

Financial Statements of Latvijas Banka for the Year Ended 31 December 2023

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Abbreviations

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

BALANCE SHEET

		(at the end of the year; in thousands of euro)	
	Note ¹	2023	2022
ASSETS			
Gold and gold receivables	6	399 378	364 821
Claims on non-euro area residents denominated in foreign currency	7	4 049 526	3 788 044
Receivables from the International Monetary Fund		534 839	549 961
Balances with banks and security investments, external loans and other external assets		3 514 687	3 238 083
Claims on euro area residents denominated in foreign currency	8	595 802	522 039
Claims on non-euro area residents denominated in euro	9	168 476	156 383
Lending to euro area credit institutions related to monetary policy operations denominated in euro	10	92 900	522 900
Longer-term refinancing operations		92 900	522 900
Other claims on euro area credit institutions denominated in euro	11	133	6 304
Securities of euro area residents denominated in euro	12	13 550 657	14 081 606
Securities held for monetary policy purposes		12 586 724	13 134 812
Other securities		963 933	946 794
Intra-Eurosystem claims	13	6 412 443	5 926 959
Participating interest in the European Central Bank		118 849	118 849
Claims equivalent to the transfer of foreign reserves		157 202	157 202
Other claims within the Eurosystem		6 136 392	5 650 908
Other assets	14	295 505	381 638
TOTAL ASSETS		25 564 820	25 750 694

¹ The accompanying Notes set out on pages 115 to 156 are an integral part of these financial statements.

<i>(continued)</i>	(at the end of the year; in thousands of euro)		
	Note	2023	2022
LIABILITIES			
Banknotes in circulation	15	5 571 492	5 635 738
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	16	7 073 547	5 217 165
Current accounts (covering the minimum reserve system)		205 834	343 816
Deposit facility		6 867 713	4 873 349
Other liabilities to euro area credit institutions denominated in euro	17	314 720	320 273
Liabilities to other euro area residents denominated in euro	18	2 218 786	2 517 104
General government		1 131 021	1 157 761
Other liabilities		1 087 765	1 359 343
Liabilities to non-euro area residents denominated in euro	19	184 075	171 688
Liabilities to euro area residents denominated in foreign currency	20	1 262 758	706 038
Liabilities to non-euro area residents denominated in foreign currency	21	457 718	34 701
Intra-Eurosystem liabilities	13	7 569 389	10 376 364
Liabilities related to TARGET and correspondent accounts (net)		7 569 389	10 370 127
Other liabilities within the Eurosystem		–	6 237
Other liabilities	22	182 217	184 740
Capital and reserves	23	730 118	586 883
TOTAL LIABILITIES		25 564 820	25 750 694

The financial statements set out on pages 110 to 156 were authorised by the Council of Latvijas Banka on 8 March 2024.

Governor of Latvijas Banka

Mārtiņš Kazāks

EXPLANATION REGARDING TRANSLATION

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

PROFIT AND LOSS STATEMENT

		(in thousands of euro)	
	Note	2023	2022
Net interest income	33	-229 006	47 021
Interest income		503 974	211 229
Interest expense		-732 980	-164 208
Net result of financial operations, recognition of revaluation result in the profit and loss statement and financial risk provisions		-10 948	-21 337
Realised gains arising from financial operations	34	9 000	39 732
Recognition of revaluation result on financial assets and positions in the profit and loss statement	23, 35	-34 999	-341 715
Provisions for market risk and credit risk	36	15 051	280 646
Net expense from fees and commissions		-3 912	-4 441
Fees and commissions income		1 037	1 011
Fees and commissions expense		-4 949	-5 452
Income from equity securities and participating interest	37	12 222	14 755
Net result of pooling of monetary income	38	206 554	-6 237
Other operating income	39	19 561	5 766
NET INCOME		-5 529	35 527
Remuneration	40	-24 728	-16 502
Social security costs and solidarity tax	40	-5 540	-3 653
Banknote and coin acquisition costs	41	-2 338	-2 618
Depreciation of fixed assets and amortisation of intangible assets	14	-3 660	-3 641
Other operating expenses	42	-11 965	-9 113
PROFIT/LOSS(-) FOR THE YEAR		-53 760	0

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

		(in thousands of euro)	
	Note	2023	2022
Profit/loss(-) for the year		-53 760	0
Revaluation	23	164 173	-450 273
Realisation of the accumulated revaluation result	23	-2 177	-198 579
Recognition of revaluation result on financial assets and positions in the profit and loss statement	23, 35	34 999	341 715
Total changes in the revaluation account	23	196 995	-307 137
TOTAL		143 235	-307 137

1. PRINCIPAL ACTIVITIES

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

Pursuant to the Law on Latvijas Banka, in accordance with the Treaty on the Functioning of the European Union the primary objective of Latvijas Banka is to maintain price stability. Without prejudice to the primary objective, Latvijas Banka shall support the general economic policies of the European Union and also contribute to the overall stability of Latvia's financial system.

Latvijas Banka shall participate in the performance of the tasks of the European System of Central Banks and perform other tasks which are not in contradiction with the objectives of Latvijas Banka specified in Section 4 of the Law on Latvijas Banka and the performance of the tasks of the European System of Central Banks, including:

- a) participate in the definition of the monetary policy and implement it;
- b) perform macroeconomic analysis and research;
- c) determine and implement the macroprudential policy;
- d) regulate and supervise the operation of the financial market and its participants;
- e) perform the tasks of a resolution authority;
- f) ensure the operation of the Deposit Guarantee Fund, the operation of the Fund for the Protection of the Insured, the operation of the National Resolution Fund, and the disbursement of compensations to investors;
- g) manage foreign reserves and other assets;
- h) promote smooth operation of the payment and financial instrument settlement systems, including ensure efficient and safe operation and development of the payment system of Latvijas Banka;
- i) store the Treasury funds, including in foreign currency;
- j) issue euro banknotes and coins and also promote their availability in Latvia;
- k) register and control legal entities which carry out the handling of euro banknotes and coins and putting back thereof into circulation;
- l) perform the functions of the National Analysis Centre and the Coin National Analysis Centre;
- m) ensure statistical information, inter alia, assist the European Central Bank in production of statistical information necessary for the performance of the tasks of the European System of Central Banks;
- n) maintain the Credit Register;
- o) consult the *Saeima* and the Cabinet on monetary policy issues and other issues related to the performance of the tasks of Latvijas Banka, including on issues of economic and fiscal policy which affect the effectiveness of monetary policy implementation;
- p) promote financial literacy of and acquisition of economic knowledge by the public.

On 1 January 2023, the new Law on Latvijas Banka, adopted on 23 September 2021, entered into force and provides for the FCMC's incorporation in Latvijas Banka. Accordingly, Latvijas Banka has the tasks referred to in points (c), (d), (e), and (f).

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

Latvijas Banka's execution of operating activities is mainly financed from income received from its investment management and monetary policy operations. In addition, the financial market participants supervised by Latvijas Banka shall, in accordance with the laws governing the activities of the relevant financial market participants, make payments to Latvijas Banka to cover the expenses of supervisory functions, i.e. expenses of Latvijas Banka directly or indirectly related to the regulation and supervision of the activities of the financial market and its participants, the application of resolution and the provision of compensation payment systems (hereinafter – supervision function expenses).

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

2. PRINCIPAL ACCOUNTING POLICIES

2.1 Basis of preparation

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

2.2 Basis of measurement

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

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

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

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

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

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

2.3 Fair value of financial assets and financial liabilities

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

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

2.4 Foreign currency and gold translation

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

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

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

The exchange rates of major foreign currencies (currency units per euro) and gold price (euro per troy ounce) in euro used in the preparation of the balance sheet for the year ended 31 December 2023 and the year ended 31 December 2022 are as follows:

	(at the end of the year)		
	2023	2022	Changes (%)
US dollar (USD)	1.1050	1.0666	3.6
Japanese yen (JPY)	156.33	140.66	11.1
Canadian dollar (CAD)	1.4642	1.4440	1.4
British pound sterling (GBP)	0.86905	0.88693	-2.0
Gold (XAU)	1867.828	1706.075	9.5

2.5 Reverse and other collateralised transactions

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

2.6 Fixed and intangible assets

Fixed and intangible assets are long-term assets with the useful life of over one year. The capitalisation limit of fixed and intangible assets in 2023 and 2022 was 1000 euro, except for the costs related to real estate improvements and replacement of fixed asset parts for which the Council of Latvijas Banka has set a higher capitalisation limit depending on their significance.

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

In 2023, the useful lives set for fixed and intangible assets were not changed. In 2023 and 2022, the useful lives set were as follows:

	(years)	
	2023	2022
Buildings and their components, improvements to the territory, incl.	5–100	5–100
structures	100	100
finishing, equipment and engineering communications	5–20	5–20
Transport vehicles	10–15	10–15
Office equipment and tools	5–25	5–25
Cash processing, verifying and storage equipment	5–15	5–15
Computer and telecommunications equipment	2–5	2–5
Other fixed assets	5–15	5–15
Intangible assets	1-10	1-10

2.7 Use of estimates and assumptions

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

2.8 Impairment of assets

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

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

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

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

- (a) realised gains and losses shall be recognised in the profit and loss statement;

(b) unrealised gains shall be recognised in the balance sheet item "Capital and reserves" as the revaluation reserve;

(c) unrealised losses recognised in the balance sheet item "Capital and reserves" as the revaluation reserve at the end of the reporting year shall be transferred to the profit and loss statement if they exceed the previous revaluation gain on the respective financial instrument, foreign currency or gold position;

(d) unrealised losses recognised in the profit and loss statement at the end of the reporting year shall not be reversed and offset by unrealised gains of the respective financial instrument, foreign currency or gold position in the subsequent years;

(e) there shall be no netting of unrealised losses in a financial instrument, foreign currency or gold position against unrealised gains in another financial instrument, foreign currency or gold position;

(f) the average cost method shall be used to calculate the realised and unrealised gains and losses arising from a financial instrument, foreign currency or gold position;

(g) the average cost of a financial instrument, foreign currency or gold position shall be increased or reduced by unrealised losses that are recognised in the profit and loss statement at year-end;

(h) when recognising income from equity securities, the income recognition principles are applied to the investment portfolio rather than individual securities, where externally managed investments in equity securities replicate the structure of an index-linked equity fund.

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

2.10 Interest income and expense

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

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

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

2.11 Other expenses and income

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

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

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

3. SUMMARY OF THE FINANCIAL POSITION AND FINANCIAL PERFORMANCE OF LATVIJAS BANKA

3.1 Financial position

In 2023, Latvijas Banka's assets decreased by 185.9 million euro to 25.6 billion euro.

Foreign currency claims on non-euro area residents increased by 261.5 million euro as a result of income received and revaluation.

