

# **LATVIJAS BANKA**

FINANCIAL STATEMENTS OF LATVIJAS BANKA  
FOR THE YEAR ENDED 31 DECEMBER 2020

## CONTENTS

Balance Sheet	3
Profit and Loss Statement	5
Statement of Total Recognised Gains and Losses	6
Notes to the Financial Statements	7

## ABBREVIATIONS

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

## BALANCE SHEET

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

	Note <sup>1</sup>	2020	2019
<b>ASSETS</b>			
Gold and gold receivables	6	<b>330 139</b>	289 043
Claims on non-euro area residents denominated in foreign currency	7	<b>3 970 780</b>	3 688 972
Receivables from the International Monetary Fund		142 411	149 082
Balances with banks and security investments, external loans and other external assets		3 828 369	3 539 890
Claims on euro area residents denominated in foreign currency	8	<b>333 706</b>	460 415
Claims on non-euro area residents denominated in euro	9	<b>119 143</b>	90 139
Lending to euro area credit institutions related to monetary policy operations denominated in euro	10	<b>1 260 000</b>	12 250
Longer-term refinancing operations		1 260 000	12 250
Other claims on euro area credit institutions denominated in euro	11	<b>120</b>	8
Securities of euro area residents denominated in euro	12	<b>11 129 440</b>	8 721 137
Securities held for monetary policy purposes		10 008 456	7 636 472
Other securities		1 120 984	1 084 665
Intra-Eurosystem claims	13	<b>5 673 974</b>	5 277 483
Participating interest in the European Central Bank		114 095	114 108
Claims equivalent to the transfer of foreign reserves		157 202	158 264
Other claims within the Eurosystem		5 402 677	5 005 111
Other assets	14	<b>228 440</b>	206 062
<b>TOTAL ASSETS</b>		<b>23 045 742</b>	18 745 509

<sup>1</sup> The accompanying Notes set out on pages 7 to 50 are an integral part of these financial statements.

<i>(continued)</i>	(at the end of the year; in thousands of euro)		
	Note	<b>2020</b>	2019
<b>LIABILITIES</b>			
Banknotes in circulation	15	<b>5 142 726</b>	4 666 799
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	16	<b>6 053 812</b>	5 660 676
Current accounts (covering the minimum reserve system)		6 053 812	5 660 676
Other liabilities to euro area credit institutions denominated in euro	17	<b>577 746</b>	11 871
Liabilities to other euro area residents denominated in euro	18	<b>3 012 014</b>	1 506 709
General government		1 588 192	442 044
Other liabilities		1 423 822	1 064 665
Liabilities to non-euro area residents denominated in euro	19	<b>238 737</b>	307 239
Liabilities to euro area residents denominated in foreign currency	20	<b>615 986</b>	153 351
Liabilities to non-euro area residents denominated in foreign currency	21	<b>1 364 010</b>	1 642 368
Intra-Eurosystem liabilities	13	<b>4 837 613</b>	3 833 540
Liabilities related to TARGET2 and correspondent accounts (net)		4 809 553	3 826 452
Other liabilities within the Eurosystem		28 060	7 088
Other liabilities	22	<b>409 700</b>	329 326
Capital and reserves	23	<b>793 398</b>	633 630
<b>TOTAL LIABILITIES</b>		<b>23 045 742</b>	18 745 509

## PROFIT AND LOSS STATEMENT

(in thousands of euro)

	Note	2020	2019
Net interest income	33	<b>139 537</b>	95 946
Interest income		190 313	198 804
Interest expense		-50 776	-102 858
Net result of financial operations, recognition of revaluation result in profit and loss statement and financial risk provisions		<b>-68 947</b>	-37 821
Realised gains or losses arising from financial operations	34	44 471	46 253
Recognition of revaluation result on financial assets and positions in profit and loss statement	23, 35	-35 237	-3 856
Provisions for market risk and credit risk	36	-78 181	-80 218
Net expense from fees and commissions		<b>-3 394</b>	-3 607
Fees and commissions income		949	811
Fees and commissions expense		-4 343	-4 418
Income from equity securities and participating interest	37	<b>18 605</b>	14 884
Net result of pooling of monetary income	38	<b>-27 701</b>	-6 801
Other operating income	39	<b>1 268</b>	1 300
<b>NET INCOME</b>		<b>59 368</b>	63 901
Remuneration	40	<b>-16 867</b>	-17 660
Social security costs and solidarity tax	40	<b>-3 764</b>	-3 941
Banknote and coin acquisition costs	41	<b>-1 546</b>	-1 791
Depreciation of fixed assets and amortisation of intangible assets	14	<b>-3 851</b>	-4 129
Other operating expenses	42	<b>-6 694</b>	-9 225
<b>PROFIT FOR THE YEAR</b>		<b>26 646</b>	27 155

