobility and to determine factors influencing it. The analysis is based on labour force survey (LFS) longitudinal data for 2005–2011. The results of labour flow analysis suggest that labour flows adjust rapidly, indicating flexibility of firms' employment decisions reflected in the dynamics of separation and hiring rates. The mechanism of part-time employment and temporary contracts was actively used in Latvia during the crisis. Hence, the labour market adjusted not only through reducing the number of employees but also through decreasing the number of hours worked or changing the contract type, thus reducing the costs of labour force adjustment. Evidence of an increase in internal mobility between regions during the crisis was obtained. Mobility between sectors and job types, on the other hand, shows the signs of slowdown during the crisis, most likely due to both smaller variety of vacancies and growing risk aversion of employees, which is in line with the results of other countries. Two important signs of economic recovery after the financial crisis in Latvia should be emphasised: the probability to exit unemployment or inactivity returning to the level of 2005–2006, and the probability to become inactive if previously employed decreasing below the pre-crisis level.

In recent years, the dynamic stohastic general equilibrium (DSGE) models have become a standard analysis instrument in any national central bank; however, their practical application is quite a complex mathematical exercise due to the non-linearity of the equation system. There are several approaches to finding a solution for the model (including equation linearisation). Unfortunately the above solutions are effective only in cases of minor shocks and can provide incorrect results in case of big economic turmoil.

Hence, the use of the model is quite inconvenient when analysing the recent financial crisis or for the purposes of financial stability. The research paper of Latvijas Banka seeks solution for the above problem and offers a method enabling to find non-local solution to dynamic equilibrium models (see Working Paper No. 3/2013 of Latvijas Banka). The above research is the beginning of a complex mathematical problem solution.

The researchers of Latvijas Banka continued to actively participate in the ESCB CompNet (Competitiveness Research Network) which unites researchers from national central banks, international institutions and academic organisations. Latvijas Banka contributed to the research network activities by developing new methodologies for assessing non-price competitiveness and measuring the pressure across competitive countries. A weakness of conventional competitiveness assessment methods is the lack of due regard for non-price factors, e.g. physical product quality and consumer taste. Latvijas Banka in cooperation with Oesterreichische Nationalbank has developed methodology which also takes into account the relative quality changes in exports (see Discussion Paper 18/2013 of Suomen Pankki – Finlands Bank Institute for Economies in Transition BOFIT and Working Paper No. 1612/2013 of the ECB). According to the new methodology, non-price factors (i.e. quality of exports) have a positive effect on export competitiveness in Brazil, India, China and Turkey, whereas the relative quality of exports of G7 countries gradually declines although the absolute quality of exports of these countries still remains high. The rapid development of the Chinese economy causes concern with respect to squeezing out manufacturers of other countries from traditional export markets. The innovative Dynamic Trade Link Analysis, developed by the experts of Latvijas Banka and Oesterreichische Nationalbank, proves that currently this concern seems to be exaggerated (see Working Paper No. 1617/2013 of the ECB). The analysis suggests that large EU countries do well in managing competition with Chinese manufacturers without abandoning the traditional export markets; however, in the future the Chinese competition may cause problems for the manufacturers of the small EU economies.

The study on productivity growth in Central, East and Southeast European countries, prepared by experts of Latvijas Banka together with their colleagues from Oesterreichische Nationalbank, was published in the international peer-reviewed journal *Focus on European Economic Integration* (No. 1/2013, pp. 8–27). Pursuant to the above research paper, Latvia was a leader among the new EU countries in terms of productivity growth, with contribution of industries being relatively balanced and observed in both the goods and services sectors.

MONETARY POLICY DECISIONS

In 2013, as part of the implementation of its monetary policy, Latvijas Banka took account of Latvia's economic and financial market development, while at the turn of the year it took note of the country's preparation for joining the euro area.

The low inflation in Latvia, also vis-à-vis the euro area countries, affected monetary policy decisions. It was ensured by the tight fiscal policy applied during previous years, as well as by a slower pace of global economic development which restricted the price rise of raw materials. Price stability risks remained low in Latvia in the medium term. In contrast, economic growth in Latvia was one of the most robust in Europe, although unemployment rates and lending growth failed to deliver the expected outcome. Under these circumstances, Latvijas Banka took the opportunity to gradually reduce its key interest rates.

The situation in Latvia's financial market was stable despite the fact that three credit institutions left the market making the decision within the last months of the year to withdraw their operating licences. Decisions of these credit institutions were well considered and managed to present no risk to financial stability. The lats money market rates continued to decrease, with longer-term RIGIBOR posting a two-fold fall. Credit institutions still chose to hold large deposits with Latvijas Banka.

In 2013, Latvijas Banka lowered its refinancing rate and marginal lending facility rates on three occasions, but it did not change its overnight and 7-day deposit facility rates and the minimum reserve ratio for credit institutions (see Chart 19 and Table 2).

Chart 19

MONEY MARKET INTEREST RATES
(%)

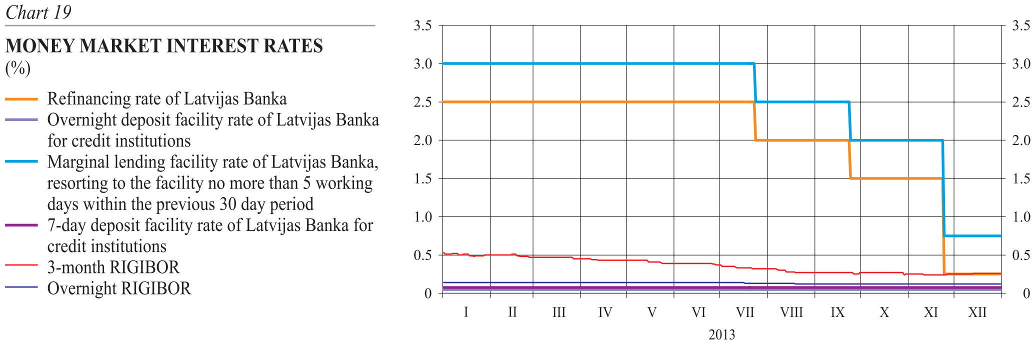


Table 2

INTEREST RATES AND RESERVE RATIO SET BY LATVIJAS BANKA
(% per annum)

Effective date	Refinancing rate	Marginal lending facility rate, resorting to the facility			Deposit facility rate		Reserve ratio (%)	
		no more than 5 working days within the previous 30 day period	6–10 working days within the previous 30 day period	more than 10 working days within the previous 30 day period	Overnight	7-day	Liabilities with a maturity of over 2 years	Other liabilities included in the reserve base
Status as at 01.01.2013	2.5	3.0	6.0	9.0	0.05	0.075	2.0	4.0
24.07.2013	2.0	2.5	4.75	7.0	–	–	–	–
24.09.2013	1.5	2.0	3.5	5.0	–	–	–	–
24.11.2013	0.25	0.75	1.5	2.5	–	–	–	–

At the end of November 2013, the refinancing rate of Latvijas Banka, as well as the lowest marginal lending facility rate were already in line with the interest rates set by the ECB.

USE OF MONETARY POLICY INSTRUMENTS

Similarly to the practice of previous years, Latvijas Banka offered credit institutions to conduct transactions of the main refinancing operations and foreign exchange swaps each business day. However, in 2013 Latvian credit institutions did not carry out any foreign exchange spot transactions and did not use liquidity-providing operations until 28 December. The exhaustion of interbank market business at year end exacerbated by the expected introduction of the euro, nevertheless, prompted one credit institution to participate in the prenultimate tender of the main refinancing operations of 2013 receiving a loan of 10 million lats maturing on 6 January 2014.

At the beginning of 2013, the exchange rate of the lats against the euro started to drift away from the lower limit of the intervention band and moved closer to the peg rate (EUR 1 = LVL 0.702804) but in July, when it was decided that Latvia would join the euro area, the exchange rate of the lats against the euro was close to the peg rate; therefore, the conclusion of foreign exchange spot transactions at Latvijas Banka with the intervention band remaining at ±1% was not beneficial.

In 2013, the average recourse to overnight and 7-day deposit facility expanded by 43.2% to 580.0 million lats. The increase in deposit facility used by credit institutions was affected by the following important factors:

– the impact of foreign exchange spot transactions carried out by Latvijas Banka in 2012 (+178.8 million lats);
– a decrease in cash (+121.9 million lats); the slumping trend of currency in circulation before the introduction of the euro was observed in all new EU countries as the population reduced its national currency savings well in advance;
– an increase in the reserve requirements for credit institutions (–44.8 million lats) suggested that the resumption of the upward trend of the deposit base over the last few years continued at credit institutions; it was additionally facilitated by the expected euro changeover;
– an expansion of government deposits in lats (–25.2 million lats) enhanced by the good budget revenue, as well as by conversion of foreign currency into lats carried out by the Treasury in the first half of 2013;
– a decline in lats deposits made by international institutions (+23.9 million lats).

Until the end of 2013, Latvijas Banka continued to calculate RIGIBID (interbank deposit rates) and RIGIBOR (interbank lending rates) in accordance with the "Regulation for the Calculation of RIGIBID and RIGIBOR" of Latvijas Banka and included on the quotation list the credit institutions that were active participants of the interbank market and were able to conduct active money market operations at their quoted money market rates on transactions in lats. At the end of 2013, the list of the credit institutions whose money market quotes were used in RIGIBID and RIGIBOR calculations in accordance with the "Regulation for the Calculation of RIGIBID and RIGIBOR" of Latvijas Banka included the JSC *Swedbank*, JSC *SEB banka*, JSC UniCredit Bank, Latvian Branch of *Nordea Bank Finland Plc*, JSC *DNB Banka*, SJSC *Latvijas Hipotēku un zemes banka*, and JSC *Citadele banka*. The last RIGIBID and RIGIBOR calculation was carried out and made public on 28 December.

FOREIGN RESERVE MANAGEMENT

Foreign reserves of Latvijas Banka, which include gold, the convertible foreign currencies and SDR, amounted to 4 064.4 million lats at the end of 2013 (3 994.8 million lats at the end of 2012). The increase in foreign reserves resulted from the income generated from investing foreign reserves in foreign financial markets.

Latvijas Banka manages its foreign reserves in compliance with the guidelines adopted by the Council of Latvijas Banka. The benchmark portfolio currency is the euro and the benchmark assets consist of 40% of US dollar-denominated assets, 30% of euro-denominated assets, 10% of Japanese yen-denominated assets, 8% of Canadian dollar-denominated assets, 7% of British pound sterling-denominated assets, 3% of Danish krone-denominated assets and 2% of Singapore dollar-denominated assets. In order to further diversify financial assets, on 1 August the benchmark composition of the portfolio was supplemented by British pound sterling-denominated assets and by Danish krone-denominated assets, simultaneously reducing the proportion of euro assets in the benchmark portfolio from 40% to 30%. Latvijas Banka invests its foreign reserves 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 foreign reserves.

Foreign reserves of Latvijas Banka are managed relative to the 1–3 year government bond weighted indices of the US, euro area countries, Japan, Canada, the UK, Denmark and Singapore; therefore, investments are primarily made in securities with maturity of 1–3 years. The greatest importance is attached to the interest rate of 2-year bonds which in 2013 increased as follows: in the euro area from –0.02% to 0.21%, in the US from 0.25% to 0.38%, in the UK[1] from 0.32% to 0.56%, in Singapore from 0.25% to 0.35%; in Denmark[1] it decreased from 0.40% to 0.26% and in Japan – from 0.10% to 0.09%; it remained unchanged in Canada at 1.14%. With interest rates remaining historically very low, it is complicated for the national central bank as a conservative investor with a low risk tolerance level to generate high returns. Nevertheless, investments of foreign reserves in securities outside the benchmark government securities portfolio had a positive impact on the income in 2013 generated from management of foreign reserves of Latvijas Banka.

Latvijas Banka stored its gold reserves with the Bank of England. Latvijas Banka hedged the risk related to fluctuations in gold reserves market value by entering into currency futures and forward exchange rate contracts and currency swap arrangements.

Latvijas Banka uses services provided by four foreign reserves managers. They manage a small portion of foreign reserves of Latvijas Banka pursuant to the guidelines adopted by the Council of Latvijas Banka.

A great deal of attention is paid to risk management and control in foreign reserves management. The compliance of foreign reserves portfolios with the guidelines is checked on a daily basis, and risk allocation is managed in line with various investment decisions.

PROVISION OF CURRENCY IN CIRCULATION

With the euro changeover approaching, the amount of lats banknotes and coins in circulation decreased (630.8 million lats at the end of 2013 and 1 234.1 million lats at the end of 2012; see Tables 3 and 4).

Table 3

BANKNOTES IN CIRCULATION AT THE END OF THE YEAR

Nominal	Amount (in thousands of lats)		Number (in thousands of units)		Percentage (%)	
	2013	2012	**2013**	2012	**2013**	2012
LVL 500	**36.8**	87.0	**0.1**	0.2	**6.5**	7.5
LVL 100	**76.9**	188.5	**0.8**	1.9	**13.6**	16.2
LVL 50	**41.9**	94.5	**0.8**	1.9	**7.4**	8.1
LVL 20	**312.5**	636.9	**15.6**	31.8	**55.5**	54.9
LVL 10	**42.2**	75.0	**4.2**	7.5	**7.5**	6.5
LVL 5	**53.3**	78.7	**10.7**	15.7	**9.5**	6.8
Total	**563.6**	1 160.6	**x**	x	**100.0**	100.0

Table 4

COINS IN CIRCULATION AT THE END OF THE YEAR

Nominal	Amount (in thousands of lats)		Number (in thousands of units)		Percentage (%)	
	2013	2012	**2013**	2012	**2013**	2012
LVL 2	**7.5**	9.0	**3.8**	4.5	**11.2**	12.2
LVL 1	**37.3**	39.7	**37.3**	39.7	**55.5**	54.0
50 s	**7.9**	9.1	**15.9**	18.1	**11.8**	12.4
20 s	**4.6**	5.2	**23.1**	26.1	**6.9**	7.1
10 s	**2.8**	3.1	**28.4**	31.4	**4.2**	4.2
5 s	**2.2**	2.4	**43.5**	47.2	**3.3**	3.3
2 s	**2.4**	2.6	**121.0**	129.8	**3.6**	3.5
1 s	**1.9**	1.9	**185.6**	191.2	**2.8**	2.6
LVL 100 and LVL 10 collector coins	**0.5**	0.5	**0**	0	**0.7**	0.7
Total	**67.2**	73.5	**x**	x	**100.0**	100.0

[1] As of 1 August 2013.

COINS ISSUED BY LATVIJAS BANKA IN 2013

SPECIAL 1 LATS CIRCULATION COINS OF LIMITED MINTAGE

KOKLE

Weight: 4.80 g; diameter: 21.75 mm
Metal: cupro-nickel
Struck by *Staatliche Münzen Baden-Württemberg* (Germany)
Artists: Anna Heinrihsone (graphic design), Ligita Franckeviča (plaster model)

PARITY COIN

Weight: 4.80 g; diameter: 21.75 mm
Metal: cupro-nickel
Struck by *Münze Österreich* (Austria)
Artists: Ilmārs Blumbergs (graphic design), Jānis Strupulis (plaster model)

COLLECTOR COINS

SILVER SALMON

Face value: 20 lats
Weight: 11.00 g; diameter: 21.75 mm
Metal: silver of .925 fineness; quality: proof
Struck by *UAB Lietuvos monetų kalykla* (Lithuania)
Artists: Gunārs Lūsis (graphic design), Jānis Strupulis (plaster model)

RŪDOLFS BLAUMANIS

Face value: 1 lats
Weight: 22.00 g; diameter: 35.00 mm
Metal: silver of .925 fineness; quality: proof
Struck by *Regia Autonomă Monetăria Statului* (Romania)
Artists: Aigars Ozoliņš (graphic design), Ligita Franckeviča (plaster model)

BABY COIN

Face value: 1 lats
Weight: 22.00 g; diameter: 35.00 mm
Metal: silver of .925 fineness; quality: proof
Struck by *UAB Lietuvos monetų kalykla* (Lithuania)
Artists: Anita Paegle (graphic design), Jānis Strupulis (plaster model)

RICHARD WAGNER

Face value: 1 lats
Weight: 22.00 g; diameter: 35.00 mm
Metal: silver of .925 fineness; quality: proof
Struck by *Koninklijke Nederlandse Munt* (the Netherlands)
Artists: Aigars Ozoliņš (graphic design of obverse), Ivo Grundulis (graphic design of reverse), Ligita Franckeviča (plaster model)

OH, HOLY LESTENE!

Face value: 1 lats
Weight: 1.2442 g; diameter: 13.92 mm
Metal: gold of .9999 fineness; quality: proof
Struck by *UAB Lietuvos monetų kalykla* (Lithuania)
Artists: Laimonis Šēnbergs (graphic design),
Ligita Franckeviča (plaster model)

JĀZEPS VĪTOLS

Face value: 1 lats
Weight: 22.00 g; diameter: 35.00 mm
Metal: silver of .925 fineness; quality: proof
Struck by *Koninklijke Nederlandse Munt*
(the Netherlands)
Artists: Arvīds Priedīte (graphic design),
Jānis Strupulis (plaster model)

365

Face value: 1 lats
Weight: 16.40 g; diameter: 30.00 mm
Metal: silver of .925 fineness; quality: proof
Struck by *Koninklijke Nederlandse Munt*
(the Netherlands)
Artist: Paulis Liepa

The cash received from credit institutions was checked for wear and tear and authenticity by automated cash processing systems. The amount of cash processed in 2013 (3 727.5 million lats) exceeded the annual average amount of currency in circulation 3.5 times (2.6 times in 2012).

The nominal value of detected counterfeits (45.3 thousand lats) accounted only for 0.004% of the average annual amount of currency in circulation (0.002% in 2012).

In 2013, to mark anniversaries significant to Latvian culture, Latvijas Banka issued coins "Rūdolfs Blaumanis" (in circulation as of 11 April 2013), "Richard Wagner" (in circulation as of 3 June 2013) and "Jāzeps Vītols" (in circulation as of 3 July 2013). The "Baby Coin" (in circulation as of 11 April 2013) and the coin "365" offering reflection on the topic of time (in circulation as of 14 November 2013) commemorate fundamental human values. To support the restoration project of the Lestene Church and as a dedication to the Baroque of Courland, Latvijas Banka issued a gold collector coin "Oh, Holy Lestene!" (in circulation as of 30 September 2013). The coin "Silver Salmon" (in circulation as of 5 March 2013) commemorated the 20th anniversary of the restored lats.

A limited number of special 1-lats coins "Kokle" (in circulation as of 10 June 2013) and "Parity Coin" (in circulation as of 6 November 2013) replenished the stock of circulation coins.

In preparation for the euro changeover, Latvijas Banka commissioned the striking of 400 million Latvian euro coins worth 98.8 million euro in 2013; the coins were minted at the Staatliche Münzen Baden-Württemberg (Germany), with euro coin starter kits for households, each worth 14.23 euro, and starter kits for legal persons, each worth 200 euro, made ready. Meanwhile, Latvijas Banka borrowed 110.3 million euro banknotes worth 3.1 billion euro from the stocks of the Eurosystem.

The frontloading of euro banknotes and coins to credit institutions started in November 2013. By the end of the year, euro banknotes and coins worth 283.2 million euro had been delivered to credit institutions.

In order for the population to get better acquainted with the Latvian euro coins in a timely manner and to have euro cash at hand for the first days after the euro changeover, Latvijas Banka, the credit institutions and offices of the SJSC *Latvijas Pasts* began the selling of euro coin starter kits to the population on 10 December. A total of around 700 thousand such kits had been sold by the end of 2013.

PAYMENT AND SETTLEMENT SYSTEMS

OPERATION OF THE PAYMENT AND SETTLEMENT SYSTEMS OF LATVIJAS BANKA

Latvijas Banka maintains the operation of the interbank payment systems, thus ensuring the implementation of monetary policy operations, secure, rapid and efficient settlement between credit institutions as well as final settlement of other payment and securities settlement systems. Hence efficient payment infrastructure is available to credit institutions providing payment services to their customers.

In 2013, Latvijas Banka carried out activities to prepare the payment system infrastructure for the changeover to the euro. To reduce the number of lats payments initiated but unsettled at the end of the year, Latvijas Banka introduced an additional business day on 30 December for the payment systems executing settlement in lats. Latvijas Banka converted the lats balance on credit institution and other financial institution settlement accounts with Latvijas Banka and terminated the operation of the SAMS and EKS for the lats settlement as of the euro changeover day. Latvijas Banka ensured the operation of TARGET2-Latvija in line with the requirements of TARGET2 component system of a euro area country in order to provide for the following activities as of 1 January 2014: execution of the Eurosystem's monetary policy transactions, conversion of an intraday credit into an automatic overnight loan, enabling Latvian credit institutions to monitor the fulfilment of the Eurosystem's reserve requirements and pooling and managing liquidity by groups of credit institutions in all the relevant TARGET2 component systems. TARGET2-Latvija also ensures final settlement in euro for DENOS, the securities settlement system of the LCD, and First Data Latvia Ltd. Payments effected in lats by Latvian credit institutions, the Treasury, Latvijas Banka and other financial institutions through the SAMS are executed in euro via TARGET2-Latvija as of the changeover day to the euro. At the same time, customer interbank payments in lats processed by Latvijas Banka in the EKS have been settled in the EKS or other EU SEPA compliant payment systems (subject to the payment processing procedures of each Latvian credit institution) as SEPA credit transfers in euro as of the changeover day to the euro.

Latvijas Banka ensured and maintained the operation of three payment systems: the SAMS, the EKS and TARGET2-Latvija in the Republic of Latvia in 2013. The daily average of payments processed by Latvijas Banka via all systems totalled 140.0 thousand payments with the total value of 936.5 million lats (for the monthly data on payments processed by the interbank payment systems of Latvijas Banka see Charts 20 and 21).

The SAMS – a real-time gross settlement system processing payments in lats – enabled the following: the settlement of the monetary policy operations of Latvijas Banka, interbank settlement of large-value payments and final settlement in lats for the EKS, the securities settlement system of the LCD – DENOS, and the card payment systems First Data Latvia Ltd., MasterCard Europe Sprl and Visa Europe Services Inc. At the end of 2013, 25 credit institutions, the Treasury and Latvijas Banka were the participants in the SAMS. The SAMS processed 235.0 thousand payments with the value of 125.6 billion lats (see Table 5). The SAMS provided 100% availability to its participants.

The EKS – a retail payment system of Latvijas Banka envisaged for the processing of retail payments and used for the settlement in lats and euro. The EKS is an ACH

Chart 20

TOTAL VOLUME OF PAYMENTS PROCESSED IN THE INTERBANK PAYMENT SYSTEMS OF LATVIJAS BANKA
(in millions)

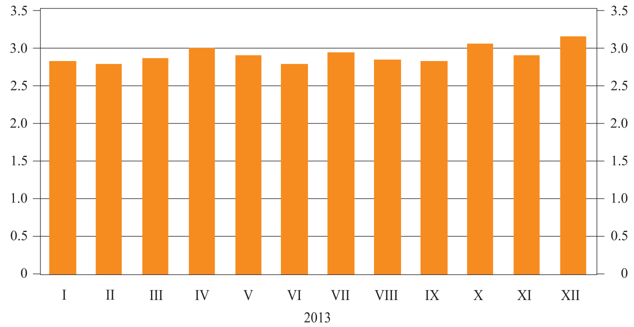


Chart 21

TOTAL VALUE OF PAYMENTS PROCESSED IN THE INTERBANK PAYMENT SYSTEMS OF LATVIJAS BANKA
(in billions of lats)

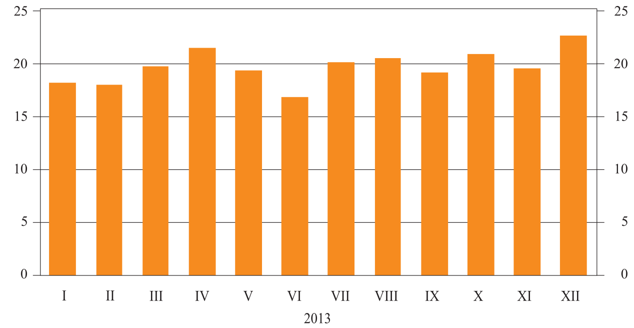


Table 5

PAYMENTS PROCESSED IN THE SAMS

	Volume (in thousands)			Value (in billions of lats)		
	Interbank and ancillary system	Customer		Interbank and ancillary system	Customer	
2013	**113.1**	**121.9**	**235.0**	**113.6**	**12.0**	**125.6**
2012	110.9	118.8	229.7	99.3	11.9	111.2
2011	106.9	109.6	216.4	126.2	11.6	137.8
2010	96.8	96.3	193.0	157.5	8.8	166.3
2009	101.6	98.6	200.2	156.5	11.0	167.5

(Automated Clearing House) system where payment processing is fully automated and only electronic payment documents are accepted and processed. The EKS final settlement in lats was effected in the participants' settlement accounts opened with Latvijas Banka in the SAMS, while that in euro was executed in the participants' settlement accounts opened with Latvijas Banka in TARGET2-Latvija. The EKS is compliant with the SEPA requirements, enabling its participants to make and receive SEPA credit transfers in euro throughout SEPA. On 30 September, Latvijas Banka increased the number of clearing cycles for euro payments via the EKS from four to seven per day. The payments executed in lats were processed in two clearing cycles. At the end of 2013, 23 credit institutions, the Treasury and Latvijas Banka participated in lats settlement through the EKS, and 16 credit institutions, the Treasury and Latvijas Banka participated in euro settlement via the EKS. The EKS processed 34.6 million payments, with their value totalling 18.2 billion lats (see Table 6). The EKS ensured 99.83% availability to its participants (the EKS final settlement was delayed on three occasions over the year).

Latvijas Banka, together with other participants of the ESCB, ensured the operation of TARGET2, the Trans-European Automated Real-time Gross Settlement Express Transfer system. Latvijas Banka maintained the component system TARGET2-Latvija, providing for mutual payment settlement of the system's participants in euro and final settlement of the EKS in euro. At the end of 2013, 23 credit institutions, the Treasury and Latvijas Banka were the participants in TARGET2-Latvija. In 2013, 349.8 thousand payments with the total value of 132.0 billion euro were processed in TARGET2-Latvija (see Table 7).

Table 6

PAYMENTS PROCESSED IN THE EKS

	Volume (in thousands)			Value (in billions of lats)		
	Lats	Euro		Lats	Euro	
2013	**33 664.1**	**900.3**	**34 564.4**	**12.3**	**5.9**	**18.2**
2012	33 544.8	703.8	34 248.6	12.2	4.4	16.6
2011	34 597.9	464.0	35 061.9	12.0	2.0	14.0
2010	32 796.8	310.1	33 107.0	10.5	1.1	11.6
2009	31 796.8	252.5	32 049.2	10.2	0.9	11.1

Table 7

PAYMENTS PROCESSED IN TARGET2-LATVIJA

	Volume (in thousands)			Value (in billions of euro)		
	Interbank	Customer		Interbank	Customer	
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
2010	39.5	247.6	287.1	190.7	9.3	200.0
2009	43.4	126.5	169.9	194.7	5.7	200.5

In 2013, Latvijas Banka rendered payment services to domestic, foreign and international financial institutions in lats, with the value of processed payments totalling 2.3 billion lats. At the end of the year, Latvijas Banka ensured a changeover from the provision of payment services in lats to that in euro, including the provision of SEPA credit transfer services to financial institutions as of the introduction of the euro.