The balance sheet item "Securities held for monetary policy purposes" decreased by 548.1 million euro due to redemption of securities under the PSPP and PEPP. At the end of 2023, Latvijas Banka held securities purchased for monetary policy purposes amounting to 12.6 billion euro, of which Latvian government securities – 4.0 billion euro.

The amount of loans granted to credit institutions by Latvijas Banka as a result of longer-term refinancing operations decreased by 430.0 million euro as a result of their repayment (see also Note 10.2).

Other claims related to other operational requirements within the Eurosystem grew by 485.5 million euro, mostly due to a rise in claims on banknote allocation in the Eurosystem (see also Note 13.4) and an increase in claims to the ECB associated with the net result of pooling of monetary income.

Banknotes in circulation decreased by 64.2 million euro, in line with the fall in the overall amount of banknotes in circulation of the euro area NCBs.

The increase of 556.7 million euro under the balance sheet item "Liabilities to euro area residents denominated in foreign currency", as well as the increase of 423.0 million euro under the balance sheet item "Liabilities to non-euro area residents denominated in foreign currency" are mostly related to the increase in repurchase agreements and gold swaps arrangements.

Credit institution deposits, reported under the balance sheet item "Liabilities to euro area credit institutions related to monetary policy operations denominated in euro", increased by 1856.4 million euro.

As a result of cross-border payments, liabilities to the ECB for the settlement result in TARGET, reported under the balance sheet item "Intra-Eurosystem liabilities", decreased by 2800.7 million euro.

The capital and reserves of Latvijas Banka increased by 143.2 million euro due to net increase in the financial instruments revaluation account balance (197.0 million euro) and the operating result of the reporting year (loss of 53.8 million euro).

3.2 Financial performance

Taking into account global geopolitical and economic developments, which led the ECB to significantly increase interest rates with the aim of curbing inflation in the euro area, Latvijas Banka closed the year 2023 with a negative financial result – losses of 53.8 million euro – reflected in the profit and loss statement (Latvijas Banka recorded a neutral financial result of 0 euro in 2022). Meanwhile, the total financial result of its activities reached 143.2 million euro, increasing Latvijas Banka's capital and reserves to 730.1 million euro at the end of the year. The total gains of capital and reserves were mainly driven by the rise in the market value of financial investments by 197.0 million euro (in 2022, the market value of financial investments decreased by 307.1 million euro), which is reported in capital and reserves as a revaluation reserve and is not included in the profit and loss statement of the reporting year.

In 2023, Latvijas Banka's financial performance was adversely affected by the Eurosystem's monetary policy operations decisions related to curbing inflation. The ECB raised the interest rate on the main refinancing operations by 450 basis points over a year and a half from 0% in July 2022 to 2.5% and 4.5% at the end of 2022 and 2023 respectively, the deposit facility rate (from -0.5% in July 2022 to 2% and 4% at the end of 2022 and 2023 respectively), and the marginal lending facility rate (from 0.25% in July 2022 to 2.75% and 4.75% at the end of 2022 and 2023 respectively). As interest rates increased, expenditure by the central banks of the Eurosystem, including Latvijas Banka, on monetary policy operations and deposits by the government and other institutions increased significantly. Since the beginning of 2022, there was uncertainty and the global economy was particularly negatively affected by the war waged by Russia against Ukraine. With the supply chain bottlenecks intensifying and energy and food prices rising at the same time, inflation hit record highs. To curb inflation, central banks began to sharply raise base interest rates in 2022 and continued to do so in 2023.

Net interest expenses in 2023 were 229.0 million euro (net interest income in 2022 was 47.0 million euro). This was driven by higher interest expenses (EUR 733.0 million (in 2022 – EUR 164.2 million)) than interest income (EUR 504.0 million (in 2022 – EUR 211.2 million)) due to higher interest income on securities, higher interest income on intra-Eurosystem claims, but also higher interest expense on deposits of Latvian credit institutions, reaching 173.9 million euro (18.1 million euro in 2022), higher interest expense on Latvian government deposits, reaching 45.3 million euro (interest income 1.6 million euro in 2022), and higher interest expense on intra-Eurosystem liabilities as a result of rising interest rates.

The realised gains on financial operations amounted to 9.0 million euro (39.7 million euro in 2022), which was positively affected by the result of the realised gains from the disposal of debt securities, but recognition of the negative revaluation result on financial assets and positions in the profit and loss statement stood at 35.0 million euro (341.7 million euro in 2022), and this was mainly due to the significantly smaller decrease in debt securities market value driven by the stabilisation of the rise in interest rates.

Latvijas Banka used the established provisions for financial risks amounting to 15.1 million euro (in 2022, the respective provisions were used in the amount of 280.6 million euro).

Income from equity securities and participating interest amounted to 12.2 million euro (14.8 million euro in 2022).

Pursuant to the Statute of the ESCB and of the ECB, the income generated by euro area NCBs through the implementation of the single monetary policy of the Eurosystem is allocated to euro area NCBs in proportion to their shares in the ECB's capital. Latvijas Banka's net result of pooling of monetary income increased and stood at 206.6 million euro in 2023 (it was negative in 2023 – -6.2 million euro), as the ECB's interest rate hikes led to a significant increase in interest expenditure included in the reallocation of monetary income in 2023.

Other operating income stood at 19.6 million euro (5.8 million euro in 2022). The increase in income was mainly due to payments of 13.9 million euro from the financial market participants supervised by Latvijas Banka, as since 1 January 2023 when the FCMC was incorporated in Latvijas Banka, those financial market participants make payments to cover supervision function expenses.

The bank's operating expenses amounted to 48.2 million euro (35.5 million euro in 2022). The increase in expenses is mainly related to supervision function expenses since the FCMC was incorporated in Latvijas Banka as of 1 January 2023.

Losses or low profit ratios are expected to persist for many central banks for several years. In the future, Latvijas Banka's financial performance will also be mostly affected by the monetary policy pursued by the Eurosystem and by the interest rate and capital market developments in the financial markets of the euro area and the US since Latvijas Banka is exposed to interest rate risk.

4. FINANCIAL INVESTMENT POLICY

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

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

Investments are managed by classifying them into different investment portfolios by investment strategy and source of funding. The portfolio of borrowed funds includes investments which correspond to Latvijas Banka's liabilities in foreign currencies to government or government deposits. Latvijas Banka's investments include the portfolios of 1–10 year fixed income securities, mortgage-backed securities, developed markets equity securities, long-term fixed income securities, global fixed income securities, emerging markets equity securities, emerging markets fixed income securities, Latvian government securities, and gold. The developed markets equity securities portfolio, the mortgage-backed securities portfolios and the global fixed income securities portfolio are managed by external managers.

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

The breakdown of investments by type of investment portfolio at the end of 2023 and 2022 was as follows:

	Book value (in thousands of euro)		Proportion (%)	
	2023	2022	2023	2022
1–10 year fixed income securities portfolio	2 920 052	2 790 364	46.8	46.8
Mortgage-backed securities portfolios	1 064 521	1 052 437	17.0	17.7
Developed markets equity securities portfolio	607 748	509 656	9.8	8.5
The portfolio of borrowed funds	539 561	551 032	8.7	9.2
Gold portfolio	399 378	364 821	6.4	6.1
Emerging markets fixed income securities portfolio	293 431	301 579	4.7	5.0
Long-term fixed income securities portfolio	168 394	168 320	2.7	2.8
Global fixed income securities portfolio	140 426	138 623	2.3	2.3
Emerging markets equity securities portfolio	60 792	59 002	1.0	1.0
Latvian government securities portfolio	36 424	36 416	0.6	0.6
Total	6 230 727	5 972 250	100.0	100.0

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

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

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

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

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

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

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

The global fixed income securities portfolio benchmark is a global fixed income securities index that meets investment grade determined by international credit rating agencies.

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

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

The benchmark currency is the euro (limiting the currency risk) for Latvijas Banka's investment portfolios that include the 1–10 year fixed income securities portfolio, the mortgage-backed securities portfolios, the long-term fixed income securities portfolio, the emerging markets fixed income securities portfolio, and the Latvian government securities portfolio. For the portfolio of borrowed funds, the benchmark currency structure is formed considering the currency of the respective liabilities.

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

BALANCE SHEET NOTES

5. FAIR VALUE MEASUREMENT

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

– quoted market price. The fair value is determined using quoted prices for identical financial instruments in active markets;

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

– non-observable data. The fair value is determined using a model where significant inputs are non-observable.

At the end of 2023 and 2022, Latvijas Banka's assets carried at fair value were generally valued on the basis of a quoted market price in active markets.

At the end of 2023 and 2022, the participating interest in the BIS was assessed using non-observable data. The assessment was conducted using the 70% net asset value method (see also Note 14.2).

At the end of 2023 and 2022, the breakdown of financial instruments and gold carried at fair value and of the financial instruments whose fair value is different from their book value, according to the fair value hierarchy, was as follows:

	(in thousands of euro)					
	Book value	Fair value			Total fair value	Difference between fair value and book value
		Quoted market price	Observable data	Non-observable data		
As at 31 December 2023						
Gold	399 378	399 378	–	–	399 378	–
Securities in investment portfolios	5 166 827	4 439 729	723 120	–	5 162 849	–3 978
Forward exchange rate contracts	31 752	–	31 296	–	31 296	–456
Securities held for monetary policy purposes	12 671 386	11 026 232	–	–	11 026 232	–1 645 154
Participating interest in the Bank for International Settlements	37 863	–	–	37 863	37 863	–
Total	18 307 206	15 865 339	754 416	37 863	16 657 618	–1 649 588
As at 31 December 2022						
Gold	364 821	364 821	–	–	364 821	–
Securities in investment portfolios	4 815 309	4 165 042	638 344	–	4 803 386	–11 923
Forward exchange rate contracts	171 694	–	170 486	–	170 486	–1 208
Securities held for monetary policy purposes	13 212 490	10 985 608	–	–	10 985 608	–2 226 882
Participating interest in the Bank for International Settlements	37 119	–	–	37 119	37 119	–
Total	18 601 433	15 515 471	808 830	37 119	16 361 420	–2 240 013

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

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

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

6. GOLD AND GOLD RECEIVABLES

	Troy ounces	In thousands of euro
As at 31 December 2021	213 836	344 166
During 2022		
Net change resulting from gold swaps arrangements	x	20 655
As at 31 December 2022	213 836	364 821
During 2023		
Increase in gold market value	x	34 589
Net change as a result of gold swaps arrangements	-17	-32
As at 31 December 2023	213 819	399 378

The revaluation result of gold is recognised under the balance sheet item "Capital and reserves" as the revaluation result (see also Note 23).

To limit the gold maintenance costs and ensure return on gold investments, gold may be involved in gold swaps arrangements (at the end of 2023, gold in the amount of 186 783 thousand euro was involved in gold swaps arrangements; at the end of 2022 Latvijas Banka had not concluded gold swaps arrangements (see also Notes 20, 21 and 43)). Gold swaps arrangements are treated as repurchase agreements.