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

		(in thousands of euro)	
	Note	2020	2019
Profit for the year		<b>26 646</b>	27 155
Revaluation	23	<b>140 950</b>	169 433
Realisation of the accumulated revaluation result	23	<b>-24 056</b>	-6 986
Recognition of revaluation result on financial assets and positions in profit and loss statement	23, 35	<b>35 237</b>	3 856
Total changes in the revaluation account	23	<b>152 131</b>	166 303
<b>TOTAL</b>		<b>178 777</b>	193 458

The financial statements set out on pages 3 to 50 were authorised by the Board of Latvijas Banka on 9 March 2021.

**THIS DOCUMENT HAS BEEN ELECTRONICALLY SIGNED WITH  
A SECURE ELECTRONIC SIGNATURE CONTAINING A TIMESTAMP.**

Acting Chairperson of the Board

Ilze Posuma

Member of the Board

Jānis Caune

Member of the Board

Raivo Vanags

## NOTES TO THE FINANCIAL STATEMENTS

### 1. PRINCIPAL ACTIVITIES

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

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

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

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

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

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

### 2. PRINCIPAL ACCOUNTING POLICIES

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

#### 2.1 Basis of preparation

These financial statements have been prepared in accordance with the Guideline of the ECB of 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 Latvijas Banka's Council, and the requirements of the Law on Latvijas Banka governing financial reporting.

#### 2.2 Basis of measurement

Gold, securities (except held-to-maturity debt securities and securities held for monetary policy purposes that are measured at amortised cost), participating interest (except the participating interest in the ECB), currency future contracts and interest rate derivatives are accounted for at fair value. Forward exchange rate contracts and currency swap arrangements are valued according to the principles described in Note 2.15. The comparison of the book value and fair value of these instruments is provided in Note 5. 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 price of gold is set on the basis of the quoted gold market price in US dollars and the exchange rate of the US dollar against the euro published by the ECB. The exchange rate of the SDR is set on the basis of the weights of currencies in the SDR basket published by the IMF and the exchange rates of the respective currencies published by the ECB.

Transactions denominated in foreign currencies are recorded in euro at the respective exchange rates on the day of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into euro at the exchange rates 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. The transactions in foreign currencies that reduce the respective currency position result in realised gains or losses. Any gain or loss arising from the revaluation of transactions in foreign currencies and of foreign currency positions is credited or charged to the profit and loss statement or the balance sheet item "Capital and reserves" as the foreign currency revaluation reserve ("Revaluation account") in accordance with the principles referred to in Note 2.23. The principles referred to herein and in Note 2.23 for valuation and recording of transactions denominated in foreign currencies are also applied to gold.

The exchange rates of major foreign currencies (currency units per euro) and gold price (euro per troy ounce) in euro used in the preparation of the balance sheet for the year ended 31 December 2020 and the year ended 31 December 2019 are as follows:

	(at the end of the year)		
	2020	2019	Changes (%)
US dollar (USD)	1.2271	1.1234	9.2
Japanese yen (JPY)	126.49	121.94	3.7
Canadian dollar (CAD)	1.5633	1.4598	7.1
British pound sterling (GBP)	0.8990	0.85080	5.7
Gold (XAU)	1543.884	1354.104	14.0

#### 2.5 Recognition and derecognition of financial assets and financial liabilities

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

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

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

#### 2.6 Offsetting financial assets and financial liabilities

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

#### 2.7 Use of estimates and assumptions

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

The major estimates and assumptions in the preparation of the financial statements have been made with respect to the following: the accounting policy for securities held to maturity (see Note 2.9), the useful life of fixed assets and intangible assets (see Notes 2.17 and 2.18), impairment of assets (see Note 2.19), the exchange probability of those lats banknotes and coins that have not been yet exchanged for euro banknotes and coins (see Note 2.20), the repurchasing probability of collector coins (see Note 2.21), provisions for market risk and credit risk (see Notes 2.22 and 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), and the method of recognising a part of the initial revaluation account balance in the profit and loss statement (see Note 23).