OVERSIGHT OF PAYMENT AND SECURITIES SETTLEMENT SYSTEMS

Latvijas Banka performed a day-to-day oversight of the payment systems maintained by it and securities settlement system DENOS operated by the LCD, analysing the technical and operational functions of the systems and compiling statistical data on these systems. Within the framework of the payment system oversight, Latvijas Banka cooperated with the institutions operating the clearing and payment systems (First Data Latvia Ltd., JSC Itella Information (JSC OpusCapita as of 1 November 2013) and credit institutions), providing them consultations and opinion on payment system issues.

In 2013, Latvijas Banka pursued activities to prepare for the involvement and participation in the Eurosystem oversight of payment and securities settlement systems as of the changeover to the euro.

Latvijas Banka, in cooperation with the Eurosystem, performed the compliance assessment of the securities settlement system DENOS, operated by the LCD, against the ECB "Standards for the Use of EU Securities Settlement Systems in ESCB Credit Operations" (hereinafter, the Eurosystem User Standards) in 2013. The compliance assessment of DENOS against the Eurosystem User Standards was necessary in order to establish that Latvia's securities registered with the LCD were eligible for the Eurosystem monetary policy operations as of the changeover day to the euro. The purpose of the Eurosystem User Standards is to provide for the execution of the Eurosystem credit operations via those securities settlement systems which safeguard the national central banks from risk upon conducting monetary policy operations and granting intraday credit to the participants in TARGET2, and ensure the same level of security for all operations of the national central banks across the EU. The Eurosystem deemed DENOS to be eligible for the use in the Eurosystem monetary policy operations and intraday credit operations as of 1 January 2014 and gave two recommendations for further improvement of DENOS operation. Within the framework of the payment and securities settlement system oversight Latvijas Banka established that the LCD had complied with the above recommendations of the Eurosystem by the end of 2013.

Latvijas Banka compiled data on the payment instruments used in Latvia (see Table 8). Payments by payment cards comprised 151.6 million payments (50.9% of all payment instruments used) and customer credit transfers accounted for 139.7 million payments (46.9%) in 2013. The value of such payments stood at 2.2 billion lats and 404.6 billion lats respectively. Other payment instruments (direct debit, cheques and e-money) were relatively seldom used.

Table 8

PAYMENT INSTRUMENTS USED IN LATVIA

	Volume (in millions)				Value (in billions of lats)			
	Customer credit transfers	Card payments	Direct debits, cheques and e-money payments		Customer credit transfers	Card payments	Direct debits, cheques and e-money payments	
2013	**139.7**	**151.6**	**6.4**	**297.7**	**404.6**	**2.2**	**0.2**	**407.0**
2012	130.3	128.0	5.7	264.0	343.6	1.9	0.2	345.7
2011	119.3	114.0	5.3	238.6	297.1	1.7	0.1	298.9
2010	115.7	101.9	5.3	222.9	260.7	1.4	0.2	262.3
2009	114.3	97.8	5.2	217.2	242.7	1.4	0.2	244.3

Latvijas Banka continued to coordinate the SEPA Project in Latvia. Latvijas Banka engaged in the SEPA Project by steering the National SEPA Working Group. The National SEPA Working Group proceeded with the implementation of SEPA requirements, including UNIFI (ISO 20022) XML standard for the customer-to-bank and bank-to-customer domains. At the beginning of the year, the National SEPA Working Group, subject to a request of the Ministry of Finance, coordinated a discussion leading to an agreement by the Working Group members to use the derogation, stipulated in the SEPA Regulation regarding the end-date for migration, and postponed the fulfilment of the requirement to use UNIFI (ISO 20022) XML standard for the customer-to-bank and bank-to-customer domains until 1 February 2016. In the second half of 2013, the National SEPA Working Group drafted a report for the EC on SEPA migration in Latvia and approved draft Version 5.0 of Latvia's National SEPA Plan.

The aggregation of the replies to the survey on the migration of public authorities to SEPA and their submission to the EC was coordinated by the SEPA Working Group. It followed from the above results that public authorities executed credit transfers in euro in line with the SEPA requirements and were ready to replace their lats payments by SEPA credit transfers upon the changeover to the euro. In December, the Working Group was actively involved in the monitoring of a SEPA task to implement SEPA credit transfers, and conducted a survey, whereby Latvian credit institutions, the Treasury, the SJSC *Latvijas Pasts* and Latvijas Banka confirmed their readiness to replace customer credit transfers executed in lats (100%) by SEPA credit transfers in euro as of 1 January 2014 (excluding urgent payments and payments made through TARGET2). The representative of Latvijas Banka took part in the EU Forum of the National SEPA Coordination Committees organised by the EC on 18 June and 14 November, and presented reports on the migration to SEPA in Latvia.

In 2013, Latvijas Banka engaged in public consultations launched by the European institutions and participated, in cooperation with the FCMC, in the European Forum on the Security of Retail Payments (SecuRe Pay) established by the ECB and was involved in the development of the Assessment guide for evaluating compliance with the "Recommendations for the Security of Internet Payments" as well as the draft "Recommendations for Payment Account Access Services" provided to third parties and "Recommendations for the Security of Mobile Payments".

FINANCIAL STABILITY

In 2013, Latvijas Banka continued to develop and enhance the risk assessment instruments of financial system. A cobweb model was developed with the aim of mapping a change dynamics of six major financial stability risk categories, while the developed risk category indices help to evaluate the contribution of the included variables to the evaluation of a particular risk category.

Latvijas Banka proceeded with conducting the credit institution risk and lending surveys and compiled the relevant results. Upon a full-fledged membership of Latvia in the EMU as of 1 January 2014, Latvijas Banka will henceforth conduct a euro area credit institution lending survey in cooperation with the ECB.

In 2013, the second survey of household borrowers, representing households with at least one loan for house purchase, repairs or refurbishment, was conducted. The obtained data were used for the assessment of both the financial position of households at the moment of the survey and the relevant changes against the results of the first survey of household borrowers conducted in 2011. The modelling of the impact of diverse financial shocks on the household borrowers' vulnerability was commenced.

Latvijas Banka continued to engage actively in the work of the ESRB through participation in the Advisory Technical Committee of the ESRB and its working groups (Analysis Working Group, Instruments Working Group and Assessment Team for the ESRB Recommendation on Fx Lending) for the purpose of drafting the ESRB policy and analysis documents and defining opinion. The Assessment Team for the ESRB Recommendation on Fx Lending assessed the compliance with the first recommendation of the ESRB on lending in foreign currencies in the EU countries.

In 2013, close cooperation among the Nordic and Baltic countries continued in the field of financial stability, providing for the exchange of opinions on common and specific risks in the region as well as other topical financial stability issues. The possibility to define a specific regulatory policy framework governing the operation of credit institutions of the countries stipulated by CRD IV is one of the key issues addressed by the Nordic-Baltic Macro-prudential Forum since credit institutions of the region engage actively in cross-border activities. To limit the regulatory requirements-related arbitrage opportunities sought by market participants, discussions about the reciprocity of regulatory requirements of the countries regarding counter-cyclical capital buffers and other regulatory requirements are held within the Forum. Latvijas Banka together with the FCMC took part in the Forum and several working groups of the Forum with the aim of establishing the basis for the reciprocity of the regulatory requirements.

The year 2013 was also significant for the establishment of the banking union. Latvijas Banka, within the scope of its competence, provided opinion both on the banking union's draft legal framework under development and measures taken by the ECB in preparation for the performance of prudential supervision functions entrusted to the ECB (the Single Supervisory Mechanism). As regards the development of legal regulation, the adoption of the Regulation conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions was the major achievement. Significant progress has been made in the establishment of a Single Resolution Mechanism while its legal framework will be developed further also in 2014.

OPERATION OF THE CREDIT REGISTER

In 2013, Latvijas Banka continued to collect, accumulate and store in the Credit Register the data of the Credit Register participants (such as credit institutions, companies having close links with credit institutions, credit unions and insurers; hereinafter, the participants) on the obligations of the customers and customer guarantors and the performance thereof and arrears.

At the end of 2013, the Credit Register comprised 102 participants who authorised 718 users to work with the Credit Register. The Credit Register contained data on 1.0 million persons and 3.3 million obligations (at the end of 2012, on 989.6 thousand persons and 3.0 million obligations), of which 1.2 million were outstanding obligations. The total outstanding obligations of the participants accounted for 14.3 billion lats, including outstanding obligations recognised in the balance sheet – 12.9 billion lats (at the end of 2012, the total outstanding obligations were 14.5 billion lats, including outstanding obligations recognised in the balance sheet – 13.3 billion lats). In 2013, the Credit Register participants submitted 14.0 million requests (10.8% less in comparison with 2012). Latvijas Banka provided the Credit Register data to 4.6 thousand natural and legal persons in 2013 (to 4.5 thousand persons in 2012). From 1 October 2013 to the end of the year natural persons submitted 258 requests to the Credit Register website for servicing natural persons electronically for the purpose of receiving information contained in the Credit Register on themselves.

In 2013, Latvijas Banka developed and implemented a solution for the Credit Register to provide an opportunity for any natural person to receive Credit Register data pertaining to itself also in electronic form (interactively), by authentication with an identification card issued in the Republic of Latvia on the Credit Register website for servicing natural persons electronically https://manidati.kreg.lv. Hence a natural person may receive Credit Register data pertaining to himself/herself in an electronic form, as a direct mail delivery or in person, at Latvijas Banka.

In 2013, the operation of the Credit Register was improved upon introducing new data *Individual date of the actual termination of the customer guarantor's obligations* to enhance the participants' ability to assess the current and potential customer guarantors' creditworthiness, and by changing the reporting procedures for the data *Sector of the economy* and *Category*. To ensure a successful changeover to the euro, further preparatory activities were carried out within the Credit Register, including the amendments to the governing laws and regulations, the required developments and testing.

Latvijas Banka continued to participate also in the World Bank's survey "Getting Credit – Public Credit Registry Survey", thus contributing to the Project *Doing Business*. Latvijas Banka shared experience with Banc Ceannais na hÉireann/Central Bank of Ireland on the development and maintenance-related issues of the Credit Register.

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 implement its tasks as well as raise public awareness of the developments in the financial sector and the economy.

In view of Latvia's prospective joining the euro area, in 2013 the ECB experts in the field of financial market and monetary statistics and balance of payments statistics visited Latvijas Banka. In the report, experts highlighted that Latvijas Banka had compiled the following statistics in compliance with the ECB requirements: MFI balance sheet statistics and interest rate statistics, other financial intermediaries (including investment funds) statistics, insurance corporations and pension funds statistics, structural statistics, payments statistics, credit institution consolidated balance sheet statistics, balance of payments statistics and securities issues statistics. Statistics experts of Latvijas Banka also attended the meetings convened by the CSB as part of the statistics-related visits of the EU institutions to Latvia as well as engaged in different cross-institutional working groups. The representatives of Latvijas Banka were invited in the capacity of experts to participate in the visits organised by Eurostat. These visits were aimed at determining the compliance of HICP data compilation with the methodological requirements of Eurostat and addressing issues related to the general government deficit and debt notification.

In 2013, the preliminary activities were performed for the introduction of ESA 2010 that would take effect in the field of statistics on 1 September 2014. Experts of Latvijas Banka engaged in the work of the inter-institutional working group led by the Ministry of Finance; this working group made proposals for implementing changes in the Classification of Institutional Sectors in compliance with ESA 2010 methodology. Regulation No. 1456 of the Cabinet of Ministers "Regulation on Classification of Institutional Sectors" was developed on the basis of the proposals put forth by the above working group and adopted on 10 December 2013 (in effect as of 1 January 2014).

In 2013, experts of Latvijas Banka engaged in the work of the inter-institutional working group led by the CSB and developing a common macroeconomic statistics revision policy compliant with the requirements of the EU institutions to be applied to the fields of the government finance statistics, quarterly and annual financial accounts statistics, balance of payments and international investment position statistics as of 1 September 2014.

Latvijas Banka continued the regular transmission of statistical data to the ECB, BIS and IMF and transmitted 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 and balance of payments 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 as well as 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 as well as continued to compile and transmit financial soundness indicators to the IMF. Latvijas Banka participated in the IMF's Financial Access Survey also in 2013, reporting data on the access to and scope of the services provided to households by Latvia's financial institutions.

FINANCIAL AND MONETARY STATISTICS

In 2013, the major tasks in the field of financial market and monetary statistics were the introduction of the euro in statistical reporting by amending the relevant regulations of Latvijas Banka, recalculation of the historical statistical data in euro, involvement in the methodological work regarding the amendments to the ECB legislation by issuing comments on draft legislative amendments and examining selected issues, as well as the compilation of statistical data on a regular basis in accordance with the requirements of the ECB and other data users.

In view of the introduction of the euro, the following six revised regulations of Latvijas Banka were approved, governing the compilation of statistical reports in the fields of: MFI balance sheet and interest rate statistics, money market transactions and payments statistics as well as foreign currency purchases and sales statistics (Regulations No. 99, 100, 101, 102, 103, 104; in effect as of 1 January 2014). At the same time, the "Statistical Reporting Guidelines for MFIs" published on the website of Latvijas Banka were updated. To ensure commensurate utilisation of the resources of reporting agents, amendments to the statistical reporting forms were made so as to cause the least possible changes in the respondent information systems. To reduce the reporting burden of respondents, Regulation No. 45 of Latvijas Banka "Regulation for Compiling the 'Report on Net Open Foreign Exchange Position'" of 5 November 2009 was repealed as of 1 January 2014.

To harmonise the regulations on the minimum reserve requirements fully with the requirements applied within the Eurosystem and stipulated by Regulation (EC) No. 1745/2003 of the European Central Bank of 12 September 2003 on the application of minimum reserves (ECB/2003/9), the requirements for a transition period were set in 2013 by incorporating them into the "Regulation for Calculating and Fulfilling the Minimum Reserve Requirements" (Regulation No. 86; in effect until 31 December 2013) and adopting the "Regulation for Preparing the 'Calculation of the Reserve Base and Requirement for Credit Unions'" (Regulation No. 108; in effect until 31 December 2013). At the same time, the "Regulation for Preparing the 'Calculation of the Reserve Base and Requirements'" (Regulation No. 109; in effect as of 1 January 2014), stipulating uniform reserve requirements for credit institutions and credit unions, has been adopted. For the purpose of streamlining the process of compiling reports by the respondents and help to understand the ECB legal acts applicable to the minimum reserves, Latvijas Banka drafted and also published the "Advisory Guidelines for the Application of the Minimum Reserves" under Legal section of the website of Latvijas Banka.

In 2013, comments and proposals were provided in respect of the amendments made to some ECB Regulations and Guidelines primarily due to the implementation of ESA 2010. Moreover, Latvijas Banka, upon the ECB's request, conducted an in-depth study of the issues pertaining to a possibility of publishing data on uniform interest rates of the EU countries, payments statistics and availability of payment card statistics in particular, and investment brokerage companies and companies involved in lending. Latvijas Banka also provided information on the methodology and practice of compiling MFI statistics for the ECB Manual. Latvijas Banka participated in the ECB survey on set-up and regular costs which would be incurred upon reporting the balance sheet data of insurance corporations.

BALANCE OF PAYMENTS STATISTICS

In 2013, the new requirements stipulated by the ECB, Eurostat and IMF for the compilation of the balance of payments statistics were further implemented, therefore the Council of Latvijas Banka amended a number of regulations on 11 July 2013 (in effect as of 1 January 2014). The "Regulation for Compiling the 'Quarterly Report on Foreign Assets and Liabilities (1-MB)'" and "Regulation for Compiling the 'Annual Report on Foreign Assets and Liabilities (1-MB)'" have been subject to the most significant changes, since the reporting agent will have to report data on net foreign assets and liabilities associated with the foreign sister companies separately for the compilation of data on foreign direct investment and will also have to report data on ultimate controlling parent. To improve the quality of the reporting data, the submission deadline for the "Annual Report on Foreign Assets and Liabilities (1-MB)" has been extended from 25 January to 5 April when more accurate data per annum are at the respondents' disposal. To report data on imports and exports of services in the balance of payments statistics subject to the new requirements, the revised "Regulation for Compiling the 'Quarterly Report on Services (4-MB)'" and "Regulation for Compiling the 'Quarterly Report on Transportation and Intermediary Services (3-MB)'" have been approved and detailed breakdown of the reporting data updated.

To reduce the reporting burden of respondents, the revised "Regulation for Compiling the Reports on External Payments of Non-banks" has been approved. A new threshold of external payments (10 000 euro; previously 5 000 lats) was stipulated. Hence no data are to be submitted to Latvijas Banka where the above threshold is not exceeded; the requirement to report the "Notice on External Payments Made in Foreign Banks (1-AB)" has been revoked and a monthly frequency instead of the previous weekly frequency has been set for the "Report on External Payments of Non-banks".

As the new requirements stipulated by the ECB, Eurostat and IMF for the compilation of the balance of payments statistics were implemented, historical data were regrouped for submission to the ECB in accordance with the data reporting requirements stipulated for the euro area countries and the regrouped data were transmitted to the ECB, starting with the data for January 2000. The securities issues statistics (the amount of securities issued and redeemed by Latvia's residents over the reporting period as well as securities outstanding at the end of the period) has been compiled and transmitted to the ECB on a regular basis, including also the transmission of historical data, starting with the data for January 2011.

PROVIDING FINANCIAL SERVICES TO THE GOVERNMENT

Pursuant to the requirements of the Law on Latvijas Banka, the Bank renders several services to the Treasury, ensuring current account management, acceptance of time deposits, foreign exchange transactions and other transactions. The Treasury uses services provided by Latvijas Banka for effecting settlement and also participates in payment and settlement systems of Latvijas Banka as a direct participant of the system.

In 2013, the Treasury had settlement accounts in the euro and eight other foreign currencies with Latvijas Banka. Over the year, Latvijas Banka settled 1.3 thousand payments made by the Treasury in foreign currencies totalling 3.0 billion lats. The Treasury also placed 15 time deposits in foreign currencies with Latvijas Banka. In 2013, the Treasury did not execute any foreign exchange transactions in Latvijas Banka.

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 tasks of Latvijas Banka.

The Governor of Latvijas Banka, other officials of the Bank and its employees held regular meetings with representatives of the Republic of Latvia government, including participation in meetings of the Cabinet of Ministers of the Republic of Latvia and in work of different committees established both by the Republic of Latvia ministries and pursuant to the Prime Minister's Order.

Employees of Latvijas Banka contributed to the implementation of the euro changeover project in Latvia.

The Governor and Deputy Governor of Latvijas Banka represented the Bank at the Euro Changeover Coordination Council established in 2013. Its key task was to ensure a lead supervision of all euro changeover-related processes in the country at the highest public administration level. Representatives of Latvijas Banka participated in the implementation of this task.

A representative of the Bank took part in regular monitoring of activities implemented by working groups set up by the national Steering Committee for the introduction of the single European currency in Latvia, including regular reporting to the Euro Changeover Coordination Council and the Cabinet of Ministers of the Republic of Latvia on the work accomplished in relation to all euro changeover processes in this country.

In accordance with the deadlines set in Latvia's National Euro Changeover Implementation Plan, representatives of Latvijas Banka participated in the work of the Money and Payment Systems Working Group (MPSWG) to implement the following activities: procurement of euro banknotes and coins; organisation of euro frontloading; adjustment of payment systems to settlement in euro; measures for the withdrawal of lats from circulation; organisation of security arrangements in relation to the euro changeover;

timely identification of risks and threats related to the introduction of the euro in every sphere of MPSWG competence and appropriate response; drawing up and managing the detailed MPSWG plan (the plan included more than 500 activities; the parties involved were Latvijas Banka, the Treasury, SJSC *Latvijas Pasts*, 22 credit institutions, other participants of payment systems and the State Police).

In addition, MPSWG members participated in many euro communication events and in the development of the euro changeover-related legislation and a common legal framework.

Employees of Latvijas Banka represented the Bank in the Public Awareness and Communication Working Group (PACWG) established within the Euro Changeover Project. In relation to the euro changeover communication, the area of competence of Latvijas Banka included issues concerning the provision of the financial sector and thus also the economy with euro cash, maintaining an efficient and secure payment environment, as well as macroeconomic development of the country. In order to enable the working group to function successfully, it was important that representatives of Latvijas Banka transferred this competence to representatives of other institutions (via lectures and presentations) at the working group.

Representatives of Latvijas Banka coordinated the receipt by the PACWG of topical information, useful, technically and visually premium audio-visual materials to be used at communication events organised at national level and by other organisations. Latvijas Banka updated the list of frequently asked questions and answers to keep the PACWG informed about changes in a timely manner.

Representatives of Latvijas Banka coordinated participation of Latvijas Banka's experts in training for employees of public institutions, accountants, other groups of professionals and a wide range of the population organised by the PACWG and its other members, as well as provided information falling within its competence for the purposes of training.

Representatives of Latvijas Banka, within the competence of the Bank, participated in updating and implementation of the communication plan maintained by the PACWG, i.e. communication concerning euro banknotes and coins and operation of Latvijas Banka, as well as organisation of international communication events according to the plan.

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

Experts of Latvijas Banka took part in a working group of Non-financial Corporations and Consumers established by the Ministry of Economics of the Republic of Latvia to examine projects and documents with regard to the initiatives "Monitoring of Consumer Prices" and "Honest Introducer of the Euro".

Representatives of Latvijas Banka were actively engaged in the work of the Working Group for Improving Cooperation with International Rating Agencies; they participated in drafting reports on Latvia's credit rating and the factors impacting it, provided proposals for further enhancement of cooperation with rating agencies and ensured information exchange for the purpose of hosting regular visits of agency representatives.

Experts of Latvijas Banka participated in meetings organised by the Public Expenditure and Audit Committee of the Saeima of the Republic of Latvia on monitoring of the use of the financial loan and the process of Latvia's economic stabilisation and resumption of recovery. Comments on individual issues were made, and information for meetings examining items with regard to financial system developments was produced.

Employees of Latvijas Banka in their capacity as experts participated in the work of the EU Funds Monitoring Committee and Temporary Monitoring Committee; they provided comments on individual agenda items and progress made in budget execution during meetings on the current and next (2014–2020) EU budget periods.

Experts of Latvijas Banka took part in the work of the committee of project application assessment and project evaluation within the programme "High Value-Added Investments" of the Investment and Development Agency of Latvia.

A representative of Latvijas Banka was engaged in evaluation of the enterprises participating in a competition "Export and Innovation Award 2013" organised by the Investment and Development Agency of Latvia (entrusted by the Ministry of Economics of the Republic of Latvia).

Employees of Latvijas Banka continued to participate in the SEPA project in Latvia by steering the work of the National SEPA Working Group and pursued the introduction of SEPA requirements in Latvia. The SEPA Working Group developed and approved Version 5.0 of Latvia's National SEPA Plan. Specialists of Latvijas Banka coordinated discussions and consultations of market operators on issues related to the SEPA Regulation, produced a report for the EC on SEPA migration in Latvia, carried out SEPA communication activities and monitoring of a SEPA task "To Implement SEPA Credit Transfers" and participated in a public consultation on recommendations of the European Forum on the Security of Retail Payments. A representative of Latvijas Banka took part in consultations of European institutions on SEPA issues and in drawing up recommendations of the European Forum on the Security of Retail Payments. Representatives of Latvijas Banka participated in discussions focusing on the most effective solution for the replacement of national direct debit payments.

Making the preparations required for the introduction of ESA 2010 in the field of statistics from 1 September 2014, representatives of Latvijas Banka engaged in the work of an interinstitutional working group led by the Ministry of Finance; this working group drew up proposals for amendments to the Classification of Institutional Sectors in compliance with ESA 2010. In 2013, Latvijas Banka continued to cooperate with the CSB. In preparing for Latvia's joining the euro area, specialists of Latvijas Banka in their capacity as experts participated in meetings organised in relation to Eurostat visits to the CSB by explaining individual statistical methodology issues.

Representatives of Latvijas Banka pursued their activity in the National Council for the Security of Information Technologies by participating in drafting a National Cyber Security Strategy.

To enhance the use of the principle of good governance in Latvia, a representative of Latvijas Banka shared his experience with members of the Latvian Quality Association on aspects related to the introduction and employment of total quality management in the organisation.

OPERATION OF THE VISITORS CENTRE

In 2013, the Latvijas Banka Visitors Centre "Money World" offering a modern display for obtaining financial education and information had 5 449 visitors. The display was temporarily closed in summer to develop a concept of change following the euro changeover date. Visits to the display and the operation of the Centre is organised as group visits of particular amount and number.

Secondary school seniors and university students majoring in social sciences are the primary target audience of the Visitors Centre: they accounted for almost 80% of total attendance. The overwhelming presence of youth among the visitors is of importance also because the information communicated by the 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 planned euro changeover in Latvia, stability of the euro area, the general government debt and financial discipline, lats stability and recovery of the economic competitiveness were among the most discussed in 2013. They gave rise to the updating of the display that considerably expanded the range of visual aids used to reveal the process of the euro changeover; at the same time, the information about the design of the Latvian euro coins was provided in a more streamlined way. The development of a large project aimed at explaining card payments was launched in cooperation with the card payments operator First Data Latvia Ltd.

INFORMATION TO THE PUBLIC

In 2013, Latvijas Banka continued active communication with the general public about the topical issue related to the euro changeover and other issues important for the economic development as well as the progress on fulfilling the tasks of Latvijas Banka.

Latvijas Banka continued to prepare a wide range of regular publications. Incorporating the data provided by Latvijas Banka, CSB, Ministry of Finance, FCMC and other institutions, the quarterly Macroeconomic Developments Report discussed the developments of external sector, financial market, domestic demand and supply, costs and prices, and balance of payments, and presented economic growth forecasts and inflation projections. The publication Financial Stability Report assessed major financial stability risks. Three working papers by the experts of Latvijas Banka, 24 articles on different economic topics and 94 commentaries on Latvia's macroeconomic indicators were published on the website of Latvijas Banka in 2013. The economists of Latvijas Banka presented their views about the latest economic developments in 33 entries (in Latvian and English) in a special blog section at macroeconomics.lv. The working papers which were prepared in cooperation with the Oesterreichische Nationalbank and ECB staff are available on the websites of the respective banks. The economists of Latvijas Banka also published their working papers in international peer-reviewed journals in economics.

In 2013, a competition for students' research papers was organised already for the 11th time with a view to promote interest about researching topical macroeconomical subjects, with five papers (out of 14 submitted) awarded in it.

The macroeconomic research and financial market analysis by Latvijas Banka that is used in consulting the government and required by economic agents for understanding current circumstances and further decision-making trends was widely discussed. After each regular meeting of the Council of Latvijas Banka, the Governor of Latvijas Banka presented an account of macroeconomic developments to mass media on a bimonthly basis. To communicate with the general public via social media channels in 2013, Latvijas Banka used social networks (Twitter, YouTube, Slideshare and Flickr).

Latvijas Banka encouraged active public discussion on the benefits and risks stemming from the introduction of the euro and the euro cash changeover in 2013. The general public was provided with extensive and complete information on the design and security features of the euro banknotes and coins as well as the introduction of the second series – Europa series – of the 5 euro banknote. The analysis, assessment and estimates by Latvijas Banka were explained in the publications series on its websites and reflected in Latvia's most popular mass media.