At the end of 2023 and 2022, Latvijas Banka had no gold receivables.

7. CLAIMS ON NON-EURO AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY

7.1 Receivables from the International Monetary Fund

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

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

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

At the end of 2023, the receivables from the IMF in SDR as recorded on Latvijas Banka's balance sheet were equivalent to 534 839 thousand euro (549 961 thousand euro at the end of 2022), whereas the liabilities to the IMF were made up of funds at the disposal of the IMF in the amount of 1405 thousand euro (1449 thousand euro at the end of 2022) held on its Accounts No. 1 and No. 2 (see also Note 19).

At the end of 2023 and 2022, Latvia's net receivables from the IMF were as follows:

	(in thousands of euro)		(in thousands of SDR)	
	2023	2022	2023	2022
Latvia's quota in the International Monetary Fund	403 977	415 940	332 300	332 300
International Monetary Fund holdings in euro	-377 157	-394 586	-310 239	-315 239
Promissory note of the Latvian government	-375 752	-393 137	-309 083	-314 082
Account No. 1	-1 010	-1 040	-831	-831
Account No. 2	-395	-409	-325	-326
Reserve position in the International Monetary Fund	27 215	21 763	22 386	17 387
incl. financing of the Financial Transaction Plan	26 745	21 279	22 000	17 000
SDR	534 839	549 961	439 943	439 372
General allocation	-501 468	-516 316	-412 493	-412 493
Special allocation	-32 610	-33 576	-26 824	-26 824
Latvia's net receivables from the International Monetary Fund	27 976	21 832	23 012	17 442

The reserve position in the IMF is the difference between Latvia's quota in the IMF and the IMF holdings in euro, excluding the balance on Account No. 2. In 2022, considering Latvia's economic development and following the policies and procedures of membership of the IMF, Latvia was included in the IMF's Financial Transaction Plan. The countries included in the plan participate in the financing of the IMF's lending operations, not exceeding the amount of the national quota, receiving interest payments in return. At the end of 2023, the financing of the Financial Transaction Plan amounted to 22 million SDR (at the end of 2022 – 17 million SDR).

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

	(in thousands of euro)	
	2023	2022
Securities	3 425 188	3 182 643
Demand deposits	89 499	44 939
Reverse repurchase agreements	–	10 407
Foreign currency in cash	–	94
Total	3 514 687	3 238 083

8. CLAIMS ON EURO AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY

	(in thousands of euro)	
	2023	2022
Securities	595 515	521 132
Demand deposits	287	907
Total	595 802	522 039

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

	(in thousands of euro)	
	2023	2022
Securities	160 464	148 569
Demand deposits	8 012	7 814
Total	168 476	156 383

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

At the end of 2023, the total amount of Eurosystem loans in monetary policy operations reached 410 290 million euro (1 324 347 million euro at the end of 2022), including 92.9 million euro (522.9 million euro at the end of 2022) of loans granted by Latvijas Banka. Pursuant to the Statute of the ESCB and of the ECB, the risks associated with the implementation of monetary policy (if any materialise) are allocated among euro area NCBs in proportion to their share in the ECB's capital. Losses from Eurosystem lending related to monetary policy operations might only be incurred where the counterparty defaults on its obligations and the funds recovered as a result of the disposal of the collateral provided by the counterparty are not sufficient (see also Note 25.1.2).

10.1 Main refinancing operations

Main refinancing operations are open market operations executed through liquidity providing reverse transactions, conducted through weekly standard tenders with a maturity of one week. These operations play a key role in steering interest rates, managing market liquidity and signalling the monetary policy stance. At the end of 2023 and 2022, Latvijas Banka had granted no loans in main refinancing operations.

10.2 Longer-term refinancing operations

Longer-term refinancing operations are open market operations, executed through reverse transactions with the aim to provide credit institutions with additional longer-term refinancing. Such operations are conducted through monthly standard tenders with maturity of three months. In addition, following the decision of the Governing Council of the ECB, TLTROs were launched in 2014. They are liquidity providing reverse operations providing longer-term liquidity to credit institutions on attractive terms, so that they can continue easing the terms and conditions of lending to the private sector and to encourage their lending to the real economy. In 2016, the Governing Council of the ECB introduced a new series of four targeted longer-term refinancing operations (TLTRO II). These operations had a four-year maturity, with a possibility of early repayment after two years. In 2021, the operations were discontinued. Additionally, in 2019, the Governing Council of the ECB introduced a new series of seven targeted longer-term refinancing operations (TLTRO III). These operations have a three-year maturity, with a possibility of early repayment after two years and since September 2021 – after one year. In 2020, the Governing Council of the ECB added three further operations to this series, which were conducted in 2021 and have a three-year maturity, with a possibility of early repayment. According to the initial decisions, the interest rate applicable to TLTRO III operations could be as low as the average interest rate on the deposit facility. In response to the impact of the Covid-19 pandemic, in 2020 the Governing Council of the ECB decided to lower this rate, establishing that for the period between 24 June 2020 and 23 June 2022 the interest rate applicable can be as low as 50 basis points below the average interest rate on the deposit facility, but in any case may not become less negative than –1%. In addition, on 27 October 2022, the Governing Council of the ECB decided that, from 23 November 2022 until the maturity date or early repayment date of each respective outstanding TLTRO III operation, the interest rate on TLTRO III operations will be indexed to the average applicable key ECB interest rates over this period. On the same date, the Governing Council of the ECB decided to introduce three additional voluntary early repayment dates to provide TLTRO III participants with additional opportunities to partly, or fully, repay their respective TLTRO III borrowings before their maturity. The Governing Council of the ECB launched four additional pandemic emergency longer-term refinancing operations (PELTROs) in 2021 (three matured in the course of 2022 and one – in January 2023). These operations provide further liquidity support after the expiry of the bridge longer-term refinancing operations (LTROs) that have been conducted since March 2020. In 2023, Latvijas Banka received 430 000 thousand euro as repayment of loans granted to credit institutions. At the end of 2023, the balance of the TLTROs conducted by Latvijas Banka stood at 92 000 thousand euro (at the end of 2022, the balance was 522 900 thousand euro).

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

Other claims on euro area credit institutions denominated in euro mostly include Latvijas Banka's demand deposits in euro with euro area credit institutions (133 thousand euro at the end of 2023; 6304 thousand euro at the end of 2022).

12. SECURITIES OF EURO AREA RESIDENTS DENOMINATED IN EURO

At the end of 2023, the amount of securities held by the Eurosystem for monetary policy purposes totalled 4 694 345 million euro (4 937 179 million euro at the end of 2022). Of them, Latvijas Banka held 12 587 million euro (13 135 million euro at the end of 2022). Pursuant to the Statute of the ESCB and of the ECB, any income and losses, if any materialise, are allocated among euro area NCBs in proportion to their share in the ECB's capital, except any risks associated with the purchases of government securities carried out by Latvijas Banka and other euro area NCBs under the PSPP and PEPP. Of the total amount of securities held by the Eurosystem for monetary policy purposes, at the end of 2023, the amount of government securities purchased by the euro area NCBs under the PSPP totalled 1923 billion euro (2067 billion euro at the end of 2022); of them, Latvijas Banka held Latvian government securities in the amount of 2635 million euro (2758 million euro at the end of 2022). At the end of 2023, the amount of government securities purchased by the euro area NCBs under the PEPP totalled 1297 billion euro (1318 billion euro at the end of 2022); of them, the amount of Latvian government securities held by Latvijas Banka was 1414 million euro (1450 million euro at the end of 2022).

Until the end of February 2023, the Eurosystem continued reinvesting, in full, the principal payments from maturing securities purchased under the asset purchase programme (APP). Subsequently, the APP portfolio declined at a gradual pace. Until the end of June 2023, the decline amounted to 15 billion euro per month on average as the Eurosystem did not reinvest all of the principal payments from maturing securities. In June 2023, the Governing Council decided to discontinue the reinvestments under the APP as of July 2023. In response to the Covid-19 pandemic and the related potential risks to the monetary policy transmission mechanism and the euro area economic outlook, in March 2020, the Governing Council of the ECB launched a new asset purchase programme, the PEPP, whereby net asset purchases continued until March 2022. The Governing Council of the ECB intends to continue reinvesting, in full, the principal payments from maturing securities purchased under this programme during the first half of 2024.

	(in thousands of euro)	
	2023	2022
Securities held for monetary policy purposes	12 586 724	13 134 812
Latvian government securities	4 048 732	4 207 501
PSPP government securities	2 634 861	2 757 748
PEPP government securities	1 413 871	1 449 753
Debt securities issued by international institutions	8 537 992	8 927 311
PSPP debt securities issued by international institutions	6 523 191	7 034 553
PEPP debt securities issued by international institutions	2 014 801	1 892 758
Other securities	963 933	946 794
Securities not held to maturity	795 539	778 474
Securities held to maturity	168 394	168 320
Total	13 550 657	14 081 606

13. INTRA-EUROSISTEM CLAIMS/LIABILITIES (–)

		(in thousands of euro)	
	Note	2023	2022
Participating interest in the European Central Bank	13.1	118 849	118 849
Claims in respect of foreign reserves transferred to the European Central Bank	13.2	157 202	157 202
Claims related to the allocation of banknotes in the Eurosystem	13.4	5 929 327	5 650 608
Claims related to other operational requirements within the Eurosystem	13.5	207 065	300
Total intra-Eurosystem claims		6 412 443	5 926 959
Liabilities related to TARGET and national central bank correspondent accounts (net)	13.3	–7 569 389	–10 370 127
Other liabilities within the Eurosystem	13.5	–	–6 237
Total intra-Eurosystem liabilities		–7 569 389	–10 376 364
Intra-Eurosystem net liabilities		–1 156 946	–4 449 405

13.1 Participating interest in the European Central Bank

With Latvia's accession to the EU, Latvijas Banka became a subscriber to the capital of the ECB. In accordance with the Statute of the ESCB and of the ECB, the weighting assigned to Latvijas Banka in the ECB capital subscription key is calculated on the basis of the share of Latvia's population and gross domestic product in the EU. The weightings assigned to the NCBs in the ECB's capital subscription key are adjusted every five years or at shorter intervals depending on changes in the number of the EU NCBs that contribute to the ECB's capital. The ECB's capital subscription key was last adjusted in 2023 considering up-to-date information on the population of NCB countries and the share of gross domestic product in the EU. The adjusted ECB capital keys will enter into force on 1 January 2024, and the ECB's capital key will remain unchanged for Latvia. The ECB capital key for Latvijas Banka is 0.3169%, which corresponds to 34 304 thousand euro.