In preparation for the euro changeover, Latvijas Banka organised several events to mass media to present the security features of euro banknotes and coins and the implementation progress thereof. At the end of July, the design of Latvian euro coins and the process of their minting and delivery were presented to Latvia's most popular televisions in cooperation with Staatliche Münzen Baden-Württemberg (Germany), while in August, the minted coins were presented to many mass media. In October, they were presented information on frontloading of euro banknotes and coins to Latvian credit institutions and then their customers – enterprises and private persons. The opening of the "Euro Exhibition" in the Dailes Theatre marked the launch of an informative campaign organised jointly by the ECB to inform the people of Latvia about the design and security features of euro banknotes and coins. In November, journalists were given the opportunity to look into the decision-making process regarding the design of banknotes and coins, inter alia, euro collector coins, within the Coin Design Commission of Latvijas Banka. In December, detailed information on euro coin starter kits for households was presented to journalists.

With Latvia preparing for accession to the euro area, Latvijas Banka in cooperation with the ECB, EC and Ministry of Finance hosted the Euro Conference Latvia on 12 September to look back on what has been accomplished under the euro area's economic governance and to discuss further complicated tasks and the best solutions. The conference was attended by Mario Draghi, President of the ECB, Olli Rehn, Vice President of the European Commission, Commissioner for Economic and Monetary Affairs and the Euro, Valdis Dombrovskis, Prime Minister of the Republic of Latvia, Andris Vilks, Minister of Finance of the Republic of Latvia, and Ilmārs Rimšēvičs, Governor of Latvijas Banka. Henrik Enderlein, Professor, Hertie School of Governance, Yves Bertoncini, Director of Notre Europe – Jacques Delors Institute, Lucrezia Reichlin, Professor, London School of Business, and Zoja Razmusa, Member of the Council of Latvijas Banka participated in the panel discussion of the conference "Euro: yesterday, today, tomorrow". The conference brought together national and European policy makers, economists, opinion leaders, businesses, representatives of academia and Latvian and global mass media.

The ECB's "Euro Exhibition" held in the Dailes Theatre, Riga, from 25 October to 13 December, was one of the best ways to inform the general public about the euro. The exhibition was aimed at informing and educating the public about the history, design and security features of euro banknotes and coins in an interactive way as well as familiarising the exhibition visitors with the practical aspects of the euro changeover via guided tours. Overall, close to 5 000 visitors came to see the exhibition in seven weeks, and at least 11 000 people attending performances at the Dailes Theatre also familiarised themselves with their new currency. Radio competitions to raise public awareness of euro banknotes and coins and special events for families on Saturday mornings were organised, as well as other direct communication with wide target audience was ensured, inter alia, a competition for students "Hello, Euro!" aimed at enhancing their knowledge about the euro banknotes and coins and highlighting their security features and the key dates and details of the changeover to the euro was offered on the website "Money School" in November within the framework of the exhibition. 1 088 students from 83 schools in different regions and cities of Latvia participated in the competition.

It was particularly important to provide information on euro banknotes and coins and the key dates and details of the euro changeover to people who handle cash as part of their profession. In order to do so, Latvijas Banka in cooperation with the Employers' Confederation of Latvia organised 34 seminars in all regions of Latvia on 24 September–27 November. The seminars were attended by approximately 2 200 professional cash handlers – cashiers, sellers, service providers, post office staff etc. A video lecture on the seminar cycle was available on the website of Latvijas Banka (www.bank.lv).

In September–November, printed information leaflets on the design and security features of euro banknotes and coins as well as the euro changeover process prepared by the ECB were sent to different euro communication target groups. The leaflet "Are You Ready?" containing detailed information on euro banknotes and coins was sent to households of Latvia in November. Two cards which were easy to fit in a wallet were enclosed with the leaflet. One side of each card helped people to easily check whether the sum in euro was calculated according to the changeover rate, while the other showed the security features of the euro banknotes. Informational materials of various formats on the euro banknotes and coins were provided to trade companies and service providers, credit institutions, schools, higher educational establishments, local governments, libraries, hospitals, public transport companies, SJSC *Latvijas Pasts*, etc. Special materials and the study programme were prepared and, in cooperation with the Latvian Society of the Blind, delivered to the visually impaired.

In August and September after the minting of the Latvian euro coins and in December and the first months of 2014, Latvijas Banka and ECB placed informative advertisements in newspapers and magazines, outdoors and online in mass media to acquaint the public with the visual appearance and security features of euro banknotes and coins.

The Latvijas Banka website (www.bank.lv) was also mainly focusing on raising public awareness of the euro changeover in Latvia. The "EU and Euro" section at the website was expanded and modified for this purpose, thus providing the public with basic and accurate information about different aspects of the euro changeover in the form of questions and answers and updating it on a regular basis according to the interests of the people. The homepage of the website of Latvijas Banka was also changed in the middle of the year, thus providing for more effective communication with the general public and offering modern communication tools (animated infographics and infographics) that enable users to easier and faster grasp information. The compilations of information have been updated and modified in line with the changes in relation to the euro changeover, affecting, for example, the publishing of exchange rates and data delivery service.

Taking into account the diverse and extensive use of communication channels, a significant part of the general public (81%; TNS Latvia Ltd. data) felt well informed about the appearance of euro banknotes and coins just before the euro changeover, while the largest part of the general public (68%) felt informed about the security features of euro banknotes and coins.

Public perception and sentiment are important factors for achieving future economic growth, and they are largely dependent on the understanding of macroeconomic processes and decisions. This is why communicating the macroeconomic and financial developments to the general public and to specific target groups is one of the key communication areas for Latvijas Banka.

In 2013, Latvijas Banka continued cooperation with Latvia's Radio which produced an informational and educational radio broadcast *Lata spogulī* addressing a vast audience.

In 2013, using its staff expertise and explanations, 60 animated infographics "The ABC of Economics" were transmitted by Latvia's Television. They explain the basic economic principles, recent developments in the global and Latvian economy and the aspects of the euro changeover in Latvia. The animated infographics are placed on the educational website "Money School" and several web portals, and in social networks.

In March, Latvijas Banka together with the Ministry of Education and Science, Association of Commercial Banks of Latvia, several credit institutions and Consumer Rights Protection Centre participated in the first Financial Education Week in Latvia organised by the FCMC to draw the general public's attention to the importance of financial literacy. Within the framework of the Financial Education Week, Latvijas Banka offered to the public several interactive financial education activities on the website "Money School". A contest for students "Money–Arts–People" aimed at raising their awareness of the lats coins and banknotes in terms of economy, arts, history and philosophy was organised on this website in spring. 779 students from 57 schools participated in the contest.

In preparation for the euro changeover, in summer the experts of Latvijas Banka together with the experts of the Ministry of Finance and the State Chancellery, at the invitation of the National Centre for Education, got involved as advisors in improving the content of the Ministry of Education and Science methodological material and animation films "Eight Stories about the Euro", thus helping the students of all ages get basic information about the euro from different aspects. Latvijas Banka in cooperation with the National Centre for Education and the "Money Planning Centre" launched informing of the teachers of different school subjects about the euro in seminars "From Lats to Euro – Practical Aspects" in August. Overall, 10 seminars attended by 529 participants from 289 educational establishments in different regions of Latvia were held by the end of the year.

The 20th anniversary of the national currency – the lats – was commemorated in 2013. The multimedia exhibition "Ls • 20. The Art Years of the National Currency" dedicated to the design of the restored national currency and open to visitors from 6 March to 28 April by Latvijas Banka to introduce them to lats banknotes and coins and the artistic aspects of the authors of their graphic design was the central event in this. More than 100 banknotes and coins of different nominal values which have an artistic value included in the Latvian Cultural Canon have been produced over the 20-year period, and people could get acquainted with this special art exhibited at the historical bank building at K. Valdemāra iela 1B in Riga by viewing, listening and participating. The exhibition was seen by close to 10 000 visitors in two months. Special activities – 11 creative events with the artists of design of the banknotes and coins were organised within the framework of the exhibition. Renewed and supplemented, the exhibition will travel to Kurzeme and Latgale in 2014 so that people, including the students of educational establishments, also from the regions of Latvia could familiarise themselves with the Latvian banknotes and coins and the creative work of the authors as well as get assurance that Latvijas Banka will keep alive the idea that every Latvian banknote and coin is a symbol of the national culture.

To mark the 20th anniversary of the restored lats currency, the work on the design of Latvian banknotes and coins accomplished by more than 40 artists has been described in the book "Ls • 20. Nacionālās valūtas mākslas gadi" (Ls • 20. The Art Years of the National Currency) issued in April by Latvijas Banka. It is available in all public libraries in Latvia and on the website at www.bank.lv.

To encourage people to vote for their favourite collector coin issued by Latvijas Banka over the 20-year period, a special public poll "My Coin" was organised within the framework of the events dedicated to the 20th anniversary of the restored lats currency. Since the re-introduction of the lats, Latvijas Banka has issued 92 collector coins which, although money in form, are in fact miniature works of art dedicated to Latvian treasures: events, achievements, people, and the cultural values. 8 013 people cast their vote, and 7 692 votes were recognised as valid ones. Award "My Coin" went to the "Amber Coin" – a silver coin with a piece of amber embedded into it. The author of the coin's graphic design and plaster model is artist Aigars Bikše. The coin was struck by *Rahapaja Oy* (Finland) in 2010. On 30 April, as a result of the annual public poll, the "5-lats Silver Collector Coin" that features the reverse of the 5-lats coin designed by Rihards Zariņš and minted in 1929, 1931 and 1932 won the title Latvia's Coin of the Year 2012.

COOPERATION WITH INTERNATIONAL ORGANISATIONS AND FOREIGN CENTRAL BANKS

Latvijas Banka is a 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 2013, Latvijas Banka continued to represent Latvia's interests at meetings of the IMF Board of Governors and in the coordination of operational issues. In 2013, priorities of the IMF policy were mainly related to strengthening the global economic and financial system, as well as to the implementation of the IMF governance and quota formula reform.

Latvia's interests in the IMF were represented in the Nordic-Baltic Constituency that includes Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway 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 2013, meetings of the Nordic-Baltic Monetary and Financial Committee and the Group of Alternates took place in Riga.

The cooperation with the IMF, based on consultations under Article IV of the IMF Articles of Agreement and within the framework of the Post-Programme Monitoring, continued in 2013. In January, the IMF Executive Board reviewed the IMF Staff Report on Latvia's macroeconomic situation and financial sector development, as well as the implemented economic policy.

In 2013, Latvijas Banka continued its membership in the BIS.

Latvijas Banka pursued its cooperation with the central banks of other countries, sharing expertise and information. Latvijas Banka organised several international meetings and seminars.

An ESCB training workshop to improve managers' skills took place in March, while another one "Audit Report Writing" was held in June. In April, Latvijas Banka organised a meeting of the Euro Coins Sub-Committee and a seminar for experts of the national central banks of the Baltic countries on the issues of monetary policy, communication and accounting. A meeting of representatives of the national central banks of the Nordic and Baltic countries on payment and securities settlement systems was held in Riga in August.

In preparation for the euro changeover, Latvijas Banka cooperated with EU institutions to organise several euro-related events, including the Euro Conference Latvia that was hosted in Riga on 12 September during which Latvian and EU economic policy-makers and economists discussed development of the euro area and improvement of governance, while from the end of October to mid-December Latvijas Banka took part in the organisation of a travelling ECB "Euro Exhibition" in Dailes Theatre.

International financial organisations and foreign central banks provided Latvijas Banka opportunities to participate in the workshops and courses hosted by these institutions, as well as to receive consultations on issues related to a central bank's operations.

In 2013, employees of Latvijas Banka participated in courses, seminars and professional experience exchange programmes organised by the ECB, IMF, World Bank, Joint Vienna Institute, Study Center Gerzensee, Federal Reserve Bank of New York and central banks of Austria, Belgium, France, Germany, Hungary, Italy, Lithuania, Poland and the UK.

Representatives of Latvijas Banka took part in the Nordstat meeting held by the central banks and central statistical authorities of the Nordic countries during which they acquainted representatives of other countries with practice of Latvijas Banka with regard to the use of a centralised credit register data for statistical needs and informed them about statistical work organisation and cooperation with other institutions.

MANAGEMENT AND ORGANISATION OF LATVIJAS BANKA

ORGANISATIONAL STRUCTURE OF LATVIJAS BANKA

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, Deputy Governor and six members. Their term of office is six years. At the end of 2013, the composition of the Council of Latvijas Banka was as follows:

– Governor	**Ilmārs Rimšēvičs**;
– Deputy Governor	**Andris Ruselis**[1];
– Members of the Council:	**Leonīds Gricenko**, **Edvards Kušners**, **Vita Pilsuma**, **Zoja Razmusa**[2], **Arvils Sautiņš**, **Aivars Skopiņš**.

On 31 October 2013, the Saeima of the Republic of Latvia re-elected Ilmārs Rimšēvičs Governor of Latvijas Banka for the subsequent six-year period.

Meetings of the Council of Latvijas Banka are held as appropriate, but at least once a quarter. The Council of Latvijas Banka held 10 meetings in 2013. To establish and implement monetary policy, the Council of Latvijas Banka conducted an in-depth assessment of monetary and economic developments and adopted 12 legal acts related to the implementation of monetary policy and the use of monetary policy instruments.

When performing other tasks laid down in the Law on Latvijas Banka and to ensure the introduction of euro cash and non-cash settlement in Latvia, the Council of Latvijas Banka adopted 145 legal acts in 2013 (including 16 legal acts on issues related to cash circulation, 14 in the field of provision of statistics, 11 in the area of the operation and oversight of the payment and securities settlement systems, six related to foreign reserves management and six in the sphere of licensing and supervising the purchase and sales of cash foreign currency).

[1] Until 14 February 2014.
[2] Until 12 March 2014. Since 13 March 2014 – Deputy Governor 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 2013, the composition of the Board of Latvijas Banka was as follows:

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

– Deputy Chairman of the Board: **Reinis Jakovļevs**;

– Members of the Board: **Andris Ņikitins**; **Harijs Ozols**, **Ilze Posuma**, **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 on monetary policy and other areas of operational activities of the national central bank. The Board of Latvijas Banka adopted 168 legal acts in the areas of operation of the national central bank. The Board of Latvijas Banka drafted 73 legal acts for the Council of Latvijas Banka and submitted to it 22 reports concerning the operation of the national central bank.

EMPLOYEES OF LATVIJAS BANKA

At the end of 2013, the number of Latvijas Banka employees was 573, of which 25 had fixed-term employment contracts (561 and 17 employees at the end of 2012, respectively). At the end of 2013, 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 2013.

COMMISSIONS, COMMITTEES AND WORKING GROUPS OF LATVIJAS BANKA

In order to ensure successful and secure 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 2013.

The Euro Settlement Implementation Working Group of Latvijas Banka implemented the management of the activities included in the action plan of the implementation of euro settlement and in the detailed action plan of Latvijas Banka (covering the period from 9 December 2013 to 10 January 2014), as well as monitored the execution of the euro changeover financial expenditure plan of Latvijas Banka. Continuous risk management of Latvijas Banka related to the euro changeover was ensured during the process of introducing the euro. Overall, all activities included in the euro changeover action plans were successfully implemented as planned and within the set time limits thus preparing for a smooth euro changeover.

The Audit Committee of Latvijas Banka, authorised by the Council of Latvijas Banka, was responsible for oversight of the internal auditing function, activities of external auditors of Latvijas Banka and preparation of financial statements, as well as for facilitating the functioning of the internal control system 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 information systems, as well as personal data processing. The Operational Risk Management Committee of Latvijas Banka monitored the operational risk management at Latvijas Banka.

COMMITTEES AND COMMISSIONS OF LATVIJAS BANKA AT THE END OF 2013

The Audit Committe 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 Coin Destruction Commission of Latvijas Banka	The Licensing Committee of Latvijas Banka
The Commission for Assessing the Quality of Lats Banknotes of Latvijas Banka	The Operational Risk Management Committee of Latvijas Banka
The Commission for Examination of Lats Banknotes and Coins of Latvijas Banka	The RIGIBID and RIGIBOR Commission of Latvijas Banka
The Document and Archives Management Expert Commission of Latvijas Banka	The Security Oversight Commission of Latvijas Banka

The Commission for Assessing the Quality of Lats Banknotes of Latvijas Banka supervised the degree of wear-and-tear, cleanliness and damage of banknotes of Latvijas Banka, but due to the euro changeover it terminated its activity at the end of 2013. The Commission for Examination of Lats Banknotes and Coins of Latvijas Banka, in turn, identified counterfeits of lats banknotes and coins and established whether the damaged lats banknotes and coins could be regarded as legal tender and replaced by valid ones. After joining the euro area, functions of the Commission for Examination of Banknotes and Coins and for Controlling Cash Processing of Latvijas Banka will expand; they will include examination of banknotes and coins of both lats and euro, as well as testing cash processing equipment of merchants releasing the euro in secondary circulation, ensuring inspection of cash processing equipment to decrease the potential risk of euro counterfeits in cash circulation. The Coin Destruction Commission of Latvijas Banka established in the second half of the year in the context of the withdrawal of lats from circulation ensured decoining of the lats coins unnecessary for circulation and organised transportation of the demonetised coins for remelting. To ensure fulfilment of the requirements specified for purchasing and selling cash foreign currency as a financial service, the Licensing Committee of Latvijas Banka issued licences for purchasing and selling cash foreign currency to capital companies as a commercial activity and controlled operation of the licensed capital companies.

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 Investment Committee of Latvijas Banka developed and defined a strategy for and an approach to foreign reserves management according to the Council of Latvijas Banka Regulation "Guidelines for Managing Foreign Reserves of Latvijas Banka". The RIGIBID and RIGIBOR Commission of Latvijas Banka coordinated all measures related to the calculation of RIGIBID and RIGIBOR, but due to the euro changeover it terminated its activity at the end of 2013.

The Document and Archives Management Expert Commission of Latvijas Banka, whose objective is to examine the value of documents, prepare the document nomenclature, establish time limits for document storage and address other issues related to the document management, ensured fulfilment of the requirements of "The Procedure for the Document Management at Latvijas Banka" and the Law "On Archives" within the context of archive activities of Latvijas Banka. The Ethics Committee of Latvijas Banka monitored the implementation of the "Code of Conduct of Latvijas Banka".

MANAGEMENT PRINCIPLES AND DEVELOPMENT

Excellent implementation of the tasks stipulated in the Law on Latvijas Banka has to be ensured for the management of Latvijas Banka on a sustainable basis. The "Plan-Do-Check-Act" cycle, which also serves as the basis for the Common Assessment Framework used by Latvijas Banka for streamlining its managerial processes, has been used for the management of Latvijas Banka. It 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.

"The Vision, Mission and Values Statement of Latvijas Banka" forms the basis for the operation and development planning. In 2011 strategic goals for the period of the next four years were identified. Bearing in mind that one of the strategic goals, i.e. promotion of Latvia's joining the euro area, was achieved, the Council of Latvijas Banka specified the strategic goals of Latvijas Banka in November 2013 and stated that between 2014–2017 Latvijas Banka will pay close attention to the attainment of three objectives: to ensure excellent fulfilment of the basic tasks to facilitate the achievement of the Eurosystem objectives; strengthen the link with the public and act in its interest; and enhance the professional competence and improve work performance.

The progress made by Latvijas Banka with regard to the fulfilment of its daily tasks is ensured by its staff; therefore, motivation, creative approach and responsibility are essential for Latvijas Banka to operate successfully.

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 biannual basis and a customer satisfaction survey is conducted biannually asking them to assess the quality of services provided by Latvijas Banka, the level of their accessibility and convenience, competence and responsiveness of employees. The Board of Latvijas Banka evaluates the overall performance of Latvijas Banka and submits an annual report to the Council of Latvijas Banka containing information on the extent to which progress towards the strategic goals is being achieved, indicators regarding the achievement of the functional goals, the results of the customer and staff surveys, employee and customer complaints and recommendations, as well as the results of the operational risk and business continuity management.

Overall, the employee survey provided a positive evaluation of the support function quality. The areas with relatively lower scores were analysed on their merits, identifying the necessary improvements required to execute functions and processes.

Several improvements were introduced in 2013 on the basis of the results of the customer and staff surveys conducted in the preceding year. The Credit Register and the process of receiving and handing out cash were enhanced, as well as the website of Latvijas Banka was upgraded, improvements to ensure business continuity and the internal communication process, including intranet, computer telephony and document management, as well as the working environment were made.

RESOURCE MANAGEMENT

HUMAN RESOURCES

In 2013, Latvijas Banka continued to pursue its key principles of human resources policy, i.e. it hired well-qualified and professional employees as a result of an effective staff recruitment process and established long-term employment relationships, creating a motivating work environment and enhancing professional development opportunities.

Similarly to the practice of the previous years, Latvijas Banka used internal and external staff rotation to promote personnel development and career. Within the framework of the internal rotation programme, one employee was promoted to another structural unit of Latvijas Banka and 14 employees were promoted within the same structural unit in 2013. Within a short-term secondment programme four staff members (the initial contracts were prolonged for three of them) acquired work experience at the ECB by complementing their knowledge in the areas of economics, financial stability and internal audit, while one staff member undertook a secondment with Oesterreichische Nationalbank, one attained professional experience with the IMF and one with the EC. Within the framework of the exchange-of-experience programme launched for employees of Latvijas Banka and the FCMC, one staff member of Latvijas Banka increased knowledge about the principles of auditing financial institutions.

In 2013, several improvements were made in the Performance Management System of Latvijas Banka; they concerned the evaluation of social competences and job performance of employees, as well as specified the principles for the preparation of plans for professional development and maintenance of professional qualification of employees; the above provides an opportunity to plan activities for extension and maintenance of each staff member's qualification more effectively.

Employees of Latvijas Banka continued to broaden their expertise in the fields of monetary policy, financial stability, macroeconomics, econometrics, financial market, statistics, financial accounting, financial instruments accounting, internal audit, human resources management, law, risk management and information technologies. Several staff members of Latvijas Banka continue to develop 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 (1.8% in 2012).

In 2013, the preparation for the euro changeover process and active work in the Eurosystem played an important role in staff training of Latvijas Banka. During the year, experts of Latvijas Banka conducted three different seminars analysing the impact of the euro changeover on Latvia's economy and dealing with practical issues concerning the introduction of the euro.

In order to receive up-to-date information on legislation in the field of financial risk regulation and in particular on the issues of conclusion of the International Swaps and Derivatives Association, Inc. Master Agreements and Credit Support Annexes experts of Latvijas Banka are interested in, a seminar with participation of 14 specialists from four structural units of Latvijas Banka was organised at Latvijas Banka in June.

Three seminars on improvement of social competences took place in 2013; they provided an opportunity for employees of Latvijas Banka to develop efficient time planning, work organisation and problem solving skills, as well as abilities that help to establish effective communication and argumentation. To facilitate staff cohesion and cooperation in achieving joint objectives, teambuilding seminars were organised in two structural units of Latvijas Banka. At seminars intended for the new staff, 27 new employees were provided with an insight into the ESCB and Eurosystem, tasks of Latvijas Banka and functions of structural units implementing them.

Two seminars for improvement of managerial skills were organised in 2013 to continue developing managerial and communication skills of structural unit heads of Latvijas Banka.

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 foreign reserves. 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 2013, Latvijas Banka made a profit of 41.5 million lats of which 27.0 million lats will be transferred to the state budget. Latvijas Banka has contributed to the state budget a total of 141.4 million lats from its profits earned between 2008 and 2012.

Major financial transactions of Latvijas Banka are related to the management of foreign reserves and implementation of monetary policy. In 2013, foreign reserves were managed in compliance with the basic principles set out in the "Guidelines for Managing Foreign Reserves of Latvijas Banka" adopted by the Council of Latvijas Banka. They include preserving the value of foreign reserves, ensuring their liquidity and earning income within the framework of an acceptable risk, and without prejudice to the monetary policy pursued by Latvijas Banka. As regards operations related to the implementation of monetary policy, in 2013 Latvijas Banka performed them in line with the "Regulation for the Use of Monetary Policy Instruments of Latvijas Banka" as 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 performance results of Latvijas Banka, it prepares and publishes annual financial statements. They are drafted in accordance with the "Financial Accounting Policy of Latvijas Banka", adopted by the Council of Latvijas Banka, by organising accounting in line with the "Financial Accounting Regulation of Latvijas Banka", adopted by the Board of Latvijas Banka, and other regulations of Latvijas Banka in compliance with the Law on Latvijas Banka and requirements of other laws and regulations of the Republic of Latvia binding on Latvijas Banka. The "Financial Accounting Policy of Latvijas Banka" stipulates that the events and financial transactions of Latvijas Banka related to the implementation of monetary policy, management of foreign reserves, as well as participating interest in the ECB are reported in accordance with the legal framework for accounting and financial reporting in the ESCB, at the same time taking into consideration that Latvijas Banka was not a member of the Eurosystem in 2013. This Policy also establishes requirements regarding Notes to annual financial statements.

Latvijas Banka publishes a monthly closing balance sheet and Notes to it, as well as other financial information also available 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. The management and employees of Latvijas Banka have access to daily information about the financial position, performance results and budget implementation of Latvijas Banka. 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 foreign reserve management and compliance of operating costs and long-term investment 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 spending efficiency. 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 Council of Latvijas Banka has set up a Budget Commission comprising at least five members of the Council of Latvijas Banka. The main tasks of the Budget Commission of Latvijas Banka are evaluation of a draft budget prepared by the Board of Latvijas Banka and monitoring of budget execution. In turn, the key tasks of the Board of Latvijas Banka vis-à-vis budgetary management are to draw up a draft budget in collaboration with the heads of the relevant structural units of Latvijas Banka and submit it to the Budget Commission and the Council of Latvijas Banka, as well as to report on budget execution on a regular basis.

INFRASTRUCTURE RESOURCES

Engineering and technical infrastructure resources

Latvijas Banka maintains the infrastructure necessary for its operation in good condition. In an ongoing effort to ensure the compliance of the working environment with the requirements of the legislation of the Republic of Latvia, in 2013 a reconstruction project of the engineering and technical systems was commenced in the building of Latvijas Banka at K. Valdemāra iela 2A, Riga. It has been intended to implement it by the end of 2016 thus ensuring air quality on working premises pursuant to requirements laid down in legislation.

In 2013, the implementation of a project of the roof reconstruction in the building of Latvijas Banka at K. Valdemāra iela 2A, Riga, was started to ensure the compliance of the constructive solution, including thermal insulation, of the building's roof and roof floor covering with requirements of construction standards, as well as to improve the roof constructions to increase protection from penetration of moisture, including condensate, into the building. The implementation of this project will improve energy efficiency of the building.

In order to enhance the provision of business continuity of Latvijas Banka, the implementation of the project on improvement of monitoring and management of Latvijas Banka's buildings and engineering and technical systems was successfully completed in 2013. Accordingly, a tool for monitoring of the buildings and engineering and technical systems was created, ensuring its compatibility with the existing systems installed in the buildings of Latvijas Banka, including the tool for video system monitoring; it also provides an opportunity to integrate monitoring and management of the systems into the new monitoring tool gradually when the need arises by simplifying monitoring and management of the systems, by making it more operational, efficient and safer, as well as by reducing the number and diversity of monitoring tools.

In preparation for the introduction of the euro, the works necessary in the buildings of the Riga Branch, Daugavpils Branch and Liepāja Branch were carried out in 2013 to ensure a high-volume cash changeover. Minor works necessary for maintenance of buildings were carried out in the building of Latvijas Banka at K. Valdemāra iela 2A, Riga, and in the building of the Training Centre.

Resources of information technologies

In 2013, the changes necessary for the information systems and information systems infrastructure of Latvijas Banka in relation to the euro changeover were successfully developed and implemented, including the development of new information systems and joining the common information systems of the Eurosystem.

As of 1 October 2013, an opportunity to receive on-line information included in the Credit Register was made available to the general public. The related technical solution provided an opportunity for an individual using an eID card to receive Credit Register data pertaining to him/her (including a digitally signed document) in a simple and convenient way. It also ensured a high security level taking account of the restricted access to this information.

In 2013, a single Register of Incidents and Other Events was introduced; it compiles the main events of all kinds, including incidents and process interruptions, change requests of the information systems and information systems infrastructure, as well as the process of information system development and upgrading.

The transition to the latest version of the centralised database management system providing broader functionality and better performance, as well as an even more advanced solution to business continuity and management possibilities was successfully implemented. At the same time, full virtualisation of these systems was effectuated thus ensuring all the more efficient server workload and a possibility to allocate additional resources effectively when necessary.

A modern solution to making and managing backups of the virtual server infrastructure was introduced thus providing an opportunity for backing up data more efficiently, including minimisation of impact on the relevant server systems and reduction of the disk space necessary for storage of backups, as well as provision of more flexibility vis-à-vis the use and management of backups.

The implementation of the unified telecommunications solution project was completed leading to technical upgrading of the information system that ensures higher quality operation and broader functionality, including more efficient and diversified communication and information flow necessary for performing quality professional duties in modern dynamic conditions. At the same time, external telecommunications connections were modernised providing an opportunity to abandon the use of the classical telephone switchboard.

RISK MANAGEMENT

Latvijas Banka manages strategic, financial and operational risks. Risks at Latvijas Banka are managed pursuant to "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 oversight of the implementation of these policies is carried out by the Security Supervision Commission of Latvijas Banka.

Market risk (price, interest rate and currency risks), credit and liquidity risks are the major financial risks Latvijas Banka is exposed to in its daily activities. Latvijas Banka manages financial risks related to its foreign reserves in accordance with "The Guidelines for Managing Foreign Reserves of Latvijas Banka". Benchmarks together with additional guideline parameters characterise the desired level of risk and return of the portfolios. The Division of Risk Management of the Market Operations Department controls investment portfolio's compliance with its respective restrictions. For the purpose of foreign reserves management, including the management of the related financial risks, the Investment Committee of Latvijas Banka develops an investment management strategy, approves the investment tactics and sets more detailed limits for financial risks, as well as oversees the operation of external foreign reserve managers. The Investment Committee of Latvijas Banka reviews the investment strategy once a quarter, and on a weekly basis it receives and reviews reports on developments in financial markets and forecasts on financial market development prepared by financial investment portfolio managers, reports by financial risk managers, as well as approves the foreign reserves management tactical decisions for the forthcoming week. Once every two months the Market Operations Department informs the Council of Latvijas Banka about the results of the management of foreign reserves.

Latvijas Banka manages its operational risks related to processes and projects in compliance with "The Regulation for the Management of Operational Risks of Latvijas Banka" adopted by the Board of Latvijas Banka. Risks are identified, analysed and assessed, opting for the most appropriate risk mitigation measures. The management of operational risks is conducted by 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 2013, the main focus was on the management of the risks related to the integration of Latvijas Banka into the Eurosystem.

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 achievement of its objectives or, in case the 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. In 2013, within the framework of the business continuity management process of Latvijas Banka, the main focus was on the introduction of the Register of Incidents and Other Events, as well as on ensuring the continuity of the measures related to the integration of Latvijas Banka into the Eurosystem.

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.

In April 2013, the Board of Latvijas Banka reviewed and approved a risk report of Latvijas Banka and reported to the Council of Latvijas Banka on the situation in the area of risk management in 2012, including information on the essential risks of Latvijas Banka and their management, execution of risk mitigation plans and the essential incidents which had occurred.

In 2013, Latvijas Banka was not exposed to the risks that would have substantially interfered with its business. Staff members were trained in the areas of information and information system security, business continuity and operational risk management.

INTERNAL AND EXTERNAL AUDIT

By an unbiased examination of functions and processes of Latvijas Banka, the internal audit provides the management of Latvijas Banka with an independent evaluation of the effectiveness of risk management, control systems and processes and advises on their improvement. The internal audit at Latvijas Banka is conducted by the Internal Audit Department. The internal audit is organised and performed in accordance with "The

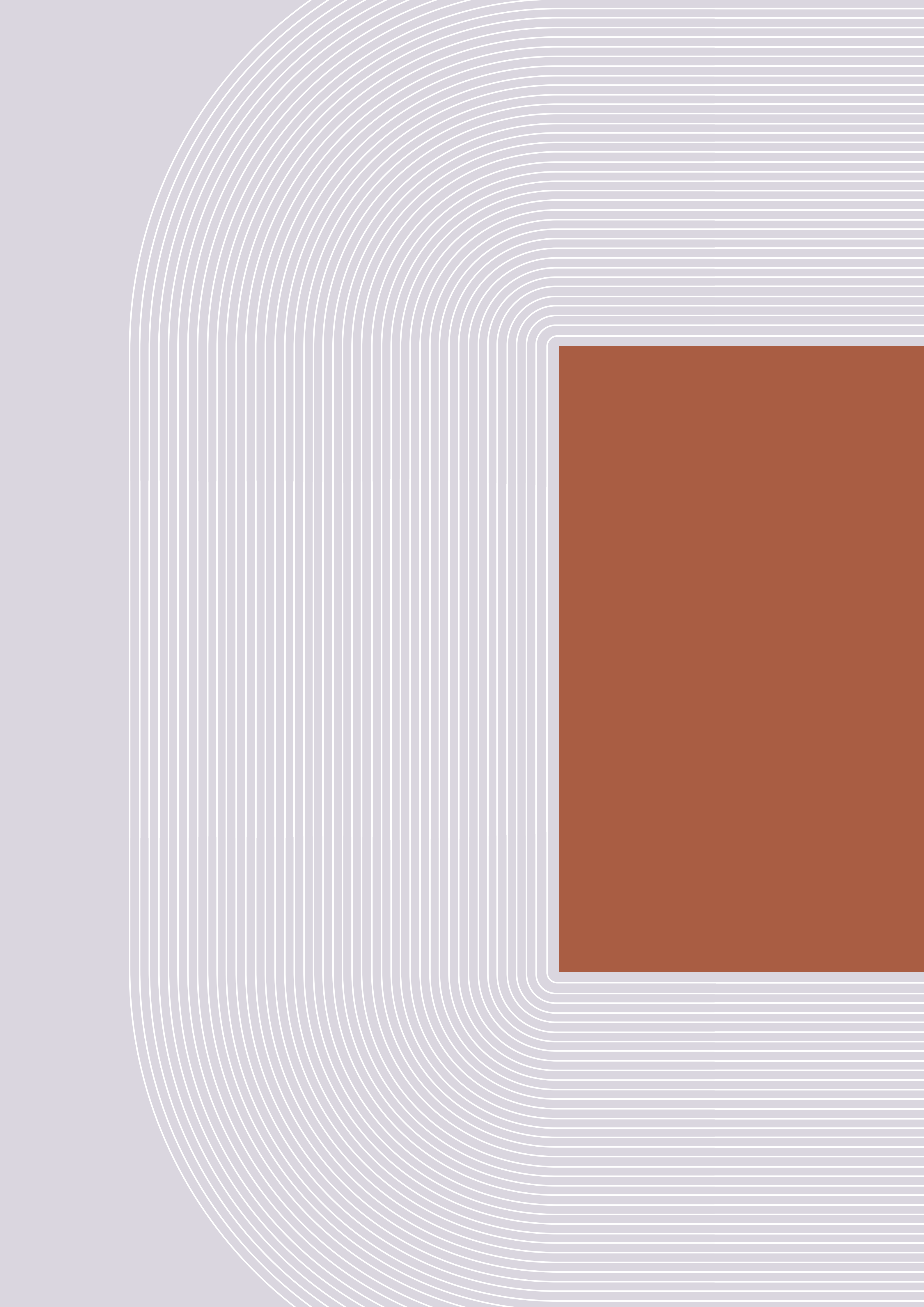
Internal Audit Policy of Latvijas Banka" approved by the Council of Latvijas Banka. It is carried out in line with the "International Standards for the Professional Practice of Internal Auditing" and the "Code of Ethics" of the Institute of Internal Auditors, as well as CobiT (Control Objectives for Information and Related Technology) and the ISACA (Information System Audit and Control Association) standards.

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 the internal audit quality in 2010 and the periodic internal assessment of the internal audit quality in 2012.

The internal audit covers all business areas of Latvijas Banka. Internal audits are planned and conducted on a risk assessment basis. The outcome of each internal audit is reported to the Governor and the Audit Committee of Latvijas Banka by the Head of the Internal Audit Department. 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 ESCB Internal Auditors Committee. In 2013, two such internal audits were performed. An experienced information system auditor of Magyar Nemzeti Bank supplemented the internal auditors' team of Latvijas Banka in one of them. Also, under the above plan an information system auditor of Latvijas Banka as a member of the Statistics Audit Working Group carried out an internal audit of the ESCB statistics development function.

Pursuant to provisions of the Law on Latvijas Banka, which were in force by 31 December 2013, Latvijas Banka's business activity and financial statements of the reporting year were audited by an audit commission whose composition was approved by the State Audit Office. In 2013, the audit commission for auditing business activities and financial statements comprised auditing specialists from the State Audit Office and SIA Ernst & Young Baltic. From 2014, financial statement audits of Latvijas Banka will be carried out by independent external auditors recommended by the Governing Council of the ECB and approved by the EU Council.



FINANCIAL STATEMENTS OF LATVIJAS BANKA
FOR THE YEAR ENDED 31 DECEMBER 2013

BALANCE SHEET

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

ASSETS	Notes[1]	**2013**	2012
FOREIGN ASSETS		**4 098 441**	4 053 478
Gold	6	153 157	218 750
Special Drawing Rights	7	95 692	83 367
Convertible foreign currencies	8	3 815 537	3 692 653
Participating interest in the European Central Bank	9	730	750
Participating interest in the Bank for International Settlements	10	19 992	19 991
Other foreign assets	11	13 333	37 967
DOMESTIC ASSETS		**40 935**	32 857
Loans to credit institutions	12	10 000	–
Fixed assets	13, 14	30 201	31 963
Other domestic assets	15, 16	734	894
TOTAL ASSETS		**4 139 376**	4 086 335

[1] The accompanying Notes set out on pages 86 to 120 are an integral part of these financial statements.

(cont.) (at the end of the year; in thousands of lats)

LIABILITIES, CAPITAL AND RESERVES	Notes	**2013**	2012
FOREIGN LIABILITIES		**24 683**	27 680
Convertible foreign currencies	17	8 936	18 775
International Monetary Fund	7	295	305
Other international institution deposits in lats	18	3 278	3 341
Foreign bank deposits in lats		4 055	2 332
Other foreign liabilities	19	8 119	2 927
LATS IN CIRCULATION	20	**630 755**	1 234 147
DOMESTIC LIABILITIES		**3 153 626**	2 462 505
Balances due to credit institutions	21	2 901 037	1 688 349
Balances due to the government	22	239 187	761 152
Balances due to other financial institutions	23	9 986	10 814
Other domestic liabilities	24, 25	3 416	2 190
CAPITAL AND RESERVES		**330 312**	362 003
Nominal capital	26	25 000	25 000
Reserve capital	26	171 683	159 797
Valuation account	26	92 165	143 245
Profit of the reporting year	26	41 464	33 961
TOTAL LIABILITIES, CAPITAL AND RESERVES		**4 139 376**	4 086 335

The financial statements, which are set out on pages 80 to 120, were authorised by the Board of Latvijas Banka on 13 March 2014.

BOARD OF LATVIJAS BANKA

M. Kālis

R. Jakovļevs

A. Ņikitins

H. Ozols

I. Posuma

R. Vanags

PROFIT AND LOSS STATEMENT

(in thousands of lats)

	Notes	**2013**	2012
INTEREST INCOME			
Foreign operations	36	**38 331**	47 555
Interest on securities		35 433	45 579
Interest on deposits with foreign credit institutions and other foreign financial institutions		123	995
Interest on derivative financial instruments		2 775	981
Domestic operations	36	**1**	8
Interest on loans to credit institutions		1	8
INTEREST EXPENSE			
Foreign operations	36	**–7 967**	–5 521
Interest on deposits		–9	–8
Interest on derivative financial instruments		–7 958	–5 513
Domestic operations	36	**–1 965**	–4 410
Interest on deposits of credit institutions		–735	–2 063
Interest on government deposits		–1 221	–2 273
Interest on deposits of other financial institutions		–9	–74
NET INTEREST INCOME	36	**28 400**	37 632

(cont.) (in thousands of lats)

	Notes	**2013**	2012
REALISED GAINS/LOSSES (–) FROM FINANCIAL OPERATIONS	37	**44 530**	17 518
Foreign operations		**43 009**	15 944
Debt securities		13 227	25 892
Derivative financial instruments		29 782	–9 948
Foreign currency exchange transactions		**1 521**	1 574
WRITE-DOWNS OF REVALUATION RESULT ON FINANCIAL ASSETS AND POSITIONS	26, 38	**–4 879**	–1 585
Foreign operations		**–4 771**	–1 482
Debt securities		–4 771	–1 482
Foreign currency position		**–108**	–103
INCOME FROM PARTICIPATING INTEREST	39	**273**	278
OTHER OPERATING INCOME	40	**2 819**	1 482
BANKNOTE AND COIN ACQUISITION COSTS	41	**–7 577**	–797
OTHER OPERATING EXPENSES		**–22 102**	–20 567
Remuneration	42	–10 938	–10 243
Social security costs	42	–2 578	–2 430
Depreciation and amortisation charges	13, 16	–2 654	–2 887
Maintenance and operation of information systems		–2 002	–1 993
Other operating expenses	43	–3 930	–3 014
PROFIT OF THE REPORTING YEAR		**41 464**	33 961

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

(in thousands of lats)

	Notes	**2013**	2012
REVALUATION	26	**–30 539**	34 815
Equity instruments		1	995
Foreign currency and gold		–23 912	6 253
Debt securities		–6 628	27 567
REALISATION OF ACCUMULATED REVALUATION RESULT	26	**–25 420**	–14 702
Foreign currency and gold		–1 712	–145
OTC interest rate swap arrangements		–	–25
Debt securities		–23 708	–14 532
WRITE-DOWNS OF REVALUATION RESULT ON FINANCIAL ASSETS AND POSITIONS	26, 38	**4 879**	1 585
PROFIT OF THE REPORTING YEAR		**41 464**	33 961
TOTAL		**–9 616**	55 659

CASH FLOW STATEMENT

(in thousands of lats)

	Notes	**2013**	2012
CASH FLOW FROM OPERATING ACTIVITIES			
Profit of the reporting year		**41 464**	33 961
Non-cash transaction adjustments	44 (1)	**7 521**	4 462
Net movements in balance sheet positions	44 (1)	**96 762**	398 298
Net cash and cash equivalents inflow from operating activities		**145 747**	436 721
CASH FLOW FROM INVESTING ACTIVITIES			
Decrease in participating interest in the European Central Bank	9	**20**	–
Dividends on shares of the Bank for International Settlements	39	**273**	278
Acquisition of fixed assets	13	**–793**	–3 925
Disposal of fixed assets	13	**13**	13
Acquisition of intangible assets	16	**–157**	–218
Net cash and cash equivalents outflow from investing activities		**–644**	–3 852
CASH FLOW FROM FINANCING ACTIVITIES			
Profit appropriated to the state budget	26	**–22 075**	–20 818
Net cash and cash equivalents outflow from financing activities		**–22 075**	–20 818
NET CASH AND CASH EQUIVALENTS INFLOW		**123 028**	412 051
Cash and cash equivalents at the beginning of the year	44 (2)	**1 008 781**	596 730
Cash and cash equivalents at the end of the year	44 (2)	**1 131 809**	1 008 781

NOTES TO THE FINANCIAL STATEMENTS

1. PRINCIPAL ACTIVITIES

Latvijas Banka is the central bank of Latvia. It was established on 19 September 1922 (re-established in 1990) and operates under the Law on Latvijas Banka and other legislative provisions.

The primary goal of Latvijas Banka is to maintain price stability. Pursuant to the Law on Latvijas Banka, its primary tasks in 2013 were as follows:
– establishment and implementation of monetary policy;
– management of foreign reserves;
– issue of cash, both banknotes and coins;
– promotion of a smooth operation of the payment systems in Latvia and organisation and management of the interbank payment system;
– collecting, compiling and publishing financial statistics and Latvia's balance of payments;
– representation of Latvia in foreign central banks and international financial institutions;
– acting as a financial agent for the Latvian government.

Latvijas Banka also ensures the operation of the Credit Register, issues licences to legal persons registered with the Republic of Latvia's Register of Enterprises, except credit institutions, for the purchase and sale of foreign currency cash as a commercial activity, and controls compliance with the procedure it has established for effecting foreign currency cash purchase and sales transactions.

In the execution of its tasks in accordance with the Law on Latvijas Banka and the Law on Credit Institutions, Latvijas Banka neither seeks nor takes instructions from the government or any other institution. Latvijas Banka is independent in setting and implementing policy under its legal mandate. Latvijas Banka is supervised by the Parliament (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 foreign reserves management.

The Head Office of Latvijas Banka is situated in K. Valdemāra iela 2A, Riga. Latvijas Banka manages the storage, processing and circulation of cash through its Riga Branch and the regional branches in Daugavpils and Liepāja. Latvijas Banka's building at K. Valdemāra iela 1B, Riga, is used to ensure the operation of the interbank payment systems, compilation and publishing of statistics, operation of the Credit Register and customer service for cash transactions.

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 PRESENTATION

These financial statements have been prepared in accordance with the Financial Accounting Policy of Latvijas Banka approved by Latvijas Banka's Council, and the Law on Latvijas Banka.

The Financial Accounting Policy of Latvijas Banka requires that events and financial transactions of Latvijas Banka relating to the implementation of monetary policy and management of foreign reserves as well as participating interest in the ECB are reported in accordance with the legal framework for accounting and financial reporting in the ESCB.

2.2 BASIS OF MEASUREMENT

These financial statements have been prepared in accordance with the historical cost basis of accounting except for gold, debt securities, participating interest (except the participating interest in the ECB), currency future contracts and interest rate derivatives, which 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 27.

2.3 FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Fair value is the estimated amount at which financial assets could be exchanged, or financial liabilities settled in a transaction on an arm's length basis between knowledgeable and willing parties.

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 and liabilities measured at fair value, taking into account the hierarchy of fair value determination, is provided in Note 5.

Fair value of the financial assets and financial liabilities of Latvijas Banka does not differ materially from the reported book value of the respective assets and liabilities.

2.4 FOREIGN CURRENCY AND GOLD TRANSLATION

Transactions denominated in foreign currencies are recorded in lats at the exchange rates quoted by Latvijas Banka for the day of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into lats at the exchange rates set by Latvijas Banka at the end of the reporting period. Non-monetary assets and liabilities, measured at cost or amortised cost, are translated into lats at the exchange rate for the respective foreign currency set by Latvijas Banka on the day of the transaction. Taking into account the lats peg to the euro, Latvijas Banka set the exchange rates for other currencies on the basis of the exchange rate of euro against the US dollar and the exchange rates of the US dollar against other currencies as quoted in the electronic information system Reuters.

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 currency positions are credited or charged to the profit and loss statement or the balance sheet caption "Valuation account" in accordance with the principles referred to in Note 2.25. The principles referred to herein and in Note 2.25 for valuation and recording of transactions denominated in foreign currencies are applied also to gold reserves and transactions in gold.

The exchange rates of major foreign currencies and gold price in lats set by Latvijas Banka and used in the preparation of the balance sheet for the year ended 31 December 2013 and the year ended 31 December 2012 are as follows:

(at the end of the year)

	2013	2012	Changes (%)
Euro (EUR)	**0.702804**	0.702804	0
US dollar (USD)	**0.515**	0.531	–3.0
Japanese yen (JPY)	**0.00493**	0.00619	–20.4
Gold (XAU)	**615.817**	879.554	–30.0
Special Drawing Rights (XDR)	**0.792**	0.818	–3.2

2.5 RECOGNITION AND DERECOGNITION OF FINANCIAL ASSETS AND 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 reported only in cases when there is a legally enforceable right to set off the recognised amounts, and there is an intention to settle on a net basis, or dispose the asset 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 of the reporting period and each particular future period 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 10), the useful life of fixed assets and intangible assets (see Notes 2.17 and 2.18), and the repurchasing probability of collector coins (see Note 2.22).

2.8 GOLD

Gold reserves are 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 caption "Valuation account" in accordance with the principles described in Note 2.25.

2.9 DEBT SECURITIES

Debt securities are stated at fair value in the balance sheet.

Interest on securities, including premium and discount, is recognised in the profit and loss statement as interest income. Gain or loss arising from transactions in debt securities and their revaluation are credited or charged to the profit and loss statement or the balance sheet caption "Valuation account" in accordance with the principles referred to in Note 2.25.

2.10 REVERSE REPURCHASE AGREEMENTS

Reverse repurchase agreements are accounted for as financing transactions. Securities purchased under reverse repurchase agreements are not included in Latvijas Banka's balance sheet. The related funding provided to the counterparty is included in Latvijas Banka's balance sheet at nominal value as claims on domestic credit institutions or foreign credit institutions and other foreign financial institutions, as appropriate.

The difference between the purchase and resale price of securities is 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 retained in Latvijas Banka's balance sheet along with other securities that are not involved in these transactions. Funding received from such sales is included in the balance sheet at nominal value as a liability to the counterparty.

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 automatic securities lending programme agreements are retained in Latvijas Banka's balance sheet caption "Convertible foreign currencies" 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 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 legal framework for accounting and financial reporting in the ESCB.

The change in fair value of participating interest is reported in the balance sheet caption "Valuation account".

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 lats at the exchange rate of the respective currency set by Latvijas Banka 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. 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 caption "Valuation account" in accordance with the principles referred to in Note 2.25.

2.16 ACCRUED INTEREST INCOME AND EXPENSE
Accrued interest income on securities is included in the carrying amount of the respective interest bearing securities. Accrued interest income and expense on other financial instruments are reported under relevant balance sheet captions of other assets or other liabilities.

2.17 FIXED ASSETS
Fixed assets are tangible long-term investments with the useful life over one year. Capitalisation limit of fixed assets is 100 lats, 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. These 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 2013 and 2012, the useful lives set for fixed assets were as follows:

(years)

	2013	2012
Buildings and their components, improvements to the territory	**5–100**	5–100
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 100 lats. 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 allowances for the respective asset are made. Such

allowances are recognised in the profit and loss statement with a respective reduction in the asset's carrying amount.

No impairment of assets was detected in 2013 and 2012.

2.20 LATS IN CIRCULATION

Lats banknotes and coins in circulation issued by Latvijas Banka, except for gold circulation coins and collector coins, are included in the balance sheet caption "Lats in circulation" at nominal value reflecting Latvijas Banka's liabilities to holders of the respective banknotes and coins.

2.21 GOLD CIRCULATION COINS

When gold circulation coins (fineness .999) are issued, they are excluded from the balance sheet caption "Other domestic assets". The respective coins in circulation are not included in the balance sheet caption "Lats in circulation", as their value is directly supported by their content of gold.

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

2.23 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.

2.24 CASH AND CASH EQUIVALENTS

Cash and cash equivalents stated in the cash flow statement include convertible foreign currency in cash, demand deposits and deposits with an original maturity up to 5 business days made with foreign credit institutions and other foreign financial institutions.

2.25 RECOGNITION OF GAINS OR LOSSES ON FINANCIAL INSTRUMENTS

Gains or losses on financial instruments, foreign currency or gold position are recognised in accordance with the following principles provided by the legal framework for accounting and financial reporting in the ESCB:
(a) realised gains and losses shall be recognised in the profit and loss statement;
(b) unrealised gains shall be recognised in the balance sheet caption "Valuation account";
(c) unrealised losses recognised in the balance sheet caption "Valuation account" at the end of the reporting year shall be transferred to the profit and loss statement if they exceed 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 or 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.

2.26 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, loans granted, forward exchange rate contracts, and currency and interest rate swap arrangements. 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, domestic credit institutions and other financial institutions, as well as interest on forward exchange rate contracts and currency and interest rate swap arrangements.

2.27 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.

2.28 INCOME FROM PARTICIPATING INTEREST

The change in fair value of participating interest is reported in the balance sheet caption "Valuation account".

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

2.29 BANKNOTE AND COIN ACQUISITION COSTS

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

2.30 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 2013, the assets of Latvijas Banka grew by 53.0 million lats, mainly on account of an increase in foreign assets in the amount of 45.0 million lats.

Assets in convertible foreign currencies posted 122.9 million lats growth, mostly as a result of net increases of 246.0 million lats in credit institution deposits in foreign currencies and revaluation of convertible foreign currency assets, while a 205.8 million lats reduction in the Latvian government's foreign currency deposits with Latvijas Banka had a decreasing effect. In 2013, Latvijas Banka did not engage in foreign exchange buying and selling transactions with credit institutions or the Treasury.

In 2013, excess liquidity in lats held by credit institutions persisted; nevertheless, Latvijas Banka had granted loans in the amount of 10.0 million lats to credit institutions at the end of 2013. Credit institution deposits in lats grew by 966.7 million lats in 2013, mostly as a result of cash deposits in preparation by credit institutions for the euro changeover, as well as the government placing part of its deposits with credit instiutions. Government deposits in lats with Latvijas Banka contracted by 316.2 million lats.

With the euro changeover approaching, currency in circulation shrank in the second half of 2013, hence the Latvijas Banka's balance sheet caption "Lats in circulation" decreased by 603.4 million lats.

Capital and reserves of Latvijas Banka decreased by 31.7 million lats on account of net changes in valuation of financial instruments (–51.1 million lats) and profits remitted to the state budget in the amount of 22.1 million lats, whereas profits earned in 2013 (41.5 million lats) had an increasing effect.

3.2 FINANCIAL PERFORMANCE
In 2013, Latvijas Banka's profit amounted to 41.5 million lats (34.0 million lats in 2012).

In 2013, net interest income decreased by 9.2 million lats in comparison with 2012. Interest income on securities shrank by 10.1 million lats, with the adverse impact of the low interest rates in 2013 persisting. However, such adverse impact from the low interest rates was partly offset by an increase in Latvijas Banka's foreign reserves and investment decisions, which ensured a return on foreign reserves.

In 2013, the short-term interest rates on the euro were lower than those on other foreign currencies of Latvijas Banka investments, reducing interest income from and increasing interest expense on financial derivatives used for hedging currency and gold price risk (hereinafter, currency risk).

Given the excess lats liquidity of credit institutions, Latvijas Banka issued loans to credit institutions in small amounts in 2013 and the respective interest income was 1 thousand lats (8 thousand lats in 2012).

With average credit institution deposits in lats with Latvijas Banka increasing, but average interest rates on these deposits decreasing in comparison with 2012, the interest expense on credit institution deposits contracted by 1.3 million lats. Lower interest rates on government deposits in foreign currencies and a smaller amount of funds in foreign currencies received from the Latvian government as deposits accounted for a 0.7 million lats fall in interest expense on the above deposits. Interest expense on the government deposits in lats fell by 0.4 million lats due to lower average interest rates on these deposits than in 2012.

Realised gains from financial operations increased by 27.0 million lats in comparison with 2012, and write-downs of the negative revaluation result on financial assets and positions were 3.3 million lats larger than in 2012. The increase in the realised gains from financial operations was promoted by the result of currency future contracts concluded for the purpose of hedging the currency risk. The positive revaluation result of the hedged balance sheet items is reported in the balance sheet caption "Valuation account". The increase in the realised gains from financial operations moderated on account of lower gains from the disposal of debt securities due to a decrease in the positive securities revaluation result, accumulated on the valuation account in previous reporting years.