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

At the end of 2023, Latvijas Banka's participating interest in the ECB consisted of the paid-up shares in the amount of 34 304 thousand euro in the ECB's capital, transfers to the financial instrument revaluation account amounted to 42 752 thousand euro and the difference between the market value of the foreign reserves transferred to the ECB and the value of the corresponding euro-denominated claim amounted to 41 793 thousand euro (see also Note 13.2).

The total subscribed capital of the ECB remained unchanged in 2023. The accession of Hrvatska narodna banka to the Eurosystem on 1 January 2023 did not change the amount of the ECB's total subscribed capital, but generated an increase in the ECB's total paid-up capital of 68 714 thousand euro.

The ECB's capital shares are not traded in the public securities market, and Latvijas Banka's participating interest in the ECB can be increased or decreased only in the cases referred to in this Note.

	(in thousands of euro)	
	2023	2022
Total amount of the European Central Bank's subscribed capital	10 825 007	10 825 007
The subscribed share of Latvijas Banka in the European Central Bank's capital	34 304	34 304
The paid-up share of Latvijas Banka in the European Central Bank's capital	34 304	34 304
The percentage share of Latvijas Banka in the European Central Bank's capital (capital key; %)	0.3169	0.3169

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

Pursuant to the Statute of the ESCB and of the ECB, euro area NCBs shall transfer a definite amount of their foreign reserves to the ECB. The amount of foreign reserves to be transferred is fixed in proportion to the capital key weighting of each euro area NCB in the ECB's capital. In exchange for the foreign reserves transferred to the ECB, Latvijas Banka received a euro-denominated claim on the ECB in proportion to the value of the respective claims of other euro area NCBs. At the end of 2023 and of 2022, this claim amounted to 157 202 thousand euro. The difference between the market value of the foreign reserves transferred to the ECB and the value of the corresponding euro-denominated claim in the amount of 41 793 thousand euro is reported as participating interest in the ECB (see also Note 13.1). The interest rate on the main refinancing operations set by the ECB is applied to the claims equivalent to the transfer of foreign reserves to the ECB (see also Note 33).

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

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

In 2023, the liabilities related to TARGET and national central bank correspondent accounts (net) decreased as a result of the lower cross-border payments effected by credit institutions and Latvijas Banka.

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

13.4 Claims related to the allocation of banknotes within the Eurosystem

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

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

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

Monetary income to be pooled by Latvijas Banka and to be received in 2023 was positive and this resulted in claims on the ECB associated with the net result of pooling of monetary income, standing at 206 554 thousand euro at the end of 2023 (6237 thousand euro liability at the end of 2022; see also Note 38).

Claims for the ECB's interim profit distribution are set as per Latvijas Banka's percentage share in the ECB's capital (0 euro at the end of 2023 and 2022; see also Note 37).

14. OTHER ASSETS

		(in thousands of euro)	
	Note	2023	2022
Accrued interest on securities held for monetary policy purposes		84 662	77 678
Accrued interest on claims against the ECB		72 419	26 528
OTC financial derivative contracts and spot exchange rate contracts	24	41 242	189 050
Participating interest in the Bank for International Settlements	14.2	37 863	37 119
Fixed assets	14.1	26 910	28 852
Accrued interest on other securities		20 539	17 234
Claims for payments of supervised financial market participants		3 206	–
Intangible assets	14.1	3 179	2 941
Accrued interest on longer-term refinancing operations		2 521	–
Prepaid expenses		2 296	1 610
Other		668	626
Total		295 505	381 638

14.1 Fixed assets and intangible assets

(in thousands of euro)

	Buildings, improve- ment of territory, and land	Furniture and office equipment	Computer and telecom- munication equipment	Cash processing and storage equipment	Other fixed assets	Total fixed assets	Intangible assets
As at 31 December 2021							
Cost	58 817	6 055	4 980	5 293	8 137	83 282	9 135
Accumulated depreciation/amortisation	-34 449	-4 510	-4 233	-2 813	-6 452	-52 457	-7 096
Net book value	24 368	1 545	747	2 480	1 685	30 825	2 039
During 2022							
Additions	411	31	406	113	229	1 190	1 383
Change in classification	-	-	9	-	-9	-	-
Disposals and write-offs	-	-27	-468	-1	-702	-1 198	-208
Net change in cost	411	4	-53	112	-482	-8	1 175
Depreciation/amortisation charge	-1 884	-223	-378	-281	-397	-3 163	-478
Accumulated depreciation/amortisation on disposals and write-offs	-	27	468	1	702	1 198	205
Net change in accumulated depreciation/amortisation	-1 884	-196	90	-280	305	-1 965	-273
As at 31 December 2022							
Cost	59 228	6 059	4 927	5 405	7 655	83 274	10 310
Accumulated depreciation/amortisation	-36 333	-4 706	-4 143	-3 093	-6 147	-54 422	-7 369
Net book value	22 895	1 353	784	2 312	1 508	28 852	2 941
During 2023							
Additions	701	6	393	123	60	1 283	658
Assets acquired from the FCMC at original cost	-	252	563	-	6	821	1 012
Disposals and write-offs	-16	-110	-248	-32	-859	-1 265	-
Net change in cost	685	148	708	91	-793	839	1 670
Depreciation/amortisation charge	-1 777	-217	-499	-271	-307	-3 071	-589
Accumulated depreciation/amortisation of assets acquired from the FCMC	-	-176	-379	-	-3	-558	-843
Accumulated depreciation/amortisation on disposals and write-offs	16	105	248	32	447	848	-
Net change in accumulated depreciation/amortisation	-1 761	-288	-630	-239	137	-2 781	-1 432
As at 31 December 2023							
Cost	59 913	6 207	5 635	5 496	6 862	84 113	11 980
Accumulated depreciation/amortisation	-38 094	-4 994	-4 773	-3 332	-6 010	-57 203	-8 801
Net book value	21 819	1 213	862	2 164	852	26 910	3 179

At the end of 2023, Latvijas Banka's contractual commitments related to acquisition of fixed assets were 40 thousand euro (480 thousand euro at the end of 2022).

14.2 Participating interest in the Bank for International Settlements

At the end of 2023 and 2022, Latvijas Banka owned 1070 shares in the BIS, which corresponded to 0.19% of the total subscribed and paid-up BIS capital.

The total nominal value of Latvijas Banka's shareholding in the BIS is SDR 5350 thousand (the nominal value per share is SDR 5 thousand), paid up in the amount of SDR 1338 thousand or 25% (see also Note 45). At the end of 2023 and 2022, the BIS shareholding is reported on Latvijas Banka's balance sheet at fair value. The shares in the BIS are not traded in the public securities market. In the opinion of Latvijas Banka, the most appropriate method for establishing the fair value of the BIS shares is the use of 70% of the BIS net asset value based on the latest published financial statements of the BIS. Pursuant to the Statutes of the BIS, only central banks can be shareholders in the BIS. At the end of 2023, the estimated fair value of BIS shares owned by Latvijas Banka was 37 863 thousand euro (37 119 thousand euro at the end of 2022).

15. BANKNOTES IN CIRCULATION

	(in thousands of euro)	
	2023	2022
Euro banknotes	5 571 492	5 635 738
Net issuance of euro banknotes by Latvijas Banka	-357 835	-14 870
Adjustment for banknote allocation in the Eurosystem	5 929 327	5 650 608
Total	5 571 492	5 635 738

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

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

Cross-border flows of euro banknotes in 2023 increased, amplifying the difference between the amount of banknotes deposited with Latvijas Banka and the amount of banknotes withdrawn from Latvijas Banka; consequently, the negative net issuance of euro banknotes by Latvijas Banka reached 357 835 thousand euro. As a result, an increase in the adjustment for banknote allocation in the Eurosystem was reported on the balance sheet of Latvijas Banka. At the end of 2023, the total amount of euro banknotes in circulation in the Eurosystem decreased to 1567 billion euro (1572 billion euro at the end of 2022).

16. LIABILITIES TO EURO AREA CREDIT INSTITUTIONS RELATED TO MONETARY POLICY OPERATIONS DENOMINATED IN EURO

16.1 Current accounts (covering the minimum reserve system)

Current accounts contain the credit balances on the transaction accounts of credit institutions that are required to hold minimum reserves. Banks' minimum reserve balances were remunerated at the latest available interest rate used by the Eurosystem in its tenders for main refinancing operations until 20 December 2022, and at the ECB's deposit facility rate between 21 December 2022 and 19 September 2023. On 27 July 2023, the Governing Council decided that, starting from 20 September 2023, these balances will be remunerated at a zero percent rate.

At the end of 2023, the balance on the current accounts with Latvijas Banka was 205 834 thousand euro (343 816 thousand euro at the end of 2022), including the minimum reserves in the amount of 205 944 thousand euro (200 197 thousand euro at the end of 2022). The average minimum reserves during the reserve maintenance period at the end of 2023 stood at 205 944 thousand euro (200 197 thousand euro at the end of 2022).

16.2 Deposit facility

Deposit facility is a standing facility of the Eurosystem used by credit institutions to place their overnight deposits at a pre-specified rate. At the end of 2023, the balance of deposit facility accounts was 6 867 713 thousand euro (4 873 349 thousand euro at the end of 2022).

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

	(in thousands of euro)	
	2023	2022
Liabilities for repurchase agreements	232 672	210 805
Collateral received for the use of the instant payment service	73 795	51 401
Liabilities for collateral for forward exchange rate contracts	8 253	58 067
Total	314 720	320 273

18. LIABILITIES TO OTHER EURO AREA RESIDENTS DENOMINATED IN EURO

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

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

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

	(in thousands of euro)	
	2023	2022
European Commission	102 303	112 249
Other financial institutions	80 367	57 990
International Monetary Fund	1 405	1 449
Total	184 075	171 688

20. LIABILITIES TO EURO AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY

	(in thousands of euro)	
	2023	2022
Liabilities for repurchase agreements	685 785	155 006
Demand deposits of the Latvian government	539 561	551 032
Liabilities for gold swap arrangements	37 412	–
Total	1 262 758	706 038

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

	(in thousands of euro)	
	2023	2022
Liabilities for repurchase agreements	295 782	–
Liabilities for gold swap arrangements	146 661	–
Liabilities for collateral for financial derivative instruments	15 275	34 512
Demand deposits	–	189
Total	457 718	34 701

22. OTHER LIABILITIES

		(in thousands of euro)	
	Note	2023	2022
Euro coins in circulation	22.1	94 242	90 555
Accrued expense and similar liabilities		57 246	41 694
Lats banknotes in circulation	22.1	10 684	14 746
Lats coins in circulation	22.1	1 437	1 920
OTC financial derivative contracts and spot exchange rate contracts	24	8 302	18 419
Provisions for supervision function expenses		5 359	–
Tax liabilities		1 091	129
Provisions for market risk and credit risk	36	166	15 051
Other		3 690	2 226
Total		182 217	184 740

22.1 Banknotes and coins in circulation

Euro coins in circulation include the euro coins issued by Latvijas Banka in circulation, except collector coins. The extent of liabilities regarding the lats banknotes and coins in circulation has been estimated, considering the probability of exchanging the lats banknotes and coins in a period of 20 years following the euro changeover in 2014 (see also Note 2.2).