The uncertainty of Latvijas Banka's further financial performance is mostly related to interest rate developments in the euro area and US financial markets since Latvijas Banka is exposed to the interest rate risk. In view of the very low levels of interest rates, a further interest rate fall is potentially negligible in comparison with a potential rise; thus, an increase in interest rates in foreign financial markets in the future may negatively affect the income on foreign fixed income securities.

4. INVESTMENT POLICY

Foreign reserves are managed in compliance with the basic principles set out in the Procedure adopted by the Council of Latvijas Banka, including preserving the value of foreign reserves, ensuring their liquidity and earning income within the framework of acceptable risk without contradicting the monetary policy implemented by Latvijas Banka.

Foreign reserves include the assets reported under "Gold", "Special Drawing Rights" and "Convertible foreign currencies" as well as derivative financial instruments and spot exchange rate contracts whose book value is reported under relevant balance sheet captions of other assets or other liabilities.

Foreign reserves are managed by classifying them into different investment portfolios by investment strategy and source of funding. Portfolios of borrowed funds include foreign reserves which correspond to Latvijas Banka's liabilities in foreign currencies to other institutions, mainly government deposits. Foreign reserves that are not included in the portfolios of borrowed funds (net reserves) are included in the portfolios of gold reserves, portfolios managed against multi-currency fixed income securities benchmark and asset-backed securities benchmark. A part of foreign reserves included in the portfolios managed against multi-currency fixed income securities benchmark and asset-backed securities benchmark are managed by external foreign reserves managers.

The parameters for a benchmark reflecting the acceptable level of financial risks and return target are set out for each financial instrument portfolio type.

The breakdown of foreign reserves by type of investment portfolio at the end of 2013 and 2012 was as follows:

	Portfolio value (in thousands of lats)		Percentage (%)	
	2013	2012	**2013**	2012
Portfolios managed against multi-currency fixed income securities benchmark	**2 665 121**	2 703 967	**85.6**	79.9
Portfolios managed against asset-backed securities benchmark	**179 470**	181 438	**5.8**	5.3
Gold reserves portfolio	**156 883**	225 862	**5.0**	6.7
Portfolios of borrowed funds	**111 577**	274 931	**3.6**	8.1
Total	**3 113 051**	3 386 198	**100.0**	100.0

In 2013 Latvijas Banka increased diversification of foreign reserves by adding the government securities of Denmark and the UK to its multi-currency fixed income securities benchmark. Consequently, now the benchmark is tied to the weighted 1–3 year government securities index of the euro area countries, the US, Denmark, Japan, Canada, the UK and Singapore (in 2012, the benchmark was limited to the euro area countries, the US, Japan, Canada and Singapore).

The benchmark of portfolios managed against asset-backed securities benchmark is tied to the US mortgage-backed securities index.

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

According to the exchange rate policy of Latvijas Banka in 2013, the currency of the foreign reserves benchmark 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.

The description of the main methods used in financial risk management is provided in Note 28.1.

BALANCE SHEET NOTES

5. ASSETS AND LIABILITIES AT FAIR VALUE

Fair value of Latvijas Banka's assets and liabilities 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 models where significant inputs are not observable.

At the end of 2013 and 2012, Latvijas Banka's assets and liabilities carried at fair value were generally valued on the basis of quoted market price.

At the end of 2013 and 2012, participating interest in the BIS was assessed using non-observable data. The assessment was conducted using the 70% net asset value model (see also Note 10).

At the end of 2013 and 2012, the breakdown of assets and liabilities carried at fair value according to the fair value hierarchy was as follows:

(in thousands of lats)

	Quoted market price	Observable data	Non-observable data	Total
As at 31 December 2013				
FOREIGN ASSETS				
Gold	153 157	–	–	153 157
Convertible foreign currencies				
Debt securities	2 402 296	281 432	–	2 683 728
Participating interest in the Bank for International Settlements	–	–	19 992	19 992
Other foreign assets				
Forward transactions in securities	206	–	–	206
Total foreign assets at fair value	**2 555 659**	**281 432**	**19 992**	**2 857 083**
FOREIGN LIABILITIES				
Other foreign liabilities				
Forward transactions in securities	355	–	–	355
Total foreign liabilities at fair value	**355**	**–**	**–**	**355**
As at 31 December 2012				
FOREIGN ASSETS				
Gold	218 750	–	–	218 750
Convertible foreign currencies				
Debt securities	2 418 964	264 908	–	2 683 872
Participating interest in the Bank for International Settlements	–	–	19 991	19 991

(cont.) (in thousands of lats)

	Quoted market price	Observable data	Non-observable data	Total
Other foreign assets				
Forward transactions in securities	158	–	–	158
Total foreign assets at fair value	2 637 872	264 908	19 991	2 922 771
FOREIGN LIABILITIES				
Other foreign liabilities				
Forward transactions in securities	121	–	–	121
Total foreign liabilities at fair value	121	–	–	121

The average market prices on the last trading day of the reporting year are obtained from the electronic information systems Bloomberg and Interactive Data. Where the above price for a financial instrument is absent in the electronic information systems, the price provided by a market participant (broker) or the price determined by applying the discounted cash flow approach is used for evaluating the financial instrument.

6. GOLD

	Troy ounces	In thousands of lats
As at 31 December 2011	248 706	210 066
During 2012		
Increase in gold market value	x	8 684
As at 31 December 2012	248 706	218 750
During 2013		
Decrease in gold market value	x	–65 593
As at 31 December 2013	**248 706**	**153 157**

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 also Notes 2.8, 2.15 and 29). Revaluation of gold reserves, forward exchange rate contracts, and currency swap arrangements is recognised in the balance sheet caption "Valuation account", whereas revaluation of currency future contracts, taking into account that they are settled, is recognised in the profit and loss statement caption "Realised gains/losses from financial operations".

7. SPECIAL DRAWING RIGHTS, 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 lats 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 lats and IMF allocations.

At the end of 2013, the claims on the IMF in SDR as recorded on Latvijas Banka's balance sheet were equivalent to 95 692 thousand lats (83 367 thousand lats at the end of 2012), whereas the liabilities to the IMF are made up of funds at the disposal of the IMF in the amount of 295 thousand lats (305 thousand lats at the end of 2012) held on its Accounts No. 1 and No. 2.

At the end of 2013 and 2012, Latvia's net claims on/liabilities to the IMF were as follows:

	(in thousands of lats)		(in thousands of SDR)	
	2013	2012	**2013**	2012
Latvia's quota in the IMF	**112 543**	116 238	**142 100**	142 100
IMF holdings in lats	**–112 513**	–116 207	**–142 062**	–142 062
Promissory notes of the Latvian government	–112 218	–115 902	–141 690	–141 690
Account No. 1	–281	–291	–355	–355
Account No. 2	–14	–14	–17	–17
Reserve position in IMF	**44**	45	**55**	55
SDR	**95 692**	83 367	**120 824**	101 916
General allocation	**–74 446**	–76 890	**–93 998**	–93 998
Special allocation	**–21 245**	–21 942	**–26 824**	–26 824
Latvia's net claims on/liabilities(–) to the IMF	**45**	–15 420	**57**	–18 851

The reserve position in the IMF is the difference between the Latvia's quota in the IMF and the IMF holdings in lats, excluding the balance on Account No. 2.

Claims on and liabilities to the IMF are translated into lats at the SDR exchange rate set by Latvijas Banka at the end of the year.

8. CONVERTIBLE FOREIGN CURRENCIES

Latvijas Banka's foreign assets in convertible foreign currencies are invested primarily in highly liquid debt securities and short-term deposits.

The carrying amount of interest bearing debt securities includes accrued interest income (13 132 thousand lats at the end of 2013 and 18 724 thousand lats at the end of 2012).

At the end of 2013 and 2012, the balance sheet asset caption "Convertible foreign currencies" was comprised of the following assets:

(in thousands of lats)

	2013	2012
Debt securities of foreign governments, financial institutions and non-financial corporations	**2 683 728**	2 683 872
Demand deposits with foreign central banks, credit institutions and international institutions	**1 107 133**	991 831
Time deposits with foreign credit institutions and other foreign financial institutions	**12 051**	3 611
Foreign currency in cash	**12 625**	13 339
Total	**3 815 537**	3 692 653

For pledged foreign assets in convertible foreign currencies see Note 46.

9. 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, the share of Latvijas Banka in the ECB's capital was calculated on the basis of the EU states' population and gross domestic product data and is adjusted every five years or at shorter intervals depending on changes in the number of the EU Member States.

At the end of 2012, Latvijas Banka's percentage share in the ECB's capital was 0.2837% equivalent to 30 528 thousand euro (21 455 thousand lats). On 1 July 2013, with Croatia joining the EU, the number of EU Member States changed. As a result, the ECB capital shares held by the national central banks were adjusted in compliance with the Statute of the ESCB and the ECB. Consequently, the share of Latvijas Banka in the ECB's capital decreased to 0.2742%, which corresponded to 29 682 thousand euro (20 861 thousand lats). As Latvia was not a member of the euro area at the end of 2013, pursuant to the transitional provisions of the Statute of the ESCB and of the ECB and Decision of the ECB's General Council, Latvijas Banka had paid up a 3.75% minimum contribution of its total subscribed capital in the ECB amounting to 1 113 thousand euro or 730 thousand lats (1 145 thousand euro or 750 thousand lats at the end of 2012; see also Notes 48 and 49).

ECB's capital shares are not traded in the public securities market, and the share of Latvijas Banka in the ECB's capital can be increased or decreased only in the cases referred to in this Note (see also Note 2.14).

10. PARTICIPATING INTEREST IN THE BANK FOR INTERNATIONAL SETTLEMENTS

At the end of 2013 and 2012, Latvijas Banka owned 1 070 shares in the BIS, which correspond to 0.19% of the total subscribed and paid-up BIS capital.

The 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 48). At the end of 2013 and 2012, 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 audited 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 2013, the fair value of BIS shares was 19 992 thousand lats (19 991 thousand lats at the end of 2012) (see also Note 2.14).

11. OTHER FOREIGN ASSETS

(in thousands of lats)

	2013	2012
OTC financial derivative and spot exchange rate contracts with non-residents	**12 830**	37 001
Prepaid expense	**420**	740
Other	**83**	226
Total	**13 333**	37 967

12. LOANS TO CREDIT INSTITUTIONS

At the end of 2013, Latvijas Banka had granted loans through main refinancing operations in the amount of 10 000 thousand lats (at the end of 2012, Latvijas Banka had granted no loans to credit institutions).

13. FIXED ASSETS

(in thousands of lats)

	Buildings, improvement of territory, and land	Furniture and office equipment	Cash processing equipment	Transport vehicles	Other fixed assets	Total
As at 31 December 2011						
Cost	38 566	6 698	4 570	1 211	5 356	56 401
Accumulated depreciation	–12 735	–5 226	–2 687	–821	–4 257	–25 726
Net book value	25 831	1 472	1 883	390	1 099	30 675
During 2012						
Additions	2 872	552	25	–	476	3 925
Change in classification	–8	–	–	–	–27	–35
Disposals and write-offs	–1	–455	–12	–38	–38	–544
Net change in cost	2 863	97	13	–38	411	3 346
Depreciation charge	–1 715	–320	–240	–43	–281	–2 599
Accumulated depreciation on disposals and write-offs	1	452	12	38	38	541
Net change in accumulated depreciation	–1 714	132	–228	–5	–243	–2 058
As at 31 December 2012						
Cost	41 429	6 795	4 583	1 173	5 767	59 747
Accumulated depreciation	–14 449	–5 094	–2 915	–826	–4 500	–27 784
Net book value	26 980	1 701	1 668	347	1 267	31 963
During 2013						
Additions	87	268	361	15	62	793
Change in classification	–	–	–	–21	–1	–22
Disposals and write-offs	–	–117	–10	–	–167	–294
Net change in cost	87	151	351	–6	–106	477
Depreciation charge	–1 598	–354	–240	–41	–299	–2 532
Change in classification	–	–	–	21	–21	–
Accumulated depreciation on disposals and write-offs	–	116	10	–	167	293
Net change in accumulated depreciation	–1 598	–238	–230	–20	–153	–2 239
As at 31 December 2013						
Cost	41 516	6 946	4 934	1 167	5 661	60 224
Accumulated depreciation	–16 047	–5 332	–3 145	–846	–4 653	–30 023
Net book value	**25 469**	**1 614**	**1 789**	**321**	**1 008**	**30 201**

At the end of 2013, the total cadastral value of land under the ownership and possession of Latvijas Banka was 1 906 thousand lats (1 771 thousand lats at the end of 2012; the change is related to a revision in the cadastral value of land). Land is reported in the balance sheet of Latvijas Banka at cost (1 669 thousand lats at the end of 2013 and 2012).

At the end of 2013, Latvijas Banka's contractual commitments related to acquisition of fixed assets were 211 thousand lats (165 thousand lats at the end of 2012).

14. LEASING

Latvijas Banka's assets subject to leases are premises and equipment. In the balance sheet they are reported as fixed assets. Asset lease agreements where Latvijas Banka acts as a lessor are operating leases. 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.

Carrying amount of assets given on lease at the end of 2013 and 2012 was as follows:

(in thousands of lats)

As at 31 December 2012	
Cost	1 163
Accumulated depreciation	–580
Net book value	583
As at 31 December 2013	
Cost	1 167
Accumulated depreciation	–614
Net book value	**553**

15. OTHER DOMESTIC ASSETS

(in thousands of lats)

	2013	2012
Intangible assets	**462**	405
Prepaid expense	**156**	161
Spot exchange rate contracts with residents	–	73
Other	**116**	255
Total	**734**	894

16. INTANGIBLE ASSETS

(in thousands of lats)

As at 31 December 2011	
Cost	3 970
Accumulated amortisation	–3 530
Net book value	440
During 2012	
Additions	218
Change in classification	35
Net change in cost	253
Amortisation charge	–288
Net change in accumulated amortisation	–288
As at 31 December 2012	
Cost	4 223
Accumulated amortisation	–3 818
Net book value	405

(cont.)	(in thousands of lats)
During 2013	
Additions	157
Change in classification	22
Derecognised assets	–18
Net change in cost	161
Amortisation charge	–122
Accumulated amortisation on derecognised assets	18
Net change in accumulated amortisation	–104
As at 31 December 2013	
Cost	4 384
Accumulated amortisation	–3 922
Net book value	**462**

17. CONVERTIBLE FOREIGN CURRENCIES

At the end of 2013, convertible foreign currency liabilities mostly consisted of the cash collateral received by Latvijas Banka for securing transactions in derivative financial instruments, as well as funds on the EC account for settlements in euro. The EC account is used by the EC for the distribution of EU budgetary funds (see also Note 18).

(in thousands of lats)

	2013	2012
Cash collateral received	**5 853**	15 279
EC demand deposits	**2 390**	1 488
Other liabilities	**693**	2 008
Total	**8 936**	18 775

18. OTHER INTERNATIONAL INSTITUTION DEPOSITS IN LATS

Other international institution deposits in lats mostly consist of funds on the EC account for settlements in lats, which is used for effecting Latvian government payments to the EU budget (see also Note 17).

(in thousands of lats)

	2013	2012
EC demand deposits	**2 783**	2 965
Other deposits	**495**	376
Total	**3 278**	3 341

19. OTHER FOREIGN LIABILITIES

(in thousands of lats)

	2013	2012
OTC financial derivative contracts and spot exchange rate contracts with non-residents	**6 799**	1 977
Payments due	**–**	607
Accrued expense	**1 290**	309
Other	**30**	34
Total	**8 119**	2 927

20. LATS IN CIRCULATION

Banknotes and circulation coins with the total nominal value of 563 557 thousand lats and 67 198 thousand lats respectively were in circulation at the end of 2013 (1 160 654 thousand lats and 73 493 thousand lats respectively at the end of 2012). The decrease in currency in circulation during 2013 is mostly related to the planned euro changeover as of 1 January 2014.

At the end of 2013, the total nominal value of the issued gold circulation coins (fineness .999), with the denomination of 100 lats, and collector coins was 1 989 thousand lats and 1 836 thousand lats respectively (1 989 thousand lats and 1 613 thousand lats at the end of 2012 respectively). The respective coins in circulation are not included in the balance sheet caption "Lats in circulation" (see also Notes 2.21 and 2.22).

21. BALANCES DUE TO CREDIT INSTITUTIONS

Balances due to credit institutions include balances on the settlement accounts of domestic credit institutions opened with Latvijas Banka, as well as overnight and 7-day deposits in lats (deposit facility) received from them. The respective credit institutions place their funds with Latvijas Banka in order to comply with its minimum reserve requirement, as well as to effect interbank and customer payments, and settlements related to the monetary policy operations of Latvijas Banka. At the end of 2013, the overnight deposit facility rate and 7-day deposit facility rate as set by Latvijas Banka were 0.05% and 0.075% respectively (at the end of 2012, the overnight deposit facility rate and 7-day deposit facility rate were 0.05% and 0.075% respectively).

(in thousands of lats)

	2013	2012
Current account balances in lats	**2 007 883**	857 728
Current account balances in euro	**813 154**	567 191
Overnight deposit facility in lats	**33 000**	11 930
7-day deposit facility in lats	**47 000**	251 500
Total	**2 901 037**	1 688 349

At the end of 2013, the balances on the credit institution settlement accounts in lats also comprise the financial collateral in the amount of 206 076 thousand lats, transferred by credit institutions to Latvijas Banka in accordance with the requirements stipulated by Latvijas Banka's Council in the procedure for frontloading and sub-frontloading of euro banknotes and coins.

22. BALANCES DUE TO THE GOVERNMENT

Balances due to the government consist of the Treasury demand deposits received by Latvijas Banka acting as the financial agent of the Latvian government.

(in thousands of lats)

	2013	2012
Demand deposits in lats	**125 006**	441 218
Demand deposits in foreign currencies	**114 181**	319 934
Total	**239 187**	761 152

23. BALANCES DUE TO OTHER FINANCIAL INSTITUTIONS

Balances due to 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 8 038 thousand lats (9 080 thousand lats at the end of 2012).

24. OTHER DOMESTIC LIABILITIES

(in thousands of lats)

	2013	2012
Accrued expense and similar liabilities	**2 577**	1 669
Tax liabilities	**148**	96
Other	**691**	425
Total	**3 416**	2 190

25. TAX

(in thousands of lats)

	Personal income tax	Compulsory social security contributions (by employer)	Compulsory social security contributions (by employee)	Tax on real estate	Value added tax	Other taxes and duties	Total
Liabilities as at 31 December 2011	0	0	0	0	69	0	69
During 2012							
Calculated	2 074	2 430	1 097	89	505	1	6 196
Decrease in deferred liabilities	0	–27	0	0	0	0	–27
Paid	–2 074	–2 403	–1 097	–89	–478	–1	–6 142
Liabilities as at 31 December 2012	0	0	0	0	96	0	96
During 2013							
Calculated	2 066	2 578	1 137	100	525	4	6 410
Decrease in deferred liabilities	0	–88	0	0	0	0	–88
Paid	–2 066	–2 489	–1 137	–100	–411	–2	–6 205
Recalculation of liabilities					–65		–65
Liabilities as at 31 December 2013	**0**	**1**	**0**	**0**	**145**	**2**	**148**

In addition to the tax payments indicated herein, Latvijas Banka transfers to the state budget 65% of the profit for the reporting year (22 075 thousand lats in 2013; 20 818 thousand lats in 2012; see also Notes 26 and 45). The transfer includes the payment for the usage of state capital. Latvijas Banka is not subject to corporate income tax.

26. CAPITAL AND RESERVES

(in thousands of lats)

	Nominal capital	Reserve capital	Valuation account	Profit of the reporting year	Capital and reserves
As at 31 December 2011	25 000	148 587	121 547	32 028	327 162
During 2012					
Revaluation, realisation, and write-downs	x	x	21 698	x	21 698
Profit appropriated to the state budget	x	x	x	–20 818	–20 818
Profit transferred to the reserve capital	x	11 210	x	–11 210	0
Profit of the reporting year	x	x	x	33 961	33 961
As at 31 December 2012	25 000	159 797	143 245	33 961	362 003
During 2013					
Revaluation, realisation, and write-downs	x	x	–51 080	x	–51 080
Profit appropriated to the state budget	x	x	x	–22 075	–22 075
Profit transferred to the reserve capital	x	11 886	x	–11 886	0
Profit of the reporting year	x	x	x	41 464	41 464
As at 31 December 2013	**25 000**	**171 683**	**92 165**	**41 464**	**330 312**

The capital of Latvijas Banka is comprised of the nominal capital, reserve capital and the balance sheet item "Valuation account", as well as the undistributed profit of the reporting year. Latvijas Banka does not take decisions affecting the formation of the nominal capital, reserve capital, and the profit distribution as they are provided for by the Law on Latvijas Banka. The balance sheet item "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 legal framework for accounting and financial reporting in the ESCB 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 "Valuation account", thus facilitating the preservation of the capital, protecting it from the impact of financial instrument price, interest rate and exchange rate fluctuations.

The legislation does not provide for any capital adequacy requirements for the central bank; nevertheless, the amount of Latvijas Banka's 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 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 and Latvijas Banka's profit allocations. The authorised and paid-up nominal capital of Latvijas Banka has reached the amount prescribed by the Law on Latvijas Banka.

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. At the end of 2013 and 2012, the corporate income tax rate applicable to residents of Latvia was 15%. Therefore, 65% of Latvijas Banka's profit of the reporting year shall be transferred to the state budget within 15 days following the approval of the Annual Report of 2013 by the Council of Latvijas Banka. In 2014, 26 952 thousand lats (38 349 thousand euro) from the profit earned in 2013 shall be transferred to the state budget.

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.

In 2013 and 2012, changes in the balance sheet caption "Valuation account" were as follows:

(in thousands of lats)

	2013	Write-downs	Revaluation	Realisation	2012	Write-downs	Revaluation	Realisation	2011
Initial valuation account	**24 018**	x	x	–	24 018	x	x	–	24 018
Result on revaluation of foreign currencies and gold	30 277	108	–23 912	–1 712	55 793	103	6 253	–145	49 582
Result on revaluation of debt securities	19 641	4 771	–6 628	–23 708	45 206	1 482	27 567	–14 532	30 689
Revaluation reserve for equity instruments	**18 229**	–	1	–	18 228	–	995	–	17 233
Result on revaluation of OTC interest rate swap arrangements	**–**	–	–	–	–	–	–	–25	25
Total	**92 165**	4 879	–30 539	–25 420	143 245	1 585	34 815	–14 702	121 547

The initial valuation account was established by transferring thereto the result of financial instruments and gold revaluation prior to the change in the accounting policy on 1 January 2007, whereas the revaluation reserve for equity instruments has been established to account for the result on revaluation of the BIS shares.

27. DERIVATIVE FINANCIAL INSTRUMENTS AND SPOT EXCHANGE RATE CONTRACTS

Latvijas Banka enters into forward and spot exchange rate contracts, currency and interest rate swap arrangements and interest rate and currency future contracts in order to manage interest rate and currency risks associated with Latvijas Banka's foreign reserves. As part of its monetary policy, Latvijas Banka also engaged in spot exchange rate contracts in 2013 and 2012.

(in thousands of lats)

	Contract or notional amount		Book value			
			Assets		Liabilities	
	2013	2012	**2013**	2012	**2013**	2012
OTC financial derivative and spot exchange rate contracts with non-residents						
Forward exchange rate contracts and currency swap arrangements	**2 490 620**	2 462 085	**10 059**	36 805	**6 443**	1 660
Spot exchange rate contracts	**187 442**	66 645	**2 565**	38	**–**	196
Forward transactions in securities	**171 958**	249 195	**206**	158	**356**	121
Total	**x**	x	**12 830**	37 001	**6 799**	1 977
Spot exchange rate contracts with residents						
Spot exchange rate contracts	**–**	22 229	**–**	73	**–**	–
Total	**x**	x	**–**	73	**–**	–
Traded financial derivative contracts with non-residents						
Interest rate future contracts	**696 781**	957 105	**x**	x	**x**	x
Currency future contracts	**129 214**	154 718	**x**	x	**x**	x

The book value of the OTC financial derivative contracts and spot exchange rate contracts is reported in the respective balance sheet captions of other assets or other liabilities (see also Notes 11, 15 and 19). Since settlement has been made for the change in the fair value of future contracts, it is reported as demand deposits in the balance sheet asset caption "Convertible foreign currencies".

At the end of 2013 and 2012, the book value and the fair value of OTC contracts concluded by Latvijas Banka and not reported at their fair value, were not materially different. The reconciliation of the book value and net fair value of these instruments at the end of 2013 and 2012 was as follows:

(in thousands of lats)

	Net fair value		Net book value		Difference	
	2013	2012	**2013**	2012	**2013**	2012
OTC financial derivative and spot exchange rate contracts with non-residents						
Forward exchange rate contracts and currency swap arrangements	**3 650**	34 899	**3 616**	35 145	**34**	–246
Spot exchange rate contracts	**2 566**	–158	**2 565**	–158	**1**	–
Total	**6 216**	34 741	**6 181**	34 987	**35**	–246
Spot exchange rate contracts with residents						
Spot exchange rate contracts	**–**	73	**–**	73	**–**	–
Total	**–**	73	**–**	73	**–**	–

MAJOR RISKS AND PRINCIPLES FOR THEIR MANAGEMENT

28. RISK MANAGEMENT

Financial and operational risks are the main risks associated with the activities of Latvijas Banka. Management of Latvijas Banka's risks is organized 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 Security Supervision Commission, Audit Committee, and Budget Commission of Latvijas Banka, each of which is comprised of Members of the Council of Latvijas Banka.

28.1 FINANCIAL RISKS

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

Latvijas Banka manages financial risks related to foreign reserves in accordance with the Procedure approved by the Council of Latvijas Banka. The basic principles of investment policy are provided in Note 4. Foreign reserves are managed by classifying them into different investment portfolios. Parameters for a benchmark reflecting the acceptable level of financial risks and return targets are set out for each financial instrument portfolio type. On a business day basis, the Risk Management Division of the Market Operations Department monitors the compliance of foreign reserves with the established requirements.

In 2013, parameters of the multi-currency fixed income securities portfolio benchmark have been changed in order to increase the diversification of the benchmark and reduce credit risk.

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

28.1.1 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 foreign reserve management. Latvijas Banka manages the 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 the structure of its foreign reserves, which cannot be formed in compliance with the liability parameters of Latvijas

Banka. Latvijas Banka manages the currency risk by determining open currency position limits and using tracking error. 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 portfolios managed against multi-currency fixed income securities benchmark and asset-backed securities benchmark (see Note 4) is managed by determining the tracking error limit. Tracking error observed in 2013 and 2012 is disclosed in Note 31.

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 parameters of respective liabilities. 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.

Every business day, the Risk Management Division of the Market Operations Department monitors the compliance of the modified duration limits 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 2013 and 2012) is disclosed in Notes 29–31.

28.1.2 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 short-term lending to domestic credit institutions.

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 and Standard & Poor's. Latvijas Banka is allowed to invest in financial instruments of certain credit quality of the OECD countries. Limits are set also 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. with Credit Support Annex, and the external reserve managers enter with their counterparties into Treasury Market Practices Group (TMPG) Master Securities Forward Transaction Agreements, ensuring collateral control. In order to monitor Latvijas Banka's credit risk exposure associated with its foreign operations, the Risk Management Division of the Market Operations Department monitors compliance with the Procedure adopted by the Council of Latvijas Banka, on a business day basis.

Short-term loans granted to domestic credit institutions in 2013 and 2012 were secured by collateral of Latvian government securities and such private sector debt securities, in accordance with the requirements established by the Council of Latvijas Banka. The Market Operations Department reviews the compliance of credit ratings assigned to issuers of these securities with the requirements of the Council of Latvijas Banka and monitors the adequacy of collateral on a regular basis.

Latvijas Banka's exposure to credit risk (as at the end of 2013 and 2012) is disclosed in Notes 33–35.

28.1.3 Liquidity Risk

Liquidity risk is associated with a failure to meet liabilities timely. Latvijas Banka's exposure to liquidity risk arises mainly from the need to ensure foreign currency for conducting foreign exchange transactions with credit institutions and repaying deposits of the Latvian government and other institutions. Latvijas Banka manages liquidity risk by investing foreign reserves 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. Investments are made so as to ensure timely settlement of Latvijas Banka's liabilities. The structure of cash and its equivalents of Latvijas Banka is provided in Note 44. The liquidity profile of Latvijas Banka's assets and liabilities as at the end of 2013 and 2012 is disclosed in Note 32.

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.

28.2 OPERATIONAL RISKS

Operational risk is exposure to financial and non-financial losses resulting from inadequate or failed internal processes, individual's actions, operation of information or technical systems, or from external events.

Latvijas Banka's operational risk management is implemented by the Board of Latvijas Banka according to the basic principles determined by the Council of Latvijas Banka. The Board of Latvijas Banka has established the Committee for Managing Latvijas Banka's Operational Risks 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 presided by a Member of the Board of Latvijas Banka and is composed of the Operational Risk Manager, Business Continuity Manager, Information Security Manager, Information Systems Security Manager, and the Head of Security Department.

To promote successful euro changeover in Latvia, in 2013 the main focus was on the management of risks associated with the integration of Latvijas Banka into the Eurosystem. In 2013, the recording of risk events was improved, linking Latvijas Banka Operational Risk Register with the register of incidents and other events.

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 is protected against its unauthorised disclosure or use. The information systems of Latvijas Banka are classified into levels depending on their impact on the implementation of processes and the confidentiality and integrity requirements regarding the processed information. The owners of Latvijas Banka's information systems in cooperation with the Information Systems Department have established the rules for the usage and access rights of the information system, as well as ensure the implementation of the risk analysis of the respective information system, coordinated by the information systems security manager of Latvijas Banka who also oversees the introduction of measures aimed at minimising the identified risks. The Information Systems Department ensures that the functionality and performance of Latvijas Banka's information system infrastructure complies with the requirements set for the individual information systems, as well as the infrastructure's safe and continuous operation. Latvijas Banka conducts, on a regular basis, the analysis of information systems security risks and improves security measures and tools.

The management of Latvijas Banka's business continuity is organised and conducted in accordance with the Business Continuity Management Policy of Latvijas Banka, approved by the Council of Latvijas Banka, abiding by the internationally recognised standards and taking into account the ECB recommendations regarding business continuity management.

The physical security of the officials and employees of Latvijas Banka and an environment protected against physical hazards is organised and ensured on the premises of Latvijas Banka and during transportation of cash and other valuables in accordance with the Physical Security Policy of Latvijas Banka, adopted by the Council of Latvijas Banka, and other legislative acts of Latvijas Banka regulating the physical security management procedure for Latvijas Banka. Fire and evacuation training is organised for the staff of Latvijas Banka, and training for the employees of the Security Department to maintain and improve their qualification is organised on a regular basis.

In order to limit the implications of operational risks, Latvijas Banka is insured against a possible impact of certain types of operational risks.

In 2013, Latvijas Banka was not subject to threats that could substantially affect or hamper its operation.

29. CURRENCY PROFILE[1]

(in thousands of lats)

	LVL	EUR	USD	JPY	Gold	Other	Total
As at 31 December 2013							
Assets							
Foreign assets	13 084	1 963 444	1 155 153	265 456	153 157	548 147	4 098 441
Domestic assets	40 910	28	–	–	–	−3	40 935
TOTAL ASSETS	**53 994**	**1 963 472**	**1 155 153**	**265 456**	**153 157**	**548 144**	**4 139 376**
Liabilities							
Foreign liabilities	13 914	9 505	1 000	23	–	241	24 683
Lats in circulation	630 755	–	–	–	–	–	630 755
Domestic liabilities	2 225 702	866 880	42 086	7 347	–	11 611	3 153 626
TOTAL LIABILITIES	**2 870 371**	**876 385**	**43 086**	**7 370**	**–**	**11 852**	**3 809 064**
Net position on balance sheet	−2 816 377	1 087 087	1 112 067	258 086	153 157	536 292	330 312
Net position on financial instruments' off-balance sheet accounts	–	1 926 382	−1 102 690	−131 926	−153 154	−532 581	6 031
Net position on balance sheet and off-balance sheet accounts	−2 816 377	3 013 469	9 377	126 160	3	3 711	336 343
Profile of the net position on balance sheet and off-balance sheet accounts (%)	**x**	**95.6**	**0.3**	**4.0**	**0**	**0.1**	**100.0**
Benchmark currency structure (%)	x	100.0	0	0	0	0	100.0
As at 31 December 2012							
TOTAL ASSETS	70 564	1 935 506	1 315 386	263 702	218 750	282 427	4 086 335
TOTAL LIABILITIES	2 816 655	815 414	67 475	8 241	–	16 547	3 724 332
Net position on balance sheet	–2 746 091	1 120 092	1 247 911	255 461	218 750	265 880	362 003
Net position on financial instruments' off-balance sheet accounts	–	2 004 323	–1 234 596	–254 185	–219 009	–261 436	35 097
Net position on balance sheet and off-balance sheet accounts	–2 746 091	3 124 415	13 315	1 276	–259	4 444	397 100
Profile of the net position on balance sheet and off-balance sheet accounts (%)	x	99.5	0.4	0	0	0.1	100.0
Benchmark currency structure (%)	x	100.0	0	0	0	0	100.0

[1] The assets and liabilities, denominated in SDR and exposed to the SDR currency risk, including liabilities to the IMF, are reported as per the SDR basket of currencies.

30. 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 lats)

	Up to 3 months	3–6 months	6–12 months	1–3 years	Over 3 years	Total
As at 31 December 2013						
Foreign assets						
Special Drawing Rights	95 692	–	–	–	–	95 692
Convertible foreign currencies	1 783 109	48 751	132 661	1 108 089	800 789	3 873 399
Total interest-sensitive assets	**1 878 801**	**48 751**	**132 661**	**1 108 089**	**800 789**	**3 969 091**
Foreign liabilities						
Convertible foreign currencies	5 855	–	–	–	–	5 855
Domestic liabilities						
Balances due to credit institutions	2 087 883	–	–	–	–	2 087 883
Balances due to the government	137 854	–	–	–	–	137 854
Balances due to other financial institutions	2 451	–	–	–	–	2 451
Other domestic liabilities	–	–	–	–	–	–
Total interest-sensitive liabilities	**2 234 043**	**–**	**–**	**–**	**–**	**2 234 043**
Net position on balance sheet	–355 242	48 751	132 661	1 108 089	800 789	1 735 048
Assets on financial instrument off-balance sheet accounts	3 109 510	–	–	451 639	121 136	3 682 285
Liabilities on financial instrument off-balance sheet accounts	3 380 289	–	–	48 925	247 040	3 676 254
Net position on balance sheet and off-balance sheet accounts	**–626 021**	**48 751**	**132 661**	**1 510 803**	**674 885**	**1 741 079**
As at 31 December 2012						
Total interest-sensitive assets	1 632 126	80 324	108 887	1 268 329	662 429	3 752 095
Total interest-sensitive liabilities	1 769 140	–	–	–	–	1 769 140
Net position on balance sheet	–137 014	80 324	108 887	1 268 329	662 429	1 982 955
Assets on financial instrument off-balance sheet accounts	3 080 862	–	–	692 492	173 291	3 946 645
Liabilities on financial instrument off-balance sheet accounts	3 571 031	398	–	4 909	335 210	3 911 548
Net position on balance sheet and off-balance sheet accounts	–627 183	79 926	108 887	1 955 912	500 510	2 018 052

31. TRACKING ERROR

The exposure to aggregate market risk and credit risk of investments, included in portfolios managed against multi-currency fixed income securities benchmark and asset-backed securities benchmark 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 28.1). At the end of 2013 and 2012, the actual *(ex-post)* tracking errors of the portfolios managed against multi-currency fixed income securities benchmark were 23 basis points and 27 basis points respectively, whereas the tracking errors of the portfolios managed against asset-backed securities benchmark were 94 basis points and 69 basis points respectively.

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 lats)	Expected tracking error (number of business days)			
		10–39	40–69	70–99	100–110
During 2013					
Portfolios managed against multi-currency fixed income securities benchmark	2 665 121	158	92	–	–
Portfolios managed against asset-backed securities benchmark	179 470	–	145	93	12
During 2012					
Portfolios managed against multi-currency fixed income securities benchmark	2 703 967	2	242	8	–
Portfolios managed against asset-backed securities benchmark	181 438	–	13	212	27

32. LIQUIDITY PROFILE

(in thousands of lats)

	2013			2012		
	Up to 3 months	No fixed maturity	**Total**	Up to 3 months	No fixed maturity	Total
Assets						
Foreign assets	4 077 217	21 224	**4 098 441**	4 031 772	21 706	4 053 478
Domestic assets	10 108	30 827	**40 935**	241	32 616	32 857
TOTAL ASSETS	4 087 325	52 051	**4 139 376**	4 032 013	54 322	4 086 335
Liabilities						
Foreign liabilities	24 652	31	**24 683**	27 646	34	27 680
Lats in circulation	–	630 755	**630 755**	–	1 234 147	1 234 147
Domestic liabilities	3 153 626	–	**3 153 626**	2 462 505	–	2 462 505
TOTAL LIABILITIES	3 178 278	630 786	**3 809 064**	2 490 151	1 234 181	3 724 332
Net position on balance sheet	909 047	–578 735	**x**	1 541 862	–1 179 859	x

In the liquidity profile, 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.

33. SECTORAL PROFILE OF ASSETS

	Amount (in thousands of lats)		Percentage (%)	
	2013	2012	**2013**	2012
Foreign central governments and other governmental institutions	**1 227 428**	1 284 308	**29.7**	31.4
Foreign local governments	**26 593**	31 626	**0.6**	0.8
Foreign central banks and credit institutions	**1 628 702**	1 690 083	**39.3**	41.4
Other foreign financial institutions	**941 954**	879 987	**22.8**	21.5
Foreign non-financial corporations	**12 270**	31 372	**0.3**	0.8
International institutions	**248 076**	135 141	**6.0**	3.3
Domestic credit institutions	**10 001**	–	**0.2**	–
Unclassified assets	**44 352**	33 818	**1.1**	0.8
Total	**4 139 376**	4 086 335	**100.0**	100.0

34. FOREIGN ASSETS BY THEIR LOCATION OR THE COUNTERPARTY'S DOMICILE

	Amount (in thousands of lats)		Percentage (%)	
	2013	2012	**2013**	2012
Euro area countries	**1 125 515**	1 464 393	**27.5**	36.1
Other EU countries	**685 620**	621 690	**16.7**	15.3
US	**375 806**	494 259	**9.2**	12.2
Canada	**272 948**	275 222	**6.7**	6.8
Japan	**279 301**	261 529	**6.8**	6.5
Other countries and international institutions	**1 359 251**	936 385	**33.1**	23.1
Total	**4 098 441**	4 053 478	**100.0**	100.0

Assets under "Other countries and international institutions" also comprise claims on the ECB corresponding to the balances on the settlement accounts of the direct participants in TARGET2-Latvija, standing at 819 230 thousand lats at the end of 2013 (616 232 thousand lats at the end of 2012).

35. ASSETS BY CREDIT RATING ASSIGNED TO THE COUNTERPARTY

	Credit rating	Amount (in thousands of lats)		Percentage (%)	
		2013	2012	**2013**	2012
FOREIGN ASSETS					
Gold	AAA	**153 157**	218 750	**3.7**	5.4
Special Drawing Rights	AAA	**95 692**	83 367	**2.3**	2.0
Foreign debt securities	AAA	**1 372 866**	1 255 817	**33.3**	30.8
	AA+	**397 713**	631 139	**9.6**	15.4
	AA	**284 017**	50 227	**6.9**	1.2
	AA–	**365 633**	454 599	**8.8**	11.1
	A+	**138 235**	182 817	**3.3**	4.5
	A	**103 730**	71 599	**2.5**	1.8
	A–	**7 057**	7 403	**0.2**	0.2
	BBB+	**4 186**	6 058	**0.1**	0.1
	BBB	**5 367**	956	**0.1**	0
	BBB–	**4 924**	355	**0.1**	0
	BB+	**–**	22 902	**–**	0.6
Deposits with foreign financial institutions	AAA	**1 000 260**	818 704	**24.3**	20.1
	AA+	**25 627**	110 355	**0.6**	2.7
	AA	**51 574**	27 092	**1.2**	0.7
	A+	**29 242**	35 579	**0.7**	0.9
	A	**5 046**	3 638	**0.1**	0.1
	A–	**7 115**	74	**0.2**	0
	BBB+	**320**	–	**0**	–
Foreign currency in cash	AAA	**12 614**	13 332	**0.3**	0.3
	AA+	**11**	7	**0**	0

(cont.)

	Credit rating	Amount (in thousands of lats)		Percentage (%)	
		2013	2012	**2013**	2012
Participating interest in the European Central Bank	AAA	**730**	750	**0**	0
Participating interest in the Bank for International Settlements	AAA	**19 992**	19 991	**0.5**	0.5
Derivative financial instruments	AAA	**343**	1 917	**0**	0
	AA–	**1 557**	4 844	**0**	0.1
	A+	**1 503**	3 189	**0**	0.1
	A	**5 358**	16 847	**0.1**	0.4
	A–	**2 271**	7 670	**0.1**	0.2
	BBB+	**689**	1 982	**0**	0
	BBB	**1 109**	552	**0**	0
Other foreign assets	Different	**503**	966	**0**	0
DOMESTIC ASSETS	Different	**40 935**	32 857	**1.0**	0.8
TOTAL		**4 139 376**	4 086 335	**100.0**	100.0

The amount in the rating group "BB+" consisted of securities issued by an agency partially owned by an OECD country government; these securities were disposed of in February 2013.

At the end of 2013 and 2012, Latvijas Banka's foreign assets, broken down by major categories of credit ratings assigned to the counterparty, were as follows:

	Credit rating category	Amount (in thousands of lats)		Percentage (%)	
		2013	2012	**2013**	2012
Foreign assets	AAA	**2 655 654**	2 412 628	**64.8**	59.6
	AA	**1 126 132**	1 278 263	**27.5**	31.5
	A	**299 557**	328 816	**7.3**	8.1
	BBB	**16 595**	9 903	**0.4**	0.2
	BB	–	22 902	–	0.6
	Different	**503**	966	**0**	0
Total		**4 098 441**	4 053 478	**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 tables 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, while BB" is a rating below investment grade implying that the counterparty's long-term creditworthiness is risky. Ratings below "AAA" are modified by marks "+" or "–" to show the relative standing within the major categories of credit ratings of an international credit rating agency.

PROFIT AND LOSS NOTES

36. NET INTEREST INCOME

Net interest income of Latvijas Banka was mainly derived from foreign securities. In 2013, net interest income decreased by 9 232 million lats in comparison with 2012.

In 2013, interest income from foreign operations shrank by 9 224 thousand lats in comparison with 2012, and interest expense increased by 2 446 thousand lats year-on-year. Lower interest rates in 2013 resulted in a 10 146 thousand lats fall in interest income from securities.

Higher short-term interest rates on the British pound sterling and Canadian dollar in comparison with those on the euro in 2013 in their turn mostly accounted for a 1 794 thousand lats increase in the interest income from financial derivatives and a 2 445 thousand lats increase in the interest expense on them.

Interest income from domestic operations was a mere 1 thousand lats (8 thousand lats in 2012) as the demand for loans granted by Latvijas Banka was low due to the excess lats liquidity of credit institutions.

Interest expense on domestic operations was largely comprised of interest on deposits of domestic credit institutions and the Latvian government. Interest expense on domestic credit institution deposits contracted by 1 328 thousand lats, as average interest rates paid on these deposits decreased in comparison with 2012, including the remuneration for holding the minimum reserves. In 2013, the average amount of Latvian government foreign currency funds deposited with Latvijas Banka decreased, as well as the average interest rates paid on the government funds in lats fell; as a result, interest expense on government deposits shrank by 1 052 thousand lats.

37. REALISED GAINS/LOSSES FROM FINANCIAL OPERATIONS

Realised gains or losses 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 12 665 thousand lats in comparison with 2012, related to a decrease in the positive debt securities revaluation result, which was accumulated on the valuation account in previous reporting years.

The realised gains from financial operations were positively affected by the positive result on derivative financial instruments posting an increase of 39 730 thousand lats in comparison with 2012, 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. The positive result of the currency future contracts concluded for the purpose of hedging currency risk exposure is offset in equal value by the negative revaluation result of the hedged balance sheet items reported in the balance sheet caption "Valuation account" as well as the realised gains on foreign exchange transactions recognised in the profit and loss statement.

38. WRITE-DOWNS OF REVALUATION RESULT ON FINANCIAL ASSETS AND POSITIONS

The revaluation result of several debt securities and foreign currency positions at the end of 2013 and 2012 was negative, and it has been recognised in the profit and loss statement while the positive result on the revaluation of debt securities and foreign currency positions has been reported in the balance sheet caption "Valuation account" (see also Note 26).

39. INCOME FROM PARTICIPATING INTEREST

Income from participating interest comprises the dividends received from the participating interest in the BIS (see also Note 10).

40. OTHER OPERATING INCOME

(in thousands of lats)

	2013	2012
Income from sale of collector coins	**1 163**	773
Income from disposal of demonetized coins	**911**	–
Income from payment and securities settlement services	**360**	368
Other	**385**	341
Total	**2 819**	1 482

41. BANKNOTE AND COIN ACQUISITION COSTS

(in thousands of lats)

	2013	2012
Acquisition of circulation coins	**–6 576**	–82
Acquisition of collector coins	**–736**	–715
Supply of banknotes	**–265**	–
Total	**–7 577**	–797

The increase in the acquisition costs of circulation coins is associated with the acquisition of euro circulation coins.

42. REMUNERATION AND SOCIAL SECURITY COSTS

(in thousands of lats)

	2013	2012
Remuneration		
Remuneration of Members of the Council and the Board	**–885**	–880
Remuneration of other personnel	**–10 053**	–9 363
Total remuneration	**–10 938**	–10 243
Social security costs	**–2 578**	–2 430
Total remuneration and social security costs	**–13 516**	–12 673

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 2013 and 2012 was as follows:

	2013	2012
Number of employees at the end of the year		
Members of the Council and the Board	**14**	14
Other personnel	**559**	547
Total at the end of the year	**573**	561
Average number of employees per period	**567**	561

43. OTHER OPERATING EXPENSES

(in thousands of lats)

	2013	2012
Municipal services	**–712**	–671
Information and public relations	**–640**	–366
Maintenance of buildings, territory and equipment	**–620**	–348
Event services	**–369**	–107
Business travel	**–330**	–269
Risk insurance	**–235**	–263
Telecommunications services and system maintenance	**–194**	–197
Personnel training	**–181**	–181
Acquisition of low value office supplies	**–163**	–175
Transport provision	**–126**	–114
Tax on real estate	**–98**	–89
Audit, advisory and legal services	**–27**	–38
Other	**–235**	–196
Total	**–3 930**	–3 014

The audit, advisory and legal services expenses also comprise the remuneration in the amount of 24 thousand lats paid to SIA Ernst & Young Baltic for the audit of 2013 financial statements of Latvijas Banka (24 thousand lats in 2012).

NOTE TO THE CASH FLOW STATEMENT

44. CASH FLOW STATEMENT

(1) Reconciliation of profit before appropriation to net cash and cash equivalents inflow arising from operating activities

(in thousands of lats)

	2013	2012
Profit before appropriation	**41 464**	33 961
Non-cash transaction adjustments		
Depreciation of fixed assets and amortisation of intangible assets	**2 654**	2 887
Profit on disposal of fixed assets	**–12**	–10
Write-downs of revaluation result on financial assets and positions	**4 879**	1 585
Net non-cash transaction adjustments	**7 521**	4 462
Change in balance sheet items		
Net increase in Special Drawing Rights	**–14 975**	–6 277
Net increase (–)/decrease in foreign debt securities and other foreign investments	**41 210**	–148 718
Net increase in loans to credit institutions	**–10 000**	–
Net increase (–)/decrease in other assets	**607**	–217
Net increase/decrease (–) in foreign convertible currency liabilities	**–9 839**	9 215
Net increase/decrease (–) in foreign bank and other international institution deposits in lats	**1 660**	–13 310
Net increase/decrease (–) in lats in circulation	**–603 392**	73 964

(cont.)	(in thousands of lats)	
	2013	2012
Net increase in deposits of domestic credit institutions	**1 212 688**	490 609
Net increase/decrease (–) in Latvian government deposits	**–521 965**	24 064
Net decrease in deposits of other financial institutions	**–828**	–31 901
Net increase in other liabilities	**1 596**	869
Net change in balance sheet items	**96 762**	398 298
Net cash and cash equivalents inflow arising from operating activities	**145 747**	436 721

(2) Analysis of balances and movements in cash and cash equivalents

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

	2013	Change	2012	Change	2011
Convertible foreign currencies in cash	**12 625**	–714	13 339	–272	13 611
Demand deposits with foreign credit institutions and other foreign financial institutions	**1 107 133**	115 302	991 831	471 964	519 867
Time deposits with foreign credit institutions and other foreign financial institutions with original maturity up to 5 business days	**12 051**	8 440	3 611	–59 641	63 252
Total cash and cash equivalents	**1 131 809**	123 028	1 008 781	412 051	596 730

OTHER NOTES

45. 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 lats and foreign currencies, as well as conducts foreign exchange transactions. Latvijas Banka is independent in making its own decisions on entering into the above transactions.

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

At the end of 2013 and 2012, the breakdown of Latvijas Banka's claims on and liabilities to the Latvian government and the respective interest rates were as follows:

	Amount (in thousands of lats)		Interest rate (%)	
	2013	2012	**2013**	2012
Liabilities/claims (–)				
Demand deposits in lats	**125 006**	441 218	**0.28**	0.31
Demand deposits in foreign currencies	**114 181**	319 934	**0.01–0.15**	0.00–0.30
Spot exchange rate contracts	**–**	–73	**x**	x
Tax liabilities	**148**	96	**x**	x
Total net liabilities	**239 335**	761 175	**x**	x

In 2013 and 2012, 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 25, 26, and 36):

(in thousands of lats)

	2013	2012
Expense and Latvijas Banka's profit appropriated to the state budget		
Interest on government deposits	**1 221**	2 273
Taxes	**6 410**	6 196
Profit appropriated to the state budget	**22 075**	20 818
Total expense and Latvijas Banka's profit appropriated to the state budget	**29 706**	29 287

46. PLEDGED ASSETS

Securities and other financial instruments with the market value of 9 855 thousand lats, as at the end of 2013 (15 464 thousand lats at the end of 2012), have been pledged to provide collateral for forward exchange contracts and interest rate and currency future contracts. These financial instruments are included in the balance sheet asset caption "Convertible foreign currencies".

47. SECURITIES LENDING

On behalf of Latvijas Banka its agents conclude securities lending transactions, as part of an automatic securities 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 foreign reserve liquidity as the securities lent are readily available to Latvijas Banka. The agent administers the securities lending programme and monitors the eligibility of the securities lending and related collateral.

At the end of 2013, the fair value of the securities lent was 130 626 thousand lats (262 087 thousand lats at the end of 2012).

At the end of 2013 and 2012, the fair value of collateral provided in securities lending transactions was as follows:

(in thousands of lats)

	2013	2012
Foreign currency cash	**109 190**	243 203
Debt securities of foreign governments, financial institutions and non-financial corporations	**24 560**	23 355
Total	**133 751**	266 558

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

48. CONTINGENT LIABILITIES AND COMMITMENTS

In 2005, the liquidator of the bankrupt JSC *Banka Baltija* filed a claim against Latvijas Banka on behalf of the creditors of JSC *Banka Baltija* in the Riga Regional Court for the recovery of losses. In February 2010, the amount of the claim was increased from 185.6 million lats to 238.3 million lats. The claimant alleged that Latvijas Banka as the institution in charge of banking supervision at that time was responsible for losses arising from the bankruptcy of JSC *Banka Baltija* in 1995. On 21 February 2012, the Chamber of Civil Court of the Supreme Court announced a judgement whereby the court ruled that the claim against Latvijas Banka be completely rejected and court expenses in the amount of 16 thousand lats and legal services in the amount of 150 thousand lats for the benefit of Latvijas Banka be collected from the JSC *Banka Baltija* undergoing liquidation. On 12 April 2012, the claimant appealed the judgement under cassation procedure to the Senate of the Supreme Court. On 16 September 2013, the Senate of the Supreme Court refused to initiate the cassation proceedings; consequently, the judgement of the Chamber of Civil Court of the Supreme Court of 21 February 2012 whereby the claim against Latvijas Banka was completely rejected took effect.

As at 31 December 2013, Latvijas Banka had not paid up 96.25% of its share in the ECB's subscribed capital (see also Notes 9 and 49). At the end of 2013 and 2012, Latvijas Banka's unpaid share in the ECB's subscribed capital was 28 569 thousand euro (20 078 thousand lats) and 29 383 thousand euro (20 651 thousand lats) respectively.

Latvijas Banka's uncalled portion of the BIS shares is 75% of their nominal value. These shares are callable following the decision of the BIS Board. At the end of 2013, the uncalled portion of the BIS share holding was 4 013 thousand SDR (3 178 thousand lats; 4 013 thousand SDR or 3 283 thousand lats at the end of 2012; see also Note 10).

At the end of 2013, Latvijas Banka had issued collector coins in the nominal value of 1 836 thousand lats (1 613 thousand lats at the end of 2012) and gold circulation coins with a nominal value of 1 989 thousand lats (1 989 thousand lats at the end of 2012). These coins may be represented to Latvijas Banka in exchange for lats 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.

49. EVENTS AFTER THE REPORTING PERIOD

On 1 January 2014, Latvia joined the euro area and Latvijas Banka became a member of the Eurosystem.

On 1 January 2014, the ECB capital shares held by the EU national central banks were adjusted in compliance with the Statute of the ESCB and the ECB; as a result, the share of Latvijas Banka in the ECB's capital increased to 0.2821%, which corresponds to 30 537 thousand euro (21 462 thousand lats). The Statute of the ESCB and the ECB stipulates that an EU national central bank joining the Eurosystem shall pay up its share in the ECB's capital in full, as well as in the ECB's reserve capital, provisions equivalent to reserves and the revaluation account. On 2 January 2014, Latvijas Banka paid up the remaining share in the ECB's capital in the amount of 29 424 thousand euro (20 679 thousand lats). On 21 February 2014, after the approval of the ECB's 2013 annual accounts, Latvijas Banka also paid up its shares in the ECB's provisions equivalent to reserves and in the revaluation account in the amount of 42 752 thousand euro (30 046 thousand lats).