Apart from the lats and euro circulation coins issued by Latvijas Banka and recognised on the balance sheet, euro collector coins, lats collector coins and precious metal circulation coins were also in circulation with the total nominal value of 7282 thousand euro at the end of 2023 (7187 thousand euro at the end of 2022). The above coins in circulation have not been reported under the balance sheet item "Other liabilities" (see also Note 45).

Issued lats banknotes and coins with a low probability of exchange in the amount of 105 753 thousand euro (lats banknotes in the amount of 44 945 thousand euro and lats coins in the amount of 60 808 thousand euro at the end of 2023; 102 080 thousand euro at the end of 2022, including lats banknotes in the amount of 41 675 thousand euro and lats coins in the amount of 60 405 thousand euro at the end of 2022) have not been reported as a liability on the balance sheet at the end of 2023 (see also Note 45). The exchange probability of the lats banknotes and coins is assessed annually on the basis of the actual exchange data of the above banknotes and coins.

23. CAPITAL AND RESERVES

(in thousands of euro)

	Nominal capital	Reserve capital	Revaluation account	Profit/loss(-) for the year	Capital and reserves
As at 31 December 2021	100 000	256 873	530 874	20 908	908 655
During 2022					
Net result of revaluation, realisation, and revaluation result recognition in the profit and loss statement	x	x	-307 137	x	-307 137
Profit appropriated to the State budget	x	x	x	-14 635	-14 635
Profit transferred to the reserve capital	x	6 273	x	-6 273	-
Profit/loss(-) for the year	x	x	x	-	-
As at 31 December 2022	100 000	263 146	223 737	-	586 883
During 2023					
Net result of revaluation, realisation, and revaluation result recognition in the profit and loss statement	x	x	196 995	x	196 995
Profit/loss(-) for the year	x	x	x	-53 760	-53 760
As at 31 December 2023	100 000	263 146	420 732	-53 760	730 118

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

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

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

The Law on Latvijas Banka stipulates that Latvijas Banka shall transfer to the state basic budget the part of the profit earned in the reporting year, which is calculated by multiplying the profit earned in the reporting year, which has remained after covering the losses accumulated in the previous years (if any), by the enterprise income tax rate specified in the Enterprise Income Tax Law, and shall make a payment for the usage of the state capital in the amount of 50% of the profit earned in the reporting year, remaining after covering losses (if any) accumulated in the previous years. The Council of Latvijas Banka, upon approving the annual report, may make a decision on reducing the percentage share of the payment for the usage of state capital, where it is necessary for increasing the reserve capital of Latvijas Banka in relation to the financial risks Latvijas Banka is exposed to when executing its tasks. At the end of 2023 and 2022, the corporate income tax rate was 20%. In 2023, the financial result of Latvijas Banka's activities was negative, showing a loss of 53 760 thousand euro therefore Latvijas Banka will not make transfers to the State budget in 2024 (also in 2023, Latvijas Banka did not make such a transfer, as it ended 2022 with a neutral operating financial result of 0 euro). 14 636 thousand euro of Latvijas Banka's profit for 2021 was transferred to the State budget in 2022.

After making the above deductions, the remaining profit of Latvijas Banka shall be transferred to the reserve capital as prescribed by the Law on Latvijas Banka. The reserve capital shall be formed to cover potential losses. The part of the losses for the covering of which there is not enough reserve capital has to be covered from the profit of subsequent periods of Latvijas Banka. Thus, in accordance with the Law on Latvijas Banka, the losses referred to will be covered from the reserve capital, in which 263 146 thousand euro has been accumulated from Latvijas Banka's profit for previous years.

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

In 2023 and 2022, the changes in the revaluation account were as follows:

(in thousands of euro)					
	2023	Recognition in profit and loss statement	Revaluation	Realisation	2022
Revaluation reserve for participating interest	35 354	–	744	–	34 610
Result on revaluation of foreign currencies and gold	203 540	12 097	14 465	–474	177 452
Result on revaluation of securities	181 838	22 902	148 964	–1 703	11 675
Total	420 732	34 999	164 173	–2 177	223 737

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

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

24. DERIVATIVE FINANCIAL INSTRUMENTS AND SPOT EXCHANGE RATE CONTRACTS

Latvijas Banka enters into forward and spot exchange rate contracts, currency and interest rate swap arrangements, forward transactions in securities, and interest rate and currency future contracts in order to manage interest rate and currency risks associated with Latvijas Banka's investments. At the end of 2023 and 2022, the contract or notional amounts and book value of the above transactions were as follows:

(in thousands of euro)						
	Contract or notional amount		Book value			
	2023	2022	Assets		Liabilities	
	2023	2022	2023	2022	2023	2022
OTC financial derivative and spot exchange rate contracts						
Forward exchange rate contracts and currency swap arrangements	2 866 469	3 662 071	35 141	186 562	3 494	15 052
Spot exchange rate contracts	518 097	345 480	161	184	56	–
Forward transactions in securities	1 161 323	1 817 672	5 940	2 304	4 752	3 367
Interest rate swap arrangements	60 814	52 685	–	–	–	–
Total	x	x	41 242	189 050	8 302	18 419
Derivative OTC gold swap arrangements	184 072	–	186 783	–	184 815	–
Traded financial derivative contracts						
Interest rate future contracts	2 161 597	1 655 421	x	x	x	x

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

To limit the gold maintenance costs and increase return on financial investments, Latvijas Banka engages in gold swap arrangements (see also Notes 6, 20, and 21).

MAJOR RISKS AND PRINCIPLES FOR THEIR MANAGEMENT

25. RISK MANAGEMENT

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

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

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

25.1 Financial risks

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

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

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

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

25.1.1 Market risk

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

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

Latvijas Banka's exposure to currency risk is determined by its investment structure. Latvijas Banka manages currency risk by establishing that the benchmark currency is the euro, thus hedging the currency risk (except for the portfolio of borrowed funds where the currency structure is built considering the currency of the respective liabilities, the global fixed income securities portfolio whose currency structure is formed by the benchmark portfolio structure, as well as the gold portfolio and the equity securities portfolios where investments are made in

the stock denomination currencies of the respective equity securities index), and using tracking error limits in relation to the respective benchmark. Tracking error is calculated as the expected annualised standard deviation of the difference in return between the investment portfolio and the respective benchmark. The aggregate market risk of 1–10 year fixed income securities portfolio, the global fixed income securities portfolio, mortgage-backed securities portfolios, and the developed markets equity securities portfolio (see Note 4) is managed by determining the tracking error limit. The tracking error in 2023 and 2022 is disclosed in Note 28.

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

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

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

Latvijas Banka's exposure to market risk (as at the end of 2023 and 2022) is disclosed in Notes 26–28.

25.1.2 Credit risk

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

Latvijas Banka manages exposure to credit risk related to investments made in foreign financial instruments by establishing limits on investments of different credit quality. Credit quality is evaluated on the basis of ratings assigned by the international credit rating agencies Fitch Ratings, Moody's Investors Service, Standard & Poor's, and DBRS. Limits are also set on the maximum investment in financial instruments of the same class and counterparty as well as in financial instruments of one issuer. Forward transactions in mortgage-backed securities are partly secured with short-term financial instruments. To hedge the credit risk associated with OTC derivative counterparties, Latvijas Banka and the respective counterparties enter into Master Agreements of International Swaps and Derivatives Association, Inc. (ISDA) and the Credit Support Annexes thereto. To hedge the credit risk associated with the counterparties of repurchase agreements and reverse repurchase agreements, Latvijas Banka and the respective counterparties enter into Global Master Repurchase Agreements of the Securities Industry and Financial Markets Association (SIFMA) and the International Capital Market Association (ICMA), whereas the external managers of mortgage-backed securities portfolios enter into Treasury Market Practices Group (TMPG) Master Securities Forward Transaction Agreements with their counterparties. In order to monitor Latvijas Banka's credit risk exposure associated with its investments, the Risk Management Division of the Market Operations Department monitors the compliance with the Procedure adopted by the Council of Latvijas Banka.

In 2023 and 2022, loans granted to credit institutions in monetary policy operations were secured by securities collateral in compliance with the ECB requirements. The Market Operations Department monitors the adequacy of collateral of the respective loans and its eligibility and compliance with the ECB's requirements on a regular basis, as well as maintains a list of securities eligible for monetary policy operations issued and held in the Republic of Latvia.

Latvijas Banka's exposure to credit risk (as at the end of 2023 and 2022) is disclosed in Notes 30–32.

25.1.3 Liquidity risk

Liquidity risk is associated with a failure to dispose investments in a short time and at a competitive market price. Since Latvia joined the euro area, the need for liquidity and the risk associated with a failure to meet liabilities in a timely manner have considerably decreased. In compliance with its investment strategy, Latvijas Banka manages liquidity risk by investing a certain amount of its investments in liquid debt securities issued by international institutions, foreign governments and the corporate sector, in short-term deposits with foreign financial institutions and in other financial instruments. The liquidity structure of Latvijas Banka's assets and liabilities as at the end of 2023 and 2022 is disclosed in Note 29.

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

25.2 Operational risks

Operational risks are managed to ensure that processes are implemented in a continuous, adequate and safe manner and that the processes and projects are completed efficiently and to a high standard in order to mitigate any potential negative impact on Latvijas Banka's financial performance, financial position, as well as reputation

or capability to accomplish its tasks. Such impact could be triggered by inadequate or defective performance of Latvijas Banka's processes, an act or omission by an employee or unavailability of staff, as well as by inadequate operation or unavailability of Latvijas Banka's information systems, information systems infrastructure or other infrastructure, or by external events.

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

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

Compliance risks are managed to ensure the compliance of Latvijas Banka's operation and its employees and their conduct, when exercising their official and professional duties, with legislative acts.

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

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

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

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

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

In 2023, the main focus of operational risk management was on the operational risk management framework, taking into account trends in the field of risk management, accumulated experience, as well as changes in the external and internal environment. Operational risks were appropriately managed in 2023, and the risk mitigation measures limited those risks to acceptable levels.

26. CURRENCY STRUCTURE

	(in thousands of euro)						
	EUR	USD	CAD	GBP	Gold	Other	Total
As at 31 December 2023							
Total assets	20 719 133	3 420 583	320 350	489 372	399 378	216 004	25 564 820
Total liabilities	24 047 535	999 314	237 149	234 636	–	46 186	25 564 820
Net position on balance sheet	–3 328 402	2 421 269	83 201	254 736	399 378	169 818	0
Net position on financial instruments' off-balance sheet accounts	2 309 803	–1 941 064	–59 140	–227 547	–	–49 112	32 940
Net position on balance sheet and off-balance sheet accounts	–1 018 599	480 205	24 061	27 189	399 378	120 706	32 940
Net position on balance sheet and off-balance sheet accounts to total assets (%)	–4.1	1.9	0.1	0.1	1.6	0.5	0.1
As at 31 December 2022							
Total assets	21 226 504	3 231 603	287 411	404 647	364 821	235 708	25 750 694
Total liabilities	24 927 618	291 007	383	195 901	–	335 785	25 750 694
Net position on balance sheet	–3 701 114	2 940 596	287 028	208 746	364 821	–100 077	0
Net position on financial instruments' off-balance sheet accounts	3 190 118	–2 556 638	–263 906	–184 474	–	–14 469	170 631
Net position on balance sheet and off-balance sheet accounts	–510 996	383 958	23 122	24 272	364 821	–114 546	170 631
Net position on balance sheet and off-balance sheet accounts to total assets (%)	–2.0	1.5	0.1	0.1	1.4	–0.4	0.7

27. REPRICING MATURITY

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

	(in thousands of euro)						
	Up to 3 months	3–12 months	1–3 years	3–5 years	Over 5 years	Non-interest bearing items	Total
As at 31 December 2023							
Gold and gold receivables	–	–	–	–	–	399 378	399 378
Claims on non-euro area residents denominated in foreign currency	626 918	1	815 198	–	2 074 911	532 498	4 049 526
Claims on euro area residents denominated in foreign currency	288 914	–	181 984	1	109 822	15 081	595 802
Claims on non-euro area residents denominated in euro	7 940	–	40 371	–	118 329	1 836	168 476
Lending to euro area credit institutions related to monetary policy operations denominated in euro	–	–	92 900	–	–	–	92 900
Other claims on euro area credit institutions denominated in euro	133	–	–	–	–	–	133
Securities of euro area residents denominated in euro	60 792	–	337 461	–	13 152 404	–	13 550 657
Intra-Eurosystem claims	6 318 491	–	–	–	–	93 952	6 412 443
Other assets	–	–	10 905	–	96 294	188 306	295 505
Total assets	7 303 188	1	1 478 819	1	15 551 760	1 231 051	25 564 820
Banknotes in circulation	–	–	–	–	–	5 571 492	5 571 492
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	7 073 547	–	–	–	–	–	7 073 547
Other liabilities to euro area credit institutions denominated in euro	314 720	–	–	–	–	–	314 720
Liabilities to other euro area residents denominated in euro	2 216 025	–	–	–	–	2 761	2 218 786
Liabilities to non-euro area residents denominated in euro	75 019	–	–	–	–	109 056	184 075
Liabilities to euro area residents denominated in foreign currency	727 037	–	–	–	–	535 721	1 262 758
Liabilities to non-euro area residents denominated in foreign currency	457 718	–	–	–	–	–	457 718
Intra-Eurosystem liabilities	7 569 389	–	–	–	–	–	7 569 389
Other liabilities	8 139	–	–	–	–	174 078	182 217
Capital and reserves	–	–	–	–	–	730 118	730 118
Total liabilities	18 441 594	–	–	–	–	7 123 226	25 564 820
Net position on the balance sheet	–11 138 406	1	1 478 819	1	15 551 760	–5 892 175	–
Assets on financial instruments' off-balance sheet accounts	944 076	299	3 822 360	173 254	1 763 974	–	6 703 963
Liabilities on financial instruments' off-balance sheet accounts	5 727 551	285	59 151	13 927	870 109	–	6 671 023
Net position on balance sheet and off-balance sheet accounts	–15 921 881	15	5 242 028	159 328	16 445 625	–5 892 175	32 940

(continued)

(in thousands of euro)

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

28. TRACKING ERROR

The exposure to aggregate market risk and credit risk of investments, included in the 1–10 year government fixed income securities portfolio, mortgage-backed securities portfolios, the global fixed income securities portfolio, and the developed markets equity securities portfolio is characterised by the tracking error, which is measured as the expected annualised standard deviation of the difference in return between the investment portfolio and the respective benchmark (see also Note 25.1). At the end of 2023 and 2022, the actual (ex-post) tracking error was as follows:

	(basis points)	
	2023	2022
1–10 year fixed income securities portfolio	34	83
Mortgage-backed securities portfolios	80	98
Developed markets equity securities portfolio	100	26
Global fixed income securities portfolio	67	108

The expected (ex-ante) tracking error in the 1–10 year government fixed income securities portfolios and mortgage-backed securities portfolios lay within the following basis point intervals during the year:

	Book value (at the end of the year; in thousands of euro)	Expected tracking error (number of business days)				
		10–39	40–69	70–99	100–139	140–179
During 2023						
1–10 year fixed income securities portfolio	2 920 052	99	151	–	–	–
Mortgage-backed securities portfolios	1 064 521	–	189	61	–	–
Global fixed income securities portfolio	140 426	5	196	46	3	–
During 2022						
1–10 year fixed income securities portfolios	2 790 364	126	126	–	–	–
Mortgage-backed securities portfolios	1 052 437	–	206	46	–	–
Global fixed income securities portfolio	138 623	70	134	5	–	–

The expected (ex-ante) tracking error of the developed markets equity securities portfolio at the end of months was on average 87 basis points and did not exceed 96 basis points during the year and the compliance with this limit is monitored by the respective external manager.

29. LIQUIDITY STRUCTURE

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

	(in thousands of euro)			
	Up to 3 months	Over 3 months	No fixed maturity	Total
As at 31 December 2023				
Assets				
Gold and gold receivables	399 378	–	–	399 378
Claims on non-euro area residents denominated in foreign currency	4 049 526	–	–	4 049 526
Claims on euro area residents denominated in foreign currency	595 802	–	–	595 802
Claims on non-euro area residents denominated in euro	168 476	–	–	168 476
Lending to euro area credit institutions related to monetary policy operations denominated in euro	–	92 900	–	92 900
Other claims on euro area credit institutions denominated in euro	133	–	–	133
Securities of euro area residents denominated in euro	13 382 263	168 394	–	13 550 657
Intra-Eurosystem claims	207 065	–	6 205 378	6 412 443
Other assets	224 589	2 521	68 395	295 505
Total assets	19 027 232	263 815	6 273 773	25 564 820
Liabilities				
Banknotes in circulation	–	–	5 571 492	5 571 492
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	7 073 547	–	–	7 073 547
Other liabilities to euro area credit institutions denominated in euro	314 720	–	–	314 720
Liabilities to other euro area residents denominated in euro	2 218 786	–	–	2 218 786
Liabilities to non-euro area residents denominated in euro	184 075	–	–	184 075
Liabilities to euro area residents denominated in foreign currency	1 262 758	–	–	1 262 758
Liabilities to non-euro area residents denominated in foreign currency	457 718	–	–	457 718
Intra-Eurosystem liabilities	7 569 389	–	–	7 569 389
Other liabilities	74 250	–	107 967	182 217
Total liabilities	19 155 243	–	5 679 459	24 834 702
Net position	–128 011	263 815	594 314	x

(continued)

(in thousands of euro)

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

30. SECTORAL STRUCTURE OF ASSETS

	Amount (in thousands of euro)		Proportion (%)	
	2023	2022	2023	2022
Investment operations	6 239 029	5 990 669	24.4	23.3
Central governments and other governmental institutions	2 147 163	2 084 543	8.5	8.1
Other financial institutions	1 999 679	1 820 689	7.8	7.1
Central banks and credit institutions	724 600	803 443	2.8	3.1
International institutions	695 165	684 134	2.7	2.7
Non-financial corporations	533 841	424 373	2.1	1.6
Local governments	138 581	173 487	0.5	0.7
Monetary policy operations	12 764 286	13 735 390	49.9	53.3
International institutions	8 587 294	8 977 665	33.6	34.9
Central governments and other governmental institutions	4 084 092	4 234 825	15.9	16.4
Credit institutions	92 900	522 900	0.4	2.0
Other operations	6 561 505	6 024 635	25.7	23.4
Intra-Eurosystem claims	6 412 443	5 926 959	25.1	23.0
International institutions	37 863	37 119	0.1	0.1
Unclassified assets	111 199	60 557	0.5	0.3
Total	25 564 820	25 750 694	100.0	100.0

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

	Amount (in thousands of euro)		Proportion (%)	
	2023	2022	2023	2022
Investment operations	6 239 029	5 990 669	24.4	23.3
US	2 029 422	1 651 157	8.0	6.3
Euro area countries	1 584 857	1 638 969	6.2	6.4
UK	892 969	892 279	3.5	3.5
International institutions	695 165	684 134	2.7	2.7
Canada	549 374	546 800	2.1	2.1
Japan	123 380	145 185	0.5	0.6
Other EU countries	123 630	143 159	0.5	0.6
Other countries	240 232	288 986	0.9	1.1
Monetary policy operations	12 764 286	13 735 390	49.9	53.3
International institutions	8 587 294	8 977 665	33.6	34.9
Euro area countries	4 176 992	4 757 725	16.3	18.4
Other operations	6 561 505	6 024 635	25.7	23.4
Intra-Eurosystem claims	6 412 443	5 926 959	25.1	23.0
International institutions	37 863	37 119	0.1	0.1
Unclassified assets	111 199	60 557	0.5	0.3
Total	25 564 820	25 750 694	100.0	100.0

32. ASSETS BY CREDIT RATING ASSIGNED TO THE COUNTERPARTY

	Amount (in thousands of euro)		Proportion (%)	
	2023	2022	2023	2022
Investment operations	6 239 029	5 990 669	24.4	23.3
AAA	2 377 089	3 280 166	9.2	12.8
AA	2 396 518	1 178 470	9.4	4.6
A	243 697	413 085	1.0	1.6
BBB	554 875	552 610	2.2	2.1
Assets without counterparty credit rating	61 271	60 000	0.2	0.2
Assets not exposed to credit risk	605 579	506 338	2.4	2.0
Monetary policy operations	12 764 286	13 735 390	49.9	53.3
AAA	7 791 077	8 052 698	30.4	31.3
AA	796 217	924 967	3.1	3.6
A	4 084 092	4 234 825	16.0	16.4
Assets without counterparty credit rating	92 900	522 900	0.4	2.0
Other operations	6 561 505	6 024 635	25.7	23.4
Intra-Eurosystem claims	6 412 443	5 926 959	25.1	23.0
Unclassified assets	116 453	65 883	0.5	0.3
Assets not exposed to credit risk	32 609	31 793	0.1	0.1
Total	25 564 820	25 750 694	100.0	100.0

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

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

33. NET INTEREST INCOME

	(in thousands of euro)	
	2023	2022
Interest income	503 974	211 229
Interest on investments	184 035	92 817
Interest on customer deposits	–	11 912
Interest on monetary policy operations	92 937	72 795
Interest on intra-Eurosystem claims	227 002	33 705
Interest expense	–732 980	–164 208
Interest on investments	–115 948	–63 098
Interest on customer deposits	–80 181	–9 997
Interest on monetary policy operations	–181 827	–31 374
Interest on intra-Eurosystem liabilities	–355 024	–59 739
Net interest income	–229 006	47 021

Interest income on investments was mainly derived from interest on debt securities, and its growth by 88 429 thousand euro in 2023 (14 558 thousand euro in 2022) was driven by higher average securities yields. Interest expense on investments largely consisted of interest on repurchase transactions and interest on OTC forward exchange rate contracts and its increase was driven by a repurchase transactions carried out to reduce hedging costs and financing costs of investment operations.