Pursuant to the Statute of the ESCB and the ECB, the EU national central bank joining the Eurosystem shall transfer a definite amount of its foreign reserves to the ECB in proportion to its share in the ECB's subscribed capital. In January 2014 Latvijas Banka transferred to the ECB its foreign reserves in the amount of 205 273 thousand eiro (122 639 thousand lats) which is equal to Latvijas Banka's proportionate share of the market value of the foreign reserves transferred by other national central banks of the Eurosystem. Gold accounted for 15% or 30 774 thousand euro (21 628 thousand lats), and Japanese yen for 85% or 174 499 thousand euro (144 267 thousand lats). For the foreign reserves transferred to the ECB Latvijas Banka received a claim credited by the ECB in the amount of 163 480 thousand euro (114 894 thousand lats), i.e. in proportion to the value of the respective claims of other national central banks of the Eurosystem.

The diference between the market value of the transferred foreign reserves and the value of the above claim in the amount of 41 793 thousand euro (29 372 thousand lats) is reported as participating interest in the ECB.

With Latvia having joined the euro area and according to Paragraph 2 of the transitional provisions of the Law on Latvijas Banka, on 3 January 2014 Latvijas Banka transferred part of its reserve capital into its nominal capital, raising it to 100 000 thousand euro (70 280 thousand lats).

INDEPENDENT AUDITORS' REPORT

TO THE COUNCIL OF LATVIJAS BANKA

We have audited the accompanying financial statements of Latvijas Banka ("the Bank") set out on pages 80 to 120, which comprise the balance sheet as at 31 December 2013, and the related statements of profit and loss, total recognised gains and losses and cash flows for the year then ended, and a summary of principal accounting policies and other explanatory notes.

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 "Financial Accounting Policy of Latvijas Banka" approved by the Council of the Bank, and the Law on Latvijas Banka, and for such internal control as the Board of the Bank determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 ethical requirements and plan and perform the audit to obtain reasonable assurance whether the 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 the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies 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 of the Bank give a true and fair view of the financial position of the Bank as at 31 December 2013, and of its financial performance and its cash flows for the year then ended in accordance with the "Financial Accounting Policy of Latvijas Banka" approved by the Council of the Bank, and the Law on Latvijas Banka.

SIA Ernst & Young Baltic Licence No. 17	The State Audit Office of the Republic of Latvia
Diāna Krišjāne Chairperson of the Board	Elita Krūmiņa Auditor General
Riga, Latvia 13 March 2014	Riga, Latvia 13 March 2014

APPENDICES

Appendix 1

MONETARY INDICATORS IN 2013

(at end of period; in millions of lats)

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	**XII**
LATVIJAS BANKA												
M0	2 459.1	2 611.7	2 530.7	2 542.9	2 630.7	2 699.9	2 604.8	2 613.2	2 562.3	2 621.0	2 618.1	**3 158.3**
Currency in circulation	1 147.3	1 126.3	1 134.8	1 096.7	1 080.3	1 086.8	1 054.3	1 022.5	971.0	893.5	841.8	**630.8**
Demand deposits with Latvijas Banka	1 311.7	1 485.4	1 395.9	1 446.2	1 550.4	1 613.1	1 550.5	1 590.6	1 591.4	1 727.5	1 776.3	**2 527.6**
Currency vs monetary base (%)	46.7	43.1	44.8	43.1	41.1	40.3	40.5	39.1	37.9	34.1	32.2	**20.0**
Net foreign assets	3 874.1	3 988.3	4 051.7	4 038.6	4 140.7	4 060.1	4 019.7	4 032.6	4 064.4	4 172.4	4 063.1	**4 073.8**
Net domestic assets	–1 415.0	–1 376.6	–1 521.0	–1 495.6	–1 510.0	–1 360.3	–1 414.9	–1 419.5	–1 502.0	–1 551.4	–1 445.0	**–915.4**
Credit	–625.4	–528.7	–606.5	–600.8	–657.8	–591.0	–581.7	–617.0	–616.6	–624.3	–492.9	**–229.2**
To MFIs	0	0	0	0	0	0	0	0	0	0	0	**10.0**
To government (net)	–625.4	–528.7	–606.5	–600.8	–657.8	–591.0	–581.7	–617.0	–616.6	–624.3	–492.9	**–239.2**
Other assets (net)	–789.6	–847.8	–914.6	–894.9	–852.3	–769.3	–833.2	–802.5	–885.4	–927.1	–952.1	**–686.2**
MFI												
M1	4 862.0	4 869.6	4 750.0	4 839.7	4 867.8	4 975.0	4 960.0	5 009.9	4 937.4	4 964.4	5 086.9	**5 219.0**
M2	6 682.5	6 707.7	6 570.5	6 629.7	6 607.8	6 618.0	6 567.1	6 592.1	6 491.3	6 514.1	6 623.1	**6 833.5**
M3	6 824.8	6 869.0	6 754.8	6 822.3	6 800.0	6 831.6	6 774.0	6 801.1	6 696.6	6 739.4	6 851.0	**7 034.8**
Currency outside MFIs	1 035.3	1 013.7	1 011.8	982.3	969.1	976.0	941.7	908.2	853.5	778.8	722.6	**469.3**
Deposits of resident financial institutions, non-financial corporations and households	5 710.5	5 750.2	5 625.9	5 691.7	5 661.7	5 678.5	5 667.3	5 729.0	5 682.2	5 788.6	5 935.5	**6 442.7**
In foreign currencies	3 060.5	3 084.7	3 003.2	3 032.9	3 032.7	3 017.0	3 025.2	3 064.6	2 992.1	3 037.0	3 089.1	**3 299.6**
Net foreign assets	577.3	610.8	642.1	786.2	771.4	820.1	763.1	837.7	845.4	967.2	915.3	**844.1**
Net domestic assets	6 168.6	6 153.0	5 995.6	5 887.8	5 859.3	5 834.3	5 845.9	5 799.5	5 690.2	5 600.2	5 742.8	**6 068.0**
Loans to resident financial institutions, non-financial corporations and households	10 138.1	10 111.9	10 025.5	9 949.6	9 953.9	9 768.9	9 735.4	9 726.6	9 630.3	9 557.2	9 567.2	**9 514.4**
INTEREST RATES												
Refinancing rate of Latvijas Banka (at end of period; %)	2.5	2.5	2.5	2.5	2.5	2.5	2.0	2.0	1.5	1.5	0.25	**0.25**
Weighted average interest rates on transactions in lats (%)												
Interbank loans	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	**0.1**
Loans to non-financial corporations and households with a floating interest rate and an initial rate fixation of up to 1 year (new business)	8.0	5.4	5.9	5.8	5.0	5.5	5.3	6.2	5.9	6.2	6.9	**5.1**
Time deposits of non-financial corporations and households (new business)	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	**0.2**

Appendix 2

MONTH-END BALANCE SHEETS OF LATVIJAS BANKA FOR 2013

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

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	**XII**
FOREIGN ASSETS	3 925 688	4 046 760	4 083 082	4 078 565	4 165 930	4 107 887	4 055 772	4 056 431	4 098 922	4 198 419	4 107 318	**4 098 441**
Gold	216 124	215 180	217 462	196 925	188 163	166 738	175 013	185 188	171 760	171 433	159 721	**153 157**
SDR	81 634	82 907	83 620	82 601	82 495	82 801	81 985	81 880	81 371	96 278	96 763	**95 692**
Convertible foreign currencies	3 553 813	3 720 718	3 759 391	3 751 395	3 853 448	3 818 173	3 750 420	3 754 390	3 797 320	3 883 164	3 804 317	**3 815 537**
Participating interest in the ECB	750	750	750	750	750	750	730	730	730	730	730	**730**
Participating interest in the BIS	19 991	19 991	19 991	19 991	19 991	19 991	19 991	19 991	19 991	19 991	19 991	**19 992**
Other foreign assets	53 376	7 214	1 868	26 903	21 083	19 434	27 633	14 252	27 750	26 823	25 796	**13 333**
DOMESTIC ASSETS	32 474	32 691	32 507	32 327	32 156	31 985	31 731	31 584	31 384	31 159	30 984	**40 935**
Loans to credit institutions	–	–	–	–	–	–	–	–	–	–	–	**10 000**
Fixed assets	31 711	31 562	31 415	31 305	31 121	30 968	30 804	30 658	30 492	30 318	30 150	**30 201**
Other domestic assets	763	1 129	1 092	1 022	1 035	1 017	927	926	892	841	834	**734**
TOTAL ASSETS	3 958 162	4 079 451	4 115 589	4 110 892	4 198 086	4 139 872	4 087 503	4 088 015	4 130 306	4 229 578	4 138 302	**4 139 376**
FOREIGN LIABILITIES	51 607	58 510	31 369	40 000	25 248	47 760	36 100	23 828	34 545	26 062	44 254	**24 683**
Convertible foreign currencies	22 169	3 013	2 359	28 900	12 852	15 890	11 347	5 689	13 925	10 732	26 629	**8 936**
IMF	299	303	306	302	302	303	300	299	297	294	296	**295**
Other international institution deposits in lats	24 179	5 516	3 263	4 768	2 049	14 605	3 154	1 946	14 339	6 995	7 081	**3 278**
Foreign bank deposits in lats	2 400	2 843	246	1 350	72	1 393	10 945	1 495	989	1 968	2 160	**4 055**
Other foreign liabilities	2 560	46 835	25 195	4 680	9 973	15 569	10 354	14 399	4 995	6 073	8 088	**8 119**
LATS IN CIRCULATION	1 147 335	1 126 320	1 134 784	1 096 687	1 080 258	1 086 757	1 054 299	1 022 516	970 952	893 488	841 816	**630 755**
DOMESTIC LIABILITIES	2 402 533	2 532 363	2 589 631	2 631 845	2 756 807	2 674 510	2 666 688	2 717 278	2 793 039	2 972 337	2 914 599	**3 153 626**
Balances due to credit institutions	1 762 834	1 979 042	1 948 691	2 005 637	2 077 254	2 061 791	2 061 459	2 088 081	2 160 926	2 329 557	2 394 308	**2 901 037**
Balances due to the government	625 374	528 729	606 459	600 785	657 770	591 013	581 719	616 959	616 591	624 266	492 872	**239 187**
Balances due to other financial institutions	11 538	21 718	10 155	11 200	19 392	18 865	20 839	10 206	12 794	15 710	25 170	**9 986**
Other domestic liabilities	2 787	2 874	24 326	14 223	2 391	2 841	2 671	2 032	2 728	2 804	2 249	**3 416**
CAPITAL AND RESERVES	356 687	362 258	359 805	342 360	335 773	330 845	330 416	324 393	331 770	337 691	337 633	**330 312**
TOTAL LIABILITIES, CAPITAL AND RESERVES	3 958 162	4 079 451	4 115 589	4 110 892	4 198 086	4 139 872	4 087 503	4 088 015	4 130 306	4 229 578	4 138 302	**4 139 376**

Appendix 3

YEAR-END BALANCE SHEETS OF LATVIJAS BANKA FOR THE YEARS 2009–2013

(at end of year; in thousands of lats)

	2009	2010	2011	2012	**2013**
FOREIGN ASSETS	3 384 585	4 074 611	3 507 542	4 053 478	**4 098 441**
Gold	134 365	187 179	210 066	218 750	**153 157**
SDR	91 237	99 356	79 069	83 367	**95 692**
Convertible foreign currencies	3 150 992	3 782 167	3 184 920	3 692 653	**3 815 537**
Participating interest in the ECB	750	750	750	750	**730**
Participating interest in the BIS[1]	1 763	1 763	18 997	19 991	**19 992**
Other foreign assets	5 478	3 396	13 740	37 967	**13 333**
DOMESTIC ASSETS	175 719	32 722	31 683	32 857	**40 935**
Loans to credit institutions	140 449	–	–	–	**10 000**
Fixed assets	33 232	31 003	30 675	31 963	**30 201**
Other domestic assets	2 038	1 719	1 008	894	**734**
TOTAL ASSETS	3 560 304	4 107 333	3 539 225	4 086 335	**4 139 376**
FOREIGN LIABILITIES	71 469	42 556	72 372	27 680	**24 683**
Convertible foreign currencies	19 006	13 682	9 560	18 775	**8 936**
IMF	256	274	313	305	**295**
Other international institution deposits in lats	32 502	8 505	18 271	3 341	**3 278**
Foreign bank deposits in lats	499	726	712	2 332	**4 055**
Other foreign liabilities	19 206	19 369	43 516	2 927	**8 119**
LATS IN CIRCULATION	788 155	937 904	1 160 183	1 234 147	**630 755**
DOMESTIC LIABILITIES	2 412 922	2 830 233	1 979 508	2 462 505	**3 153 626**
Balances due to credit institutions	1 115 677	1 690 230	1 197 740	1 688 349	**2 901 037**
Balances due to the government	1 291 942	1 081 010	737 088	761 152	**239 187**
Balances due to other financial institutions	1 948	56 738	42 715	10 814	**9 986**
Other domestic liabilities	3 355	2 255	1 965	2 190	**3 416**
CAPITAL AND RESERVES	287 758	296 640	327 162	362 003	**330 312**
Nominal capital	25 000	25 000	25 000	25 000	**25 000**
Reserve capital	114 236	140 273	148 587	159 797	**171 683**
Valuation account	74 129	107 613	121 547	143 245	**92 165**
Profit of the reporting year	74 393	23 754	32 028	33 961	**41 464**
TOTAL LIABILITIES, CAPITAL AND RESERVES	3 560 304	4 107 333	3 539 225	4 086 335	**4 139 376**

[1] Starting with 2011, equity instruments are reported at fair value in the balance sheet and the change in fair value is reported in the balance sheet caption "Valuation account" (for the description of changes in the accounting policies see Note 3.1 to the financial statements for 2011).

Appendix 4

PROFIT AND LOSS STATEMENTS OF LATVIJAS BANKA FOR THE YEARS 2009–2013

(at end of period; in thousands of lats)

	2009	2010	2011	2012	**2013**
INTEREST INCOME					
Foreign operations	59 245	57 055	73 265	47 555	**38 331**
Domestic operations	26 925	3 618	13	8	**1**
INTEREST EXPENSE					
Foreign operations	–1 662	–967	–494	–5 521	**–7 967**
Domestic operations	–18 515	–13 362	–11 475	–4 410	**–1 965**
NET INTEREST INCOME	65 993	46 344	61 309	37 632	**28 400**
REALISED GAINS OR LOSSES FROM FINANCIAL OPERATIONS (–)	36 959	9 147	5 942	17 518	**44 530**
WRITE-DOWNS OF REVALUATION RESULT ON FINANCIAL ASSETS AND POSITIONS	–5 474	–12 995	–16 556	–1 585	**–4 879**
INCOME FROM PARTICIPATING INTEREST	221	611	245	278	**273**
OTHER OPERATING INCOME	4 683	1 278	1 261	1 482	**2 819**
BANKNOTE PRODUCTION AND COINAGE COSTS	–4 695	–541	–582	–797	**–7 577**
OTHER OPERATING EXPENSES	–23 294	–20 090	–19 591	–20 567	**–22 102**
PROFIT OF THE REPORTING YEAR	74 393	23 754	32 028	33 961	**41 464**
Profit transferrable to the reserve capital	26 038	8 314	11 210	11 886	**14 512**
Profit transferrable to the state budget	48 355	15 440	20 818	22 075	**26 952**

Appendix 5

YEAR-END STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES OF LATVIJAS BANKA FOR THE YEARS 2009–2013

(in thousands of lats)

	2009	2010	2011	2012	**2013**
REVALUATION	27 907	35 482	27 871	34 815	**–30 539**
Equity instruments[1]	–	–	17 233	995	**1**
Foreign currency and gold	18 812	36 680	6 068	6 253	**–23 912**
Non-traded interest rate swap arrangements	–	–	25	–	**–**
Debt securities	9 095	–1 198	4 545	27 567	**–6 628**
REALISATION OF ACCUMULATED REVALUATION RESULT	–27 256	–14 993	–30 493	–14 702	**–25 420**
Foreign currency and gold	–1 238	–3 889	–13 761	–145	**–1 712**
Non-traded interest rate swap arrangements	–3 263	–	–	–25	**–**
Debt securities	–22 755	–11 104	–16 732	–14 532	**–23 708**
WRITE-DOWNS OF REVALUATION RESULT ON FINANCIAL ASSETS AND POSITIONS	5 474	12 995	16 556	1 585	**4 879**
PROFIT OF THE REPORTING YEAR	74 393	23 754	32 028	33 961	**41 464**
TOTAL	80 518	57 238	45 962	55 659	**–9 616**

[1] Starting with 2011, equity instruments are reported at fair value in the balance sheet and the change in fair value is reported in the balance sheet caption "Valuation account" (for the description of changes in the accounting policies see Note 3.1 to the financial statements for 2011).

Appendix 6

EXCHANGE RATES FOR THE BRITISH POUND STERLING, THE JAPANESE YEN AND THE US DOLLAR SET BY LATVIJAS BANKA

(LVL vs foreign currency)

2013	GBP				100 JPY				USD			
	Maximum	Average	Minimum	At end of period	Maximum	Average	Minimum	At end of period	Maximum	Average	Minimum	At end of period
I	0.8680	0.8487	0.8210	0.8210	0.6190	0.5990	0.5730	0.5730	0.5390	0.5305	0.5210	0.5210
II	0.8300	0.8144	0.8050	0.8110	0.5860	0.5641	0.5530	0.5860	0.5380	0.5243	0.5160	0.5370
III	0.8300	0.8168	0.8040	0.8290	0.5810	0.5723	0.5600	0.5770	0.5470	0.5415	0.5350	0.5470
IV	0.8360	0.8256	0.8190	0.8360	0.5890	0.5543	0.5380	0.5510	0.5500	0.5408	0.5330	0.5390
V	0.8360	0.8285	0.8210	0.8220	0.5510	0.5385	0.5310	0.5370	0.5470	0.5410	0.5340	0.5420
VI	0.8290	0.8242	0.8180	0.8270	0.5580	0.5464	0.5350	0.5520	0.5420	0.5330	0.5250	0.5390
VII	0.8250	0.8164	0.8080	0.8130	0.5460	0.5390	0.5320	0.5390	0.5490	0.5371	0.5290	0.5300
VIII	0.8240	0.8162	0.8030	0.8200	0.5460	0.5396	0.5320	0.5400	0.5320	0.5277	0.5240	0.5280
IX	0.8390	0.8337	0.8200	0.8390	0.5400	0.5309	0.5230	0.5280	0.5350	0.5267	0.5190	0.5210
X	0.8420	0.8306	0.8210	0.8210	0.5330	0.5275	0.5210	0.5210	0.5210	0.5161	0.5090	0.5120
XI	0.8450	0.8365	0.8210	0.8440	0.5350	0.5219	0.5070	0.5070	0.5260	0.5203	0.5130	0.5170
XII	0.8490	0.8411	0.8310	0.8430	0.5070	0.4977	0.4930	0.4930	0.5190	0.5138	0.5100	0.5150

Appendix 7

ORGANISATIONAL UNITS OF LATVIJAS BANKA AT THE END OF 2013

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)
2.6 Daugavpils Branch (Branch Manager – Ināra Brauna)

3. GOVERNOR'S OFFICE
(Head of Office – Guntis Valujevs)

4. INFORMATION SYSTEMS DEPARTMENT
(Head of Department – Harijs Ozols)
4.1 System Design and Programming Division (Head of Division – Ilgvars Apinis)
4.2 Computer Network and Server Systems Division (Head of Division – Uldis Kristapsons)
4.3 Bank Information System Maintenance and Development Division (Head of Division, Deputy Head of Department – Valdis Spūlis)
4.4 Information Systems Security Division (Head of Division – Ilona Etmane)
4.5 Information Systems Quality Assurance Division (Head of Division – Askolds Kālis)
4.6 Systems Maintenance Division (Head of Division – Valērijs Kondratjevs)

5. INTERNAL AUDIT DEPARTMENT
(Head of Department – Leo Ašmanis; Deputy Heads of Department – Jānis Stražinskis[1], Juris Ziediņš)

6. INTERNATIONAL RELATIONS AND COMMUNICATION DEPARTMENT
(Head of Department – Juris Kravalis)
6.1 Document Management and Library Division (Head of Division – Ineta Strade)
6.2 Publications Division (Head of Division, Deputy Head of Department – Aina Raņķe)
6.3 Public Relations Division (Head of Division, Deputy Head of Department – Kristaps Otersons)
6.4 International Relations and Protocol Division (Head of Division, Deputy Head of Department – Aleksandra Bambale)

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

8. MARKET OPERATIONS DEPARTMENT
(Head of Department – Raivo Vanags)

[1] As of 2 January 2014.

Appendix 7 (cont.)

8.1 Trading and Investment Division (Head of Division – Vadims Zaicevs)
8.2 Risk Management Division (Head of Division, Deputy Head of Department – Daira Brunere)
8.3 Payments Division (Head of Division – Una Ruka)

9. MONETARY POLICY DEPARTMENT
(Head of Department – Mārtiņš Bitāns; Deputy Head of Department – Elmārs Zakulis)
9.1 Macroeconomic Analysis Division (Head of Division – Santa Bērziņa)
9.2 Financial Market Analysis Division (Head of Division – Gunārs Bērziņš)
9.3 Monetary Research and Forecasting Division (Head of Division – Konstantīns Beņkovskis)
9.4 Financial Stability Division (Head of Division – Nataļja Beņkovska)

10. PAYMENT SYSTEMS DEPARTMENT
(Head of Department – Egons Gailītis; Deputy Heads of Department – Agnija Jēkabsone, Irēna Krūmane)
10.1 Payment Systems Policy Division (Head of Division – Anda Zalmane)
10.2 Payment Systems Operations Division (Head of Division – Natālija Popova)
10.3 Account Service and Maintenance Division (Head of Division – Andra Gailīte)
10.4 Credit Register Division (Head of Division – Laura Ausekle)

11. PERSONNEL DEPARTMENT
(Head of Department – Liene Glāzniece; Deputy Head of Department – Vineta Veikmane)

12. SECURITY DEPARTMENT
(Head of Department – Romualds Namnieks; Deputy Heads of Department – Imants Kravals, Sandis Mackēvičs)
12.1 Analytical Unit (Head of Unit – Māris Dzelme)
12.2 Armament Unit (Head of Unit – Juris Kušķis)
12.3 Central Division (Head of Division – Guntars Ezeriņš)
12.4 Riga Division (Head of Division – Igo Peičs)
12.5 Daugavpils Division (Head of Division – Ilmārs Suhockis)
12.6 Liepāja Division (Head of Division – Gints Liepiņš)

13. STATISTICS DEPARTMENT
(Head of Department – Agris Caune; Deputy Head of Department – Ilmārs Skarbnieks)
13.1 Financial Market and Monetary Statistics Division (Head of Division – Zigrīda Aušta)
13.2 Balance-of-Payments Statistics Division (Head of Division – Daiga Gaigala-Ližbovska)
13.3 General Economic and Financial Statistics Division (Head of Division – Iveta Salmiņa)

14. TECHNICAL SUPPORT DEPARTMENT
(Head of Department – Andris Ņikitins)
14.1 General Service Division (Head of Division – Einārs Cišs)
14.2 Building Systems Division (Head of Division, Deputy Head of Department – Jānis Kreicbergs)
14.3 Security Systems Division (Head of Division – Viesturs Balodis)

15. TRAINING CENTRE
(Head of Centre – Zaiga Blūma)

Appendix 8

PARTICIPATION OF LATVIJAS BANKA IN THE EUROPEAN SYSTEM OF CENTRAL BANKS

Governing Council of the ECB[1]
Ilmārs Rimšēvičs, Governor of Latvijas Banka

General Council of the ECB
Ilmārs Rimšēvičs, Governor of Latvijas Banka

Accounting and Monetary Income Committee (AMICO)
Jānis Caune, 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, Head of Cash Department
Veneranda Kausa, Deputy Head of Cash Department

Budget Committee (BUCOM)
Jānis Caune, Chief Accountant of Latvijas Banka, Head of Accounting Department

Committee on Controlling (COMCO)
Gatis Gersons, Head of Financial Statements and Accounting Policy Division, Accounting Department

Financial Stability Committee (FSC)
Zoja Razmusa, Member of the Council of Latvijas Banka[2]
Elmārs Zakulis, Deputy Head of Monetary Policy Department

Eurosystem/ESCB Communications Committee (ECCO)
Kristaps Otersons, Deputy Head of International Relations and Communication Department, Head of Public Relations Division
Mārtiņš Grāvītis, Press Secretary of Latvijas Banka

Eurosystem IT Steering Committee (EISC)
Reinis Jakovļevs, Deputy Chairman of the Board of Latvijas Banka

Human Resources Conference (HRC)
Liene Glāzniece, 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

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

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[1] As of 1 January 2014.
[2] As of 13 March 2014 – Deputy Governor of Latvijas Banka.

Appendix 8 (cont.)

Legal Committee (LEGCO)
Ilze Posuma, Member 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, Head of Monetary Policy Department
Gundars Dāvidsons, Advisor to Head of Monetary Policy Department

Organisational Development Committee (ODC)
Reinis Jakovļevs, Deputy Chairman of the Board of Latvijas Banka
Igors Fleitmanis, Business Continuity Manager of Latvijas Banka

Payment and Settlement Systems Committee (PSSC)
Egons Gailītis, Head of Payment Systems Department
Agnija Jēkabsone, Deputy Head of Payment Systems Department

Risk Management Committee (RMC)
Daira Brunere, Deputy Head of Market Operations Department, Head of Risk Management Division

Statistics Committee (STC)
Agris Caune, Head of Statistics Department
Ilmārs Skarbnieks, Deputy Head of Statistics Department

Appendix 9

REPRESENTATION OF LATVIJAS BANKA IN INTERNATIONAL ORGANISATIONS

EUROPEAN UNION

ESRB
Ilmārs Rimšēvičs, Governor of Latvijas Banka (Banking Supervisory Institution is represented by Kristaps Zakulis, Chairman of the FCMC)

Advisory Technical Committee of the ESRB
Zoja Razmusa, Member of the Council of Latvijas Banka[1] (Banking Supervisory Institution is represented by Ludmila Vojevoda, Member of the Council of the FCMC)

Economic and Financial Committee for the Council of the European Union (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 Division

Board of Supervisors of the European Banking Authority (EBA)
Vita Pilsuma, Member of the Council of Latvijas Banka (Banking Supervisory Institution is represented by Kristaps Zakulis, Chairman of the FCMC)

ESCB and ESSC Joint Committee on Monetary, Financial and Balance of Payments Statistics (CMFB)
Agris Caune, Head of Statistics Department
Ilmārs Skarbnieks, Deputy Head of Statistics Department

ESCB and ESSC Joint Balance of Payments Committee
Agris Caune, Head of Statistics Department
Ilmārs Skarbnieks, Deputy Head of Statistics Department

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

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)
Andris Ruselis, Deputy Governor of Latvijas Banka[2]

[1] As of 13 March 2014 – Deputy Governor of Latvijas Banka.
[2] Until 14 February 2014.

Appendix 9 (cont.)

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
Uldis Rutkaste, Senior Advisor to the Executive Director of the Nordic-Baltic Constituency of the IMF, Latvia's representative in IMF

Appendix 10

LATVIJAS BANKA PUBLICATIONS AND MAJOR PUBLICATIONS BY THE EXPERTS OF LATVIJAS BANKA IN 2013

The following Latvijas Banka publications are available on Latvijas Banka website (www. bank.lv). Annual Reports prepared in print are available free of charge both at Latvijas Banka and by mail (unless indicated otherwise and if sufficient number of copies are available) sending a request to the address indicated on the last page of this publication or by e-mailing to: info@bank.lv.