Interest income and interest expense on customer deposits was shaped by interest on deposits from the government and other financial institutions. As the ECB raised interest rates, in 2023 Latvijas Banka's expenditure on government and other financial institution deposits increased sharply, interest expense on Latvian government deposits reaching 45 253 thousand euro. The application of interest on deposits is stipulated in Guideline (EU) 2019/671 of the ECB of 9 April 2019 on domestic asset and liability management operations by the national central banks (recast) (ECB/2019/7). Pursuant to this Guideline, Latvijas Banka applies the following interest rates to Treasury current account balances: for the account balances in euro – euro short-term interest rate €STR (at the end of 2023 it was 3.882%), minus 20 basis points; current account balances in foreign currencies, with the exception of SDR, are subject to conditions comparable to those applied to euro account balances. At the end of 2022, Latvijas Banka applied the following interest rates to Treasury current account balances: to the Treasury's deposits in euro up to 200 million euro Latvijas Banka applied the euro short-term interest rate €STR (it was 1.89% at the end of 2022). Regarding the total amount of the Treasury's settlement account balances in euro and foreign currencies exceeding 200 million euro, Latvijas Banka applied the ECB's deposit facility rate or the euro short-term interest rate €STR, whichever was lower (on 31 December 2022 the ECB's deposit facility rate was 2.0%).

Interest income on monetary policy operations in 2023 primarily consisted of interest on PSPP and PEPP securities. Interest expense on monetary policy operations consisted mainly of interest on deposit facility transactions and negative interest on PSPP and PEPP securities. As the ECB raised the interest rate on the deposit facility (from –0.5% in July 2022 to 2% and 4% at the end of 2022 and 2023 respectively), Latvijas Banka's expenditure on deposits of Latvian credit institutions increased sharply in 2023, reaching 173 852 thousand euro.

Interest income from and interest expense on the intra-Eurosystem claims and liabilities are remunerated by applying the ECB's main refinancing operations interest rate and include income from foreign reserves transferred to the ECB and claims related to the allocation of banknotes in the Eurosystem, as well as expense on liabilities related to TARGET settlements. As the ECB raised the interest rate on its main refinancing operations from 0% in July 2022 to 2.5% and 4.5% at the end of 2022 and 2023, respectively, Latvijas Banka's interest income and expenditure on intra-Eurosystem claims and liabilities increased sharply in 2023, which also led to an increase in the amount of interest expense included in the reallocation of monetary income.

34. REALISED GAINS/LOSSES ARISING FROM FINANCIAL OPERATIONS

	(in thousands of euro)	
	2023	2022
Securities	19 019	32 332
Derivative financial instruments	-8 136	-29 394
Foreign exchange transactions	-1 883	36 794
Total	9 000	39 732

In 2023, the realised gains on foreign exchange transactions were 38 677 thousand euro less than in 2022, because greater realised profit on the developed markets equity securities portfolio in 2022 had a negative comparative effect.

The result of the disposal of securities decreased by 13 313 thousand euro in comparison with 2022. The greater realised gains from the developed markets equity securities portfolio in 2022 had a negative comparative effect. Smaller fluctuations in the market value of debt securities as a result of the stabilisation of market yield increases had a positive impact.

The result of derivative financial instruments increased by 21 258 thousand euro in comparison with 2022. This was mainly on account of the result of interest rate future contracts due to the stabilisation of market yield increases.

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

	(in thousands of euro)	
	2023	2022
Securities	-22 901	-336 530
Foreign currency positions	-12 098	-5 185
Total	-34 999	-341 715

The revaluation result of several debt securities, equity securities, and foreign currency positions at the end of 2023 and 2022 was negative and has been recognised in the profit and loss statement. The positive result on the revaluation of debt securities, equity securities, and foreign currency positions has been reported under the balance sheet item "Capital and reserves" as the revaluation result of securities and foreign currency positions respectively (see also Note 23).

The decrease in the negative revaluation result of securities is related to the stabilisation of market yield increases, as opposed to the sharp rise in 2022.

36. PROVISIONS FOR MARKET RISK AND CREDIT RISK

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

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

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

In 2023, the level of financial risks did not change fundamentally and was estimated at 998.6 million euro (993.4 million euro in 2022).

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

	(in thousands of euro)	
	2023	2022
Level of financial risks	998 600	993 400
Provisions for the market risk and credit risk	166	15 051
Provisions for the market risk and credit risk against the level of financial risks (%)	0	2

In 2023, due to the Eurosystem's monetary policy decisions related to curbing inflation, Latvijas Banka's interest expenditure on monetary operations increased sharply. Therefore, the total financial result included in the profit and loss statement before provisions for financial risks was negative (see also Note 35). Therefore, the Council of Latvijas Banka decided to use the remaining provisions for financial risks in 2023, reducing them by a total of 15 051 thousand euro (in 2022, the respective provisions were reduced by 280 646 thousand euro). In addition, provisions were made for credit risk of the Eurosystem's monetary policy operations in the amount of 166 thousand euro (Latvijas Banka had no such provisions at the end of 2022).

37. INCOME FROM EQUITY SECURITIES AND PARTICIPATING INTEREST

Income from equity securities comprises dividends of the equity securities portfolio in the amount of 11 849 thousand euro (14 218 thousand euro in 2022).

Income from participating interest comprises dividends received from the participating interest in the BIS totalling 373 thousand euro (374 thousand euro in 2022; see also Note 14.2) and income from the participating interest in the ECB. The ECB did not distribute profits for 2023 and 2022, but in 2022 the remainder of the ECB's annual profit for the previous year in the amount of 163 thousand euro was paid.

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

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

38. NET RESULT OF POOLING OF MONETARY INCOME

Pursuant to the Statute of the ESCB and of the ECB, Eurosystem NCBs gain income from the implementation of the single monetary policy of the Eurosystem. Total monetary income of Eurosystem NCBs equals the income on assets arising from the issue of euro banknotes and receiving deposits from credit institutions. The income is pooled and reallocated to euro area NCBs in proportion to their shares in the capital of the ECB, resulting in a net pooling of monetary income for each Eurosystem NCB, which includes monetary income paid and monetary income received.

The net result of pooling of monetary income is determined by the difference in yields on securities purchased for monetary policy purposes between the Eurosystem NCBs, as well as by the difference between the proportion of the earmarked assets and liability base items of individual Eurosystem NCBs in the respective Eurosystem's total items of the earmarked asset and liability base compared to the percentage share of that NCB in the ECB's capital.

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

liabilities. The monetary liabilities of Latvijas Banka include banknotes in circulation, deposits of credit institutions resulting from monetary policy operations and intra-Eurosystem liabilities.

Latvijas Banka's monetary income received comprises Latvijas Banka's share in the Eurosystem's total monetary income set on the basis of Latvijas Banka's share in the ECB's capital. The increase in the net result of pooling of monetary income was driven by higher monetary income pooled and received, resulting from the increase in ECB interest rates. The total monetary income of the Eurosystem NCBs and the distribution of the net result of pooling of monetary income by Latvijas Banka in 2023 and 2022 were as follows.

(in thousands of euro)

	Total monetary income of the Eurosystem NCBs	Monetary income of the Latvijas Banka		
		Monetary income pooled	Monetary income received	Net result of pooling of monetary income
In 2023				
Lending to euro area credit institutions related to monetary policy operations denominated in euro	26 854 254	-6 889	103 797	96 908
Securities held for monetary policy purposes subject to risk sharing	8 483 280	-51 442	32 790	-18 652
Securities held for monetary policy purposes not subject to risk sharing	127 854 247	-159 073	494 182	335 109
Claims in respect of foreign reserves transferred to the European Central Bank	1 334 524	-5 158	5 158	-
Claims and liabilities related to the allocation of euro banknotes within the Eurosystem	-4 816 858	-221 818	-18 618	-240 436
Excess of the liability base over earmarked assets	-2 722 452	-33 773	-10 523	-44 296
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	-130 387 326	172 352	-503 973	-331 621
Claims and liabilities related to TARGET correspondent accounts	14 159 899	355 055	54 731	409 786
Other	-62 563	-	-244	-244
Total	40 697 005	49 254	157 300	206 554
In 2022				
Lending to euro area credit institutions related to monetary policy operations denominated in euro	-10 533 334	2 850	-41 043	-38 193
Securities held for monetary policy purposes subject to risk sharing	5 924 132	-34 998	23 083	-11 915
Securities held for monetary policy purposes not subject to risk sharing	19 907 123	-24 419	77 568	53 149
Claims in respect of foreign reserves transferred to the European Central Bank	201 229	-784	784	-
Claims and liabilities related to the allocation of euro banknotes within the Eurosystem	-735 700	-32 921	-2 867	-35 788
Excess of the liability base over earmarked assets	-3 185 995	-8 935	-12 414	-21 349
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	-6 526 743	5 256	-25 431	-20 175
Claims and liabilities related to TARGET correspondent accounts	2 085 344	59 739	8 126	67 865
Other	43 346	-	169	169
Total	7 179 402	-34 212	27 975	-6 237

In the calculation of monetary income pooled, securities held for monetary policy purposes for which risks are not shared, generate income at the ECB's main refinancing operations rate, so that the amount of monetary income pooled differs from that recognised in net interest income (see Note 33).

39. OTHER OPERATING INCOME

		(in thousands of euro)	
	Note	2023	2022
Income from payments by supervised financial market participants	39.1.	13 939	–
Revaluation of liabilities for the issued lats banknotes and coins	39.2.	3 674	4 100
Income from sale of numismatic products		1 382	1 014
Other		566	652
Total		19 561	5 766

39.1 Income from payments by supervised financial market participants

	(in thousands of euro)	
	2023	2022
Income related to the supervision of monetary financial institutions	8 658	–
Income related to insurance supervision	1 888	–
Income related to the supervision of the market financial instruments and pension funds	1 301	–
Other payments of market participants	238	–
Provisions used for supervisory function expenses	1 854	–
Total	13 939	–

Provisions used for supervisory function expenses amounting to 1854 thousand euro consisted of the excess of supervisory function expenses in 2023 over income from payments of supervised financial market participants in the reporting year. Supervisory function expenses for the current reporting period amounted to 12 904 thousand euro and income from payments of supervised financial market participants – to 12 085 thousand euro. The total supervisory function expenses in 2023 increased due to provisions for lease obligations of 1035 thousand euro for former FCMC office premises at Kungu iela 1, Riga (see also Note 45).

39.2 Revaluation of liabilities for the issued lats banknotes and coins

The issued lats banknotes and coins with a low exchange probability are not reported on the balance sheet pursuant to the "Financial Accounting Policy of Latvijas Banka" (see also Note 2.2). In 2023, with the exchange of the lats banknotes and coins decelerating, the valuation of liabilities for the issued lats banknotes and coins decreased (see also Note 22.1) and the corresponding income was recognised.

40. REMUNERATION, SOCIAL SECURITY COSTS, AND SOLIDARITY TAX

	(in thousands of euro)	
	2023	2022
Remuneration		
Remuneration of the members of the Council	–838	–592
Remuneration of other personnel	–23 890	–15 910
Total remuneration	–24 728	–16 502
Social security costs and solidarity tax	–5 540	–3 653
Total remuneration, social security costs, and solidarity tax	–30 268	–20 155

At the end of 2023, the number of employees was 531 (376 at the end of 2022), representing 519 full-time equivalents in 2023 (374 in 2022). The increase in the number of employees is related to the FCMC incorporation in Latvijas Banka on 1 January 2023, which also determined a corresponding increase in remuneration expenses in 2023.

Following the FCMC incorporation in Latvijas Banka, its Council consists of seven Council members. In 2022, before the FCMC was incorporated to Latvijas Banka, its Council consisted of six Council members, while the FCMC's Board consisted of three Board members.

41. BANKNOTE AND COIN ACQUISITION COSTS

	(in thousands of euro)	
	2023	2022
Acquisition of banknotes	-1 056	-1 688
Acquisition of collector coins	-933	-739
Acquisition of circulation coins	-349	-191
Total	-2 338	-2 618

42. OTHER OPERATING EXPENSES

	(in thousands of euro)	
	2023	2022
Maintenance and operation of information systems	-4 866	-4 588
Payments to the EU and international organizations	-1 130	-92
Security services	-715	-269
Municipal services	-601	-1 158
Business travel	-544	-288
Maintenance of buildings, territory and equipment	-434	-508
Public education and information	-423	-623
Personnel training	-303	-203
Telecommunication services and system maintenance	-262	-209
Event services	-262	-132
Acquisition of low value office supplies	-225	-261
Tax on real estate	-172	-172
Risk insurance	-96	-92
Other	-1 932	-518
Total	-11 965	-9 113

Payments to the EU and international organizations mainly include supervision-related membership fees to the European Banking Authority, European Insurance and Occupational Pensions Authority, European Securities and Markets Authority. Other operating expenses increased mainly due to accrued expenses for rental obligations relating to the premises at Kungu iela 1 in the amount of 1035 thousand euro and remuneration totalling 51 thousand euro paid to SIA ERNST & YOUNG BAL TIC for the audit of 2023 financial statements of Latvijas Banka (33 thousand euro in 2022).

OTHER NOTES

43. PLEDGED ASSETS

Debt securities, other financial instruments and gold purchased by Latvijas Banka with the total market value of 1 451 160 thousand euro as at the end of 2023 (364 618 thousand euro at the end of 2022) have been pledged to provide repurchase agreement deals, collateral for gold swap arrangements, forward exchange rate contracts, interest rate and currency future contracts. At the end of 2023, the pledged assets mostly consisted of securities

pledged under repurchase agreements in the amount of 1 264 263 thousand euro (358 360 thousand euro at the end of 2022).

44. SECURITIES LENDING

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

In order to promote liquidity in the securities market, Latvijas Banka, together with other euro area NCBs, lends securities purchased under the PSPP and the PEPP, and Latvijas Banka does so within the framework of the automated securities lending programme.

At the end of 2023, the fair value of the securities lent, determined using quoted prices in an active market, was 942 261 thousand euro (1 571 469 thousand euro at the end of 2022); inter alia, the fair value of securities purchased and lent under the PSPP and PEPP stood at 934 498 thousand euro at the end of 2023 (1 473 321 thousand euro at the end of 2022).

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

45. CONTINGENT LIABILITIES AND COMMITMENTS

The uncalled portion of the BIS shares held by Latvijas Banka is 75% of their nominal value; these shares are callable following a respective decision of the BIS Board. At the end of 2023, the uncalled portion of the BIS shareholding was 4012 thousand SDR (4877 thousand euro; 4012 thousand SDR (5022 thousand euro) at the end of 2022; see also Note 14.2).

At the end of 2023, Latvijas Banka had issued euro collector coins, lats collector coins and precious metal circulation coins in the nominal value of 7282 thousand euro (7187 thousand euro at the end of 2022). These coins may be represented to Latvijas Banka at a nominal value. In the opinion of Latvijas Banka's management, the probability that Latvijas Banka will be required to repurchase these coins from their holders is considered low, since the value of the precious metal contained in them exceeds their nominal value.

At the end of 2023, Latvijas Banka had issued lats banknotes and coins with the face value of 117 875 thousand euro (118 746 thousand euro at the end of 2022), reported on the balance sheet in the amount of 12 122 thousand euro (16 666 thousand euro at the end of 2022). Pursuant to the Law on the Procedure for Introduction of Euro, the period for exchanging the lats cash to the euro at Latvijas Banka is unlimited. In the opinion of Latvijas Banka's management, the probability that Latvijas Banka would be required to exchange lats banknotes and coins in the amount of 105 753 thousand euro (102 080 thousand euro at the end of 2022) at face value is low.

At the end of 2023, Latvijas Banka had six administrative legal proceedings related to the regulation and supervision of the financial market and its participants. These legal proceedings have been initiated in accordance with the administrative procedure for the annulment of the decisions of Latvijas Banka, but according to the assessment by Latvijas Banka's management, no losses will be incurred as a result of the aforementioned legal proceedings therefore provisions have not been created.

The FCMC leased the premises at Kungu iela 1, Riga, to ensure its operation. With the FCMC's incorporation in Latvijas Banka, the aforementioned premises have not been used since 1 January 2023, and the lessor has been informed about the termination of the lease agreement. In accordance with the amendments to the lease agreement for the premises concluded in 2018, the legal basis for termination of the contract cannot be interpreted unambiguously in the particular circumstances and create a risk that, due to the termination of this agreement, Latvijas Banka may be obliged to cover the expenses attributable to rental of the aforementioned premises rent, management of the building and utilities, and the payment of the real estate tax until 31 December 2026. Latvijas Banka does not consider that there is a legal basis for these liabilities to exceed the provisions created.

46. IMPACT OF THE FCMC INCORPORATION ON OPENING BALANCES OF BALANCE SHEET ITEMS

On 1 January 2023, the new Law on Latvijas Banka, adopted on 23 September 2021, entered into force and provides for incorporation of the FCMC's in Latvijas Banka. In accordance with the transitional provisions of the aforementioned Law, Latvijas Banka is the successor of the FCMC's property, financial resources, rights and liabilities. Thus, as of 1 January 2023, the assets and liabilities reflected on the FCMC's balance sheet as at 31 December 2022 are included on Latvijas Banka's balance sheet. As of 1 January 2023, Latvijas Banka also manages the Deposit Guarantee Fund, the Fund for the Protection of the Insured and the National Resolution Fund.

Since the assets of the aforementioned funds each constitute a distinct set of assets and are managed separately, the respective assets and liabilities are not shown on Latvijas Banka's balance sheet.

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

	(in thousands of euro)		
	As at 31 December 2022	Impact of incorporation of the FCMC	As at 1 January 2023
Gold and gold receivables	364 821		364 821
Claims on non-euro area residents denominated in foreign currency	3 788 044		3 788 044
Claims on euro area residents denominated in foreign currency	522 039		522 039
Claims on non-euro area residents denominated in euro	156 383		156 383
Lending to euro area credit institutions related to monetary policy operations denominated in euro	522 900		522 900
Other claims on euro area credit institutions denominated in euro	6 304	5	6 309
Securities of euro area residents denominated in euro	14 081 606		14 081 606
Intra-Eurosystem claims	5 926 959		5 926 959
Other assets	381 638	3 557	385 195
Total assets	25 750 694	3 562	25 754 256
Banknotes in circulation	5 635 738		5 635 738
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	5 217 165		5 217 165
Other liabilities to euro area credit institutions denominated in euro	320 273		320 273
Liabilities to other euro area residents denominated in euro	2 517 104	-6 138	2 510 966
Liabilities to non-euro area residents denominated in euro	171 688		171 688
Liabilities to euro area residents denominated in foreign currency	706 038		706 038
Liabilities to non-euro area residents denominated in foreign currency	34 701		34 701
Intra-Eurosystem liabilities	10 376 364		10 376 364
Other liabilities	184 740	9 700	194 440
Capital and reserves	586 883		586 883
Total liabilities	25 750 694	3 562	25 754 256

The growth in other assets includes acquired fixed assets and intangible assets, the residual value of which amounted to 431 thousand euro, and other claims totalling 3126 thousand euro taken over by Latvijas Banka. The above claims mainly consisted of requirements for payments by market participants for the fourth quarter of 2022.

The reduction in liabilities in euro to other residents of euro area countries includes the FCMC's demand deposit with Latvijas Banka amounting to 6138 thousand euro.

The increase in other liabilities mainly includes the FCMC's own funds or net assets totalling 7213 thousand euro taken over by Latvijas Banka, which, in accordance with the transitional provisions of the Law on Latvijas

Banka, are intended to further reduce the aforementioned payments of market participants to cover supervision function expenses.

47. EVENTS AFTER THE REPORTING YEAR

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

Independent Auditors' Report

Translation from Latvian

08.03.2024

To the Council of Latvijas Banka

Opinion

We have audited the accompanying financial statements of Latvijas Banka (the Bank) set out on pages 3 to 45, which comprise the balance sheet as at 31 December 2023 and the statement of profit and loss and the statement of total recognised gains and losses for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Latvijas Banka as at 31 December 2023, and of its financial performance for the year then ended in accordance with the Guideline (EU) 2016/2249 of the European Central Bank of 3 November 2016 on the legal framework for accounting and financial reporting in the European System of Central Banks (ECB/2016/34) and its amendments, the Financial Accounting Policy of Latvijas Banka approved by the Council of the Bank, and the requirements of the Law on Latvijas Banka.

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

ERNST & YOUNG BALTIC SIA
Licence No. 17

Diāna Krišjāne
Chairperson of the Board
Latvian Certified Auditor
Certificate No. 124

Rīgā 2023. gada 8. martā

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