REGULAR PUBLICATIONS AND SERIAL PUBLICATIONS

Bank of Latvia: Annual Report 2012
Financial Stability Report (2012)
Latvijas Maksājumu Bilance. Latvia's Balance of Payments. 2012
Macroeconomic Developments Report (January, April, July and October (No. 13–16, 2013)
Payment and Securities Settlement System Oversight Carried out by the Bank of Latvia in 2012

WORKING PAPERS

BEŅKOVSKIS, Konstantīns, FADEJEVA, Ludmila (2013) – *The Effect of VAT Rate on Price Setting Behaviour in Latvia: Evidence from CPI Micro Data*. Latvijas Banka Working Paper, No. 1.
BRAUKŠA, Ieva, FADEJEVA, Ludmila (2013) – *Internal Labour Market Mobility in 2005–2011: The Case of Latvia.* Latvijas Banka Working Paper, No. 2.
AJEVSKIS, Viktors (2013) – *Non-local Solutions to Dynamic Equilibrium Models: The Approximate Stable Manifolds Approach.* Latvijas Banka Working Paper, No. 3.

PUBLICATIONS

BENKOVSKIS, Konstantins, FADEJEVA, Ludmila, STEHRER, Robert, WÖRZ, Julia (2013) – How Important is Total Factor Productivity for Growth in Central, Eastern and Southeastern European Countries? *Focus on European Economic Integration*, Q1, pp. 8–27.
BENKOVSKIS, Konstantins, WÖRZ, Julia (2013) – *Non-Price Competitiveness of Exports from Emerging Countries* – European Central Bank Working Paper Series, No. 1612, November. 29 p.
BENKOVSKIS, Konstantins, SILGONER, Maria, STEINER, Katharina, WÖRZ, Julia (2013) – *Crowding-Out or Co-Existence? The Competitive Position of EU Members and China in Global Merchandise Trade*. European Central Bank Working Paper Series, No. 1617, November. 40 p.
BENKOVSKIS, Konstantins, WÖRZ, Julia (2013) – *What Drives the Market Share Changes? Price versus Non-Price Factors*. BOFIT Discussion Papers, No. 18. 48 p.
SIŅENKO, Nadežda, TITARENKO, Deniss, ĀRIŅŠ, Mikus (2013) – The Latvian Financial Stress Index as an Important Element of the Financial System Stability Monitoring Framework. *Baltic Journal of Economics*, vol. 13, No. 2, Autumn, pp. 85–110.

Appendix 11

2013 HIGHLIGHTS OF RESOLUTIONS AND REGULATIONS 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
Regulation	96	24.01.2013 (01.02.2013)	"Amendments to Regulation No. 36 'Regulation for Purchasing and Selling Cash Foreign Currency' of Latvijas Banka of 13 May 2009"
Regulation	97	14.03.2013 (01.10.2013)	"Amendments to Regulation No. 93 'Regulation for the Credit Register' of Latvijas Banka of 13 September 2012"
Regulation	98	14.03.2013 (01.10.2013)	"Amendments to Regulation No. 94 'Regulation for Electronic Information Exchange with Latvijas Banka' of Latvijas Banka of 13 September 2012"
Regulation	99	16.05.2013 (01.01.2014)	"Regulation for Compiling the 'Monthly Financial Position Report' of Monetary Financial Institutions"
Regulation	100	16.05.2013 (01.01.2014)	"Regulation for Compiling Interest Rate Reports of Monetary Financial Institutions"
Regulation	101	16.05.2013 (01.01.2014)	"Regulation for Compiling Reports on Foreign Currency Purchases and Sales"
Regulation	102	16.05.2013 (01.01.2014)	"Regulation for Compiling the 'Report on Monetary Market Transactions'"
Regulation	103	16.05.2013 (01.01.2014)	"Regulation for Compiling the 'Report on Adjustments in Respect of Write-Offs/Write-Downs of Loans and Price Revaluations of Securities'"
Regulation	104	16.05.2013 (01.01.2014)	"Regulation for Compiling the 'Credit Institution and Electronic Money Institution Payment Statistics Report'"
Regulation	105	16.05.2013 (10.06.2013)	"Amendment to Regulation No. 38 'Description of Lats Banknotes and Coins' of Latvijas Banka of 13 May 2009"
Regulation	211/11	16.05.2013 (01.06.2013)	"Amendments to Regulation No. 183/3 'Regulation for the Participation Procedure in the Electronic Clearing System of Latvijas Banka' of the Council of Latvijas Banka of 9 September 2010"
Regulation	211/12	16.05.2013 (01.06.2013)	"Amendments to Regulation No. 172/9 'Regulation for the Participation Procedure in the Interbank Automated Payment System of Latvijas Banka' of the Council of Latvijas Banka of 5 November 2009"
Regulation	211/13	16.05.2013 (01.01.2014)	"On Deeming Invalid Regulation No. 172/9 'Regulation for the Participation Procedure in the Interbank Automated Payment System of Latvijas Banka' of the Council of Latvijas Banka of 5 November 2009"
Regulation	106	11.07.2013 (24.07.2013)	"Interest Rates on Transactions"
Regulation	107	11.07.2013 (01.10.2013)	"Amendments to Regulation No. 86 'Regulation for Calculating and Fulfilling the Minimum Reserve Requirements for Credit Institutions' of Latvijas Banka of 15 March 2012"
Regulation	108	11.07.2013 (01.10.2013)	"Regulation for Compiling the 'Calculation of the Reserve Base and Requirement' of Credit Unions"
Regulation	109	11.07.2013 (01.01.2014)	"Regulation for Compiling the 'Calculation of the Reserve Base and Requirement'"
Regulation	110	11.07.2013 (01.01.2014)	"Regulation for Compiling the 'Quarterly Report on Foreign Assets and Liabilities (1-MB)'"
Regulation	111	11.07.2013 (01.01.2014)	"Regulation for Compiling the 'Annual Report on Foreign Assets and Liabilities (1-MB)'"
Regulation	112	11.07.2013 (01.01.2014)	"Regulation for Compiling the Reports on External Payments of Non-Banks"
Regulation	113	11.07.2013 (01.01.2014)	"Regulation for Compiling the 'Quarterly Report on Services (4-MB)'"
Regulation	114	11.07.2013 (01.01.2014)	"Regulation for Compiling the 'Quarterly Report on Transportation and Intermediary Services (3-MB)'"

Appendix 11 (cont.)

Regulatory document	No.	Date of adoption (effective date)	Title of the regulatory document adopted by the Council of Latvijas Banka
Regulation	115	11.07.2013 (01.01.2014)	"Regulation for Compiling Reports on Long-Term Foreign Debt of Credit Institutions"
Regulation	116	11.07.2013 (01.01.2014)	"Regulation for Compiling Reports on Securities"
Regulation	117	11.07.2013 (01.01.2014)	"Regulation for Compiling the 'Monthly Report on Natural Person Job Contracts for Working Abroad (5-MB)'"
Regulation	118	11.07.2013 (01.08.2013)	"Amendments to Regulation No. 36 'Regulation for Purchasing and Selling Cash Foreign Currency' of Latvijas Banka of 13 May 2009"
Regulation	119	16.09.2013 (24.09.2013)	"Interest Rates on Transactions"
Regulation	120	16.09.2013 (01.10.2013)	"Amendments to Regulation No. 93 'Regulation for the Credit Register' of Latvijas Banka of 13 September 2012"
Regulation	121	16.09.2013 (01.10.2013)	"Amendments to Regulation No. 94 'Regulation for Electronic Information Exchange with Latvijas Banka' of Latvijas Banka of 13 September 2012"
Regulation	122	16.09.2013 (01.01.2014)	"Regulation for Electronic Information Exchange with Latvijas Banka"
Regulation	123	16.09.2013 (01.10.2013)	"Amendment to Regulation No. 19 'Regulation on Lats Banknotes and Coins' of Latvijas Banka of 11 September 2008"
Regulation	124	16.09.2013 (01.01.2014)	"Regulation for the Processing and Reissue of Euro Banknotes and Coins"
Regulation	213/7	16.09.2013 (30.09.2013)	"Amendments to Regulation No. 183/3 'Regulation for the Participation Procedure in the Electronic Clearing System of Latvijas Banka' of the Council of Latvijas Banka of 9 September 2010"
Regulation	213/8	16.09.2013 (01.01.2014)	"Amendments to Regulation No. 183/3 'Regulation for the Participation Procedure in the Electronic Clearing System of Latvijas Banka' of the Council of Latvijas Banka of 9 September 2010"
Regulation	213/9	16.09.2013 (01.01.2014)	"Regulation for Servicing of Customer Accounts of Latvijas Banka"
Regulation	213/12	16.09.2013 (01.01.2014)	"Participation Procedure in Cash Transactions at Latvijas Banka"
Regulation	213/13	16.09.2013 (17.09.2013)	"Regulation for Frontloading and Sub-Frontloading of Euro Banknotes and Coins"
Regulation	214/1	07.10.2013 (07.10.2013)	"Amendment to Regulation No. 213/13 'Regulation for Frontloading and Sub-Frontloading of Euro Banknotes and Coins' of the Council of Latvijas Banka of 16 September 2013"
Regulation	125	04.11.2013 (06.11.2013)	"Amendment to Regulation No. 38 'Description of Lats Banknotes and Coins' of Latvijas Banka of 13 May 2009"
Regulation	126	11.11.2013 (24.11.2013)	"Amendments to Regulation No. 119 'Interest Rates on Transactions' of Latvijas Banka of 16 September 2013"
Regulation	127	11.11.2013 (01.01.2014)	"On Deeming Invalid Resolution No. 115/5 'On Pegging the Lats to the Euro and Setting Foreign Exchange Rates' of the Council of Latvijas Banka of 11 November 2004 and Resolution No. 116/13 'On Pegging the Lats to the Euro' of the Council of Latvijas Banka of 13 January 2005"
Regulation	128	11.11.2013 (01.01.2014)	"On Deeming Invalid Resolution No. 128/1 'On Foreign Exchange Rates' of the Council of Latvijas Banka of 14 June 2006"
Recom-mendations	129	11.11.2013 (01.01.2014)	"Amendments to Recommendations No. 37 'Recommendations for Setting up an Internal Control System for the Prevention of Laundering of Proceeds Derived from Criminal Activity and Financing of Terrorism for Capital Companies that Have Obtained a Latvijas Banka Licence for Purchasing and Selling Cash Foreign Currencies' of Latvijas Banka of 13 May 2009"

Appendix 11 (cont.)

Regulatory document	No.	Date of adoption (effective date)	Title of the regulatory document adopted by the Council of Latvijas Banka
Regulation	216/7	11.11.2013 (01.12.2013)	"Participation Procedure in the VNS System of Latvijas Banka"
Regulation	130	12.12.2013 (01.01.2014)	"Regulation for Electronic Information Exchange with Latvijas Banka"
Regulation	217/1	12.12.2013 (01.01.2014)	"Participation Procedure in the Eurosystem Monetary Policy Operations Organised by Latvijas Banka"
Regulation	217/3	12.12.2013 (01.01.2014)	"Amendments to Regulation No. 186/4 'System Rules for Participation in TARGET2-Latvija' of the Council of Latvijas Banka of 4 November 2010"
Regulation	217/4	12.12.2013 (01.01.2014)	"General Principles for Servicing a Settlement Account Opened with Latvijas Banka and Procedure for Entering into Contracts"

Appendix 12

GLOSSARY

Automatic loan: a collateralised loan granted to a credit institution registered in the Republic of Latvia under marginal lending facility of Latvijas Banka until the next business day to cover the credit institution's overdraft.

Balance of payments: a statistical report that reflects Latvia's economic transactions with the rest of the world within a specific period. This report includes the transactions related to goods, services, income and transfers, and such net transactions that result in financial claims ("Assets") or financial obligations ("Liabilities") to the rest of the world.

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: one of the building blocks towards a genuine Economic and Monetary Union which includes an integrated financial framework with a single rulebook, a single supervisory mechanism, harmonised deposit protection schemes and a single bank resolution framework.

Central government: public institutions, 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. The list of the institutional units of the Latvian central government is prepared in accordance with the requirements of ESA 95 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.

Credit institutions: capital companies whose business is to receive deposits or other repayable funds from the public and to grant credits on its own account and provide other financial services. Latvian credit institutions are included in the List of Monetary Financial Institutions of the Republic of Latvia (see the Latvijas Banka website (www.bank.lv), section Statistics).

Credit risk: the risk that a counterparty will not settle an obligation at full value, either when it becomes due or at any time thereafter.

Debt securities: securities representing an obligation and a promise on the part of the issuer to make one or more payment(s) to the holder of the securities at a specified future date or dates (e.g. bonds, notes). Such securities usually carry a specific rate of interest (the coupon) or are sold at a discount to the amount that will be repaid at maturity. Short-term debt securities are debt securities issued with an original maturity of up to 1 year (inclusive). Long-term debt securities are debt securities issued with an original maturity of over 1 year.

Demand loan: a collateralised loan that was granted to credit institutions registered in the Republic of Latvia on demand under marginal lending facility of Latvijas Banka until the next business day.

Deposit facility: a standing facility enabling credit institutions registered in the Republic of Latvia to make overnight deposits and 7-day deposits with the Latvijas Banka on their own initiative (as of 1 January 2014, these credit institutions may use the Eurosystem's

Appendix 12 (cont.)

deposit facility to make an overnight deposit with Latvijas Banka at a pre-specified interest rate).

Deposits redeemable at notice: cash assets 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.

Deposits with an agreed maturity: cash assets deposited with an MFI that cannot be withdrawn prior to maturity or can be withdrawn only subject to payment of a small penalty. This category also encompasses some non-marketable debt instruments, such as non-marketable (retail) certificates of deposit.

Direct investment: investment (net transactions and outstanding amounts) made by a foreign investor (direct investor) in order to obtain a lasting interest (ownership of at least 10% of the ordinary shares or voting power) in a Latvian commercial company (direct investment company; "Direct investment in Latvia") or by a Latvian investor in a foreign company ("Direct investment abroad"). The components of direct investment are equity capital, reinvested earnings and other capital. Direct investment implies long-term relationship between a direct investor and direct investment company. Direct investor can be either natural or legal person.

Economic and Financial Committee (EFC): a committee for economic and financial issues established by the EU Council, comprising representatives of the governments and central banks of the EU Member States as well as representatives of the EC and ECB.

Economic and Monetary Union (EMU): the process that led to the introduction of the single currency, the euro, and the single monetary policy in the euro area, as well as to the coordination of the economic policies of the EU Member States. This process, as laid down in the Treaty on the Functioning of the European Union, took place in three stages. Stage Three, the final stage, started on 1 January 1999 with the transfer of monetary competence to the ECB and the introduction of the euro. The euro cash changeover on 1 January 2002 completed the process of setting up the EMU.

Electronic Clearing System of Latvijas Banka (EKS): net settlement system of Latvijas Banka, which is used to process bulk retail payments and ensure 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 lending transactions denominated in euro, as reported by a panel of contributing banks.

Equities: securities representing ownership of a stake in a commercial company. They comprise listed and unlisted equities (e.g. quoted shares, unquoted shares and other forms of equity) and usually produce income in the form of dividends.

EURIBOR (euro interbank offered rate): the rate at which a prime bank is willing to lend funds in euro to another prime bank, as reported by a panel of contributing banks, computed daily for interbank deposits with different maturities of up to 12 months.

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 2013, the euro area comprised Austria, Belgium, Cyprus, Estonia, Finland, France, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, Spain and Germany (Latvia joined the euro area on 1 January 2014).

Appendix 12 (cont.)

European Banking Authority (EBA): an EU body with legal personality which is a part of the EFSF. The objective of the EBA is to protect the public interest by contributing to the short-, medium- and long-term stability and effectiveness of the financial system, for the EU economy, its citizens and businesses. One of the key tasks of the EBA is to develop and maintain up to date a European Supervisory Handbook which sets out supervisory best practice and in relation to the supervision of financial institutions across the EU. The EBA comprises a Board of Supervisors, a Management Board, a Chairperson, an Executive Director and a Board of Appeal.

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 ECB in cooperation with the central banks of the EU Member States. The ECB is governed by the Governing Council and the Executive Board, and, until all EU Member States adopt the euro, by a third decision-making body, the General Council.

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 Member States 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 System of Financial Supervision (ESFS): comprises ESRB, EBA, European Insurance and Occupational Pensions Authority, European Securities and Markets Authority, Joint Committee of the European Supervisory Authorities and the supervisory authorities in the EU Member States. The main objective of the ESFS is to ensure that the rules applicable to the financial sector are adequately implemented to preserve financial stability and to ensure confidence in the financial system as a whole and sufficient protection for the customers of financial services.

European Systemic Risk Board (ESRB): an independent body of the EU which forms part of the ESFS. The ESRB 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 within the financial system and 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. The ESRB has a General Board, a Steering Committee, a Secretariat, an Advisory Scientific Committee and an Advisory Technical Committee.

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.

Exchange rate mechanism II (ERM II): the exchange rate mechanism that ensures the framework for exchange rate policy cooperation between the euro area countries and the non-euro-area EU Member States. ERM II is a multilateral agreement on fixed, albeit adjustable central rates with a standard fluctuation band of ±15%. The decisions on the central rates and, potentially, on narrower fluctuation bands are taken by an agreement between the respective EU Member State, euro area Member States, ECB and other EU Member States participating in the mechanism. Participation in the ERM II is a pre-condition for an EU Member State to become a fully-fledged member of the EMU and implement the euro. As at the end of 2013, Denmark, Latvia and Lithuania were members of the ERM II. (With the introduction of the euro on 1 January 2014, Latvia ceased to participate in ERM II).

Appendix 12 (cont.)

Financial auxiliaries: financial institutions that are primarily engaged in auxiliary financial activities, i.e. activities that are closely related to financial intermediation but are not financial intermediation themselves, e.g. investment brokers who do not engage in financial intermediation services on their own behalf, corporations that provide infrastructure for financial markets, institutions that supervise MFIs, financial corporations and the financial market. The FCMC, NASDAQ OMX Riga, the LCD, insurance brokerage companies, capital companies engage in cash buying and selling of foreign currencies as well as investment management corporations are regarded as financial auxiliaries.

Financial institutions other than MFIs: other financial intermediaries, financial auxiliaries, insurance corporations and pension funds.

Fixed rate instrument: a financial instrument for which the coupon is fixed throughout the life of the instrument.

Foreign exchange swap: a simultaneous spot purchase/sale and forward sale/purchase of one currency against another.

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 all central banks of the EU Member States.

General government: public institutions 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. General government in the Republic of Latvia includes central government and local government. The list of the institutional units of the Latvian central government is prepared in accordance with the requirements of ESA 95 by the CSB.

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.

Households: natural persons or groups of natural persons as consumers and producers of goods and non-financial services exclusively for their own final consumption. Sole proprietors are also regarded as households in Latvia provided that they have not registered their activity with the Commercial Register of the Enterprise Register of the Republic of Latvia.

Interbank Automated Payment System of Latvijas Banka (SAMS): real time gross settlement system of Latvijas Banka used for settlements concerning Latvijas Banka monetary policy operations, retail interbank transfers and other payments in lats until the end of 2013.

International investment position: a statistical statement reflecting the value and composition of Latvia's financial claims ("Assets") on and financial obligations ("Liabilities") to the rest of the world respectively, at a specified date, as well as reasons for changes in the outstanding amounts in the respective time period. Changes in the outstanding amounts may occur as a result of net flows (balance of payments data), exchange rate changes, price changes, and other adjustments (mainly due to various reclassifications in the system of information provider, debt capitalisation, etc). Investment under international investment position is classified into assets and liabilities. Both assets and liabilities include direct investment, portfolio investment, financial derivatives, and other investment, while assets include also reserve assets.

Appendix 12 (cont.)

International Monetary Fund (IMF): an international organisation, founded 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 States for balancing the payment flow.

Liquidity risk: a risk of finding it difficult to fulfil obligations arising from financial liabilities settled in cash or using another financial asset.

Local government: public institutions whose competence covers only a local economic territory. The list of the institutional units of the Latvian central government is prepared in accordance with the requirements of ESA 95 by the CSB.

Longer-term refinancing operations: market operations of Latvijas Banka organised in the form of auctions of reverse transactions, whereby credit institutions registered in the Republic of Latvia were granted collateralised loans. The minimum bid rate at the auction equalled the refinancing rate of Latvijas Banka. Latvijas Banka could set the total allotment amount for each auction. The maturity of the loan was 91 days. The Eurosystem's longer-term refinancing operations organised in the form of reverse transactions are credit operations with a maturity of over 1 week. The regular monthly operations are conducted with a maturity of 3 months.

M0: monetary base that was calculated on the basis of Latvijas Banka methodology and comprised the lats banknotes and coins issued by Latvijas Banka and demand deposits of resident MFIs and financial institutions (overnight deposits) with Latvijas Banka.

M1: a narrow monetary aggregate that comprises currency in circulation and overnight deposits held with MFIs by resident financial institutions, non-financial corporations, households, non-profit institutions serving households and local governments.

M2: an intermediate monetary aggregate that comprises M1 and deposits redeemable at a period of notice of up to and including three months (i.e. short-term savings deposits) and deposits with an agreed maturity of up to and including 2 years (i.e. short-term time deposits) held with MFIs by resident financial institutions, non-financial corporations, households, non-profit institutions serving households and local governments.

M3: a broad monetary aggregate that comprises M2, marketable instruments (particularly repurchase agreements), debt securities with a maturity of up to and including 2 years issued by MFIs, and money market fund shares and units.

Main refinancing operations: regular open market operations of Latvijas Banka organised in the form of auctions of reverse transactions, whereby credit institutions registered in the Republic of Latvia were granted collateralised loans. The minimum bid rate at the auction equalled the refinancing rate of Latvijas Banka. Latvijas Banka set the total allotment amount for each auction. The maturity of the loan was 7 days. Eurosystem's main refinancing operations are conducted through weekly standard tenders as reverse transactions and normally have a maturity of 1 week.

Marginal lending facility: a standing facility enabling credit institutions registered in the Republic of Latvia to receive collateralised loans either automatically or on demand (as of 1 January 2014, these credit institutions can use the Eurosystem's standing facility to receive an overnight loan from Latvijas Banka at a pre-specified interest rate against eligible collateral).

Market operations: financial market operations initiated by the central bank. The market operations of Latvijas Banka conducted until the end of 2013 fell into four categories used by the Eurosystem: main refinancing operations, longer-term refinancing operations,

Appendix 12 (cont.)

fine-tuning operations and structural operations. The main instruments of the Latvijas Banka market operations were reverse transactions. Outright transactions were available for the conduct of structural operations, whereas outright transactions, foreign exchange swaps and time deposits were available for the conduct of fine-tuning operations.

Market risk: the risk to incur losses as a result of adverse changes in financial market factors (e.g. interest rates or exchange rates).

Monetary financial institutions (MFIs): credit institutions, credit unions, electronic money institutions, money market funds and other financial corporations 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 the national central bank. Latvijas Banka compiles, maintains and regularly updates the List of Monetary Financial Institutions of the Republic of Latvia (see the Latvijas Banka website (www.bank.lv), section Statistics). 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 2013, there were 73 MFIs in Latvia.

Non-financial corporations: economic entities producing goods or providing non-financial services with the aim of gaining profit or other yield. In the Republic of Latvia, sole proprietorships registered with the Commercial Register of the Enterprise Register of the Republic of Latvia are also regarded as non-financial corporations. Non-financial corporations may be both public and private. Public non-financial corporations are non-financial corporations where the government owns more than 50% of the capital or voting rights, or where they exercise direct or indirect control.

Non-profit institutions serving households: non-profit institutions that provide goods and services to natural persons or groups of natural persons and that derive resources mainly from voluntary contributions in cash or kind, from payments made by general governments and from property income. Such institutions are, for instance, trade unions, professional or educational associations, consumer associations, political parties, churches, religious communities as well as culture, recreation and sports clubs, charity, support and aid organisations.

Operational risk: the risk of incurring financial and non-financial losses as a result of inadequate or failed business processes, people's actions, information or operation of a technical system, or the impact of external circumstances.

Original maturity: in accordance with the terms and conditions agreed at the beginning of a financial operation, time from the issue date of a debt instrument to its maturity date or from the lending date to the maturity date or from the start date to the final date of any other financial operation.

Other financial intermediaries: financial institutions primarily engaged in financial intermediation by incurring liabilities in forms other than currency, non-MFI deposits and close substitutes for deposits or insurance technical reserves. Other financial intermediaries are corporations engaged in lending (e.g. financial leasing companies, factoring companies, export/import financing companies), investment funds, investment brokerage companies, financial vehicle corporations, financial holding corporations, venture capital corporations as well as other financial institutions provided that their activity complies with the given definition.

Outright transactions: transactions that could be concluded between Latvijas Banka and credit institutions registered in the Republic of Latvia until the end of 2013 as a result of organised outright purchase or sale auctions of securities or purchase or sale of non-cash foreign currency. As of 1 January 2014, Latvijas Banka can make outright purchases of eligible assets from financial market participants within the Eurosystem as well as sell eligible assets to them outright.

Portfolio investment: investment (net transactions and positions) made by residents of Latvia in securities issued by residents of other countries ("Assets") and by residents of other countries in securities issued by residents of Latvia ("Liabilities"). Portfolio investment is made with the purpose of increasing the investment value or earning dividends or interest, without directly influencing the management of the company. Portfolio investment includes the short-term and long-term financial instruments. Financial instruments included under portfolio investment are freely tradable on securities market. In the balance of payments, portfolio investment is classified based on the type of financial instrument: into equities and debt securities (bonds and notes, money market instruments).

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 base: the sum of the eligible balance sheet items (mainly liabilities) that constitute the basis for calculating the reserve requirement of a credit institution.

Reserve requirement: the minimum amount of reserves a credit institution is required to hold with Latvijas Banka over a predefined maintenance period. Compliance with the reserve requirement is determined on the basis of the average daily reserve holdings over the 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: an operation whereby the central bank buys or sells assets under a repurchase agreement or grants a collateralised loan.

RIGIBOR (Riga Interbank Offered Rate): the index of Latvian interbank lending interest rates reflecting the lats money market interest rates set by credit institutions included on the quotation list at which these credit institutions are willing to lend cash assets in lats to other credit institutions. Up to the end of 2013, Latvijas Banka calculated this index for transactions with an overnight maturity, a maturity of 1 day (starting with the next business day), 1 week, 1 month, 3 months, 6 months and 12 months.

SEPA (Single Euro Payments Area): a project 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 2013, SEPA encompassed all EU Member States, Iceland, Liechtenstein, Monaco, Norway and Switzerland.

Single Supervisory Mechanism: a mechanism that is composed of the ECB and the competent authorities of the euro area countries and other EU countries having established a close cooperation with the ECB in order to carry out the supervisory tasks entrusted to the ECB.

Standing facility: a central bank facility available to counterparties on demand. Up to the end of 2013, Latvijas Banka offered two standing facilities to credit institutions registered in the Republic of Latvia: marginal lending facility and deposit facility (as of 1 January 2014, these credit institutions may use the Eurosystem's standing facilities).

Appendix 12 (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 other central banks of the ESCB.

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

Time deposits with Latvijas Banka: fixed rate lats deposits of a specified maturity that could be made by credit institutions registered in the Republic of Latvia with Latvijas Banka as a result of time deposit auctions organised by Latvijas Banka. The maximum deposit rate equalled the refinancing rate of Latvijas Banka. Latvijas Banka could set the total allotment amount for each auction and could organise the auctions until the end of 2013. As of 1 January 2014, credit institutions registered in the Republic of Latvia can make fixed-term deposits with Latvijas Banka by participating in the Eurosystem's fine-tuning operations.

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