### **2.8 Gold and gold receivables**

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

Gold swap arrangements are treated as repurchase agreements (see also Notes 2.11 and 2.15).

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

### **2.9 Debt securities**

Debt securities are stated at fair value in the balance sheet, except those held to maturity and securities held for monetary policy purposes, measured at amortised cost subject to impairment. Securities held to maturity are securities with fixed or determinable payments and fixed maturity which Latvijas Banka intends to hold to maturity.

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

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

### **2.10 Reverse repurchase agreements**

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

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

### **2.11 Repurchase agreements**

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

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

### **2.12 Securities lending**

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

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

### **2.13 Loans to credit institutions, deposits and similar financial claims and financial liabilities**

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

### **2.14 Equity securities and participating interest**

Equity securities consist of investments in marketable equity instruments made as part of Latvijas Banka's investment management activities.

Participating interest includes permanent investments of Latvijas Banka in the equity of other entities. Latvijas Banka has no control or significant influence over any institution, therefore participating interest is not accounted for as an investment in a subsidiary or an associate.

Equity securities and participating interest are reported at fair value in the balance sheet, except participating interest in the ECB, which is reported at cost in the balance sheet in accordance with the ECB's legal framework for accounting and financial reporting.

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

### **2.15 Derivative financial instruments**

Latvijas Banka enters into commitments involving forward exchange rate contracts, currency, gold and interest rate swap arrangements, and interest rate and currency future contracts, which are reported in off-balance

sheet accounts at their contract or notional amount, except gold swap arrangements that are treated as repurchase agreements and related claims and liabilities are reported on the balance sheet of Latvijas Banka. Forward exchange rate contracts and currency swap arrangements are included in the net position of the respective currency on the transaction day at the spot rate of the transaction and are recorded in the balance sheet in euro at the exchange rate of the respective currency prevailing at the end of the reporting period. Other derivative financial instruments are reported in the balance sheet at fair value.

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

## 2.16 Accrued interest income and expense

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

## 2.17 Fixed assets

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

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

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

In 2020, the useful lives set for fixed assets were not changed. In 2020 and 2019, the useful lives set for fixed assets were as follows:

	(years)	
	2020	2019
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

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

## 2.18 Intangible assets

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

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

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

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

### **2.19 Impairment of assets**

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

The ECB carries out impairment assessment of securities held for monetary policy purposes, identifying any potential changes in future cash flows and any other factors encumbering the fulfilment of the liabilities by the securities issuer. Assets are impaired when the carrying amount of securities held for monetary policy purposes exceeds their recoverable amount. 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).

### **2.20 Currency in circulation**

In view of the fact that euro banknotes are issued by all euro area NCBs and the ECB, they report a certain share of the total amount of euro banknotes issued by the Eurosystem on their balance sheets. The 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".

Pursuant to the Law on the Procedure for Introducing the Euro, the period for exchanging the lats cash to the euro at Latvijas Banka is unlimited.

The lats banknotes and coins issued by Latvijas Banka which have not been yet exchanged for the euro banknotes and coins are recognised in the balance sheet as liabilities considering the exchange probability of such lats banknotes and coins within 20 years from the euro changeover. 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 (see Note 22.1).

Euro coins and the lats banknotes and coins in circulation issued by Latvijas Banka that have been recognised as liabilities by Latvijas Banka, except collector coins (see also Note 2.21), are reported under the balance sheet item "Other liabilities" at nominal value.

### **2.21 Collector coins**

Collector coins sold are not included in the balance sheet as liabilities since the probability that the coins will be sold back to Latvijas Banka at their nominal value is low (e.g. the value of precious metals of which the coins are made exceeds the nominal value). Proceeds from sales of collector coins are recognised in the profit and loss statement when incurred. The accounting principles established with respect to collector coins are applied to the lats gold circulation coins and collector coins.

### **2.22 Provisions**

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

In addition, on the basis of reasonable risk estimates and in accordance with the legal framework for accounting and financial reporting in the ESCB, Latvijas Banka's Council 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 (see also Note 36) as well as the use of these provisions should the above risks materialise.

### **2.23 Recognition of gains and losses on financial instruments, foreign currency and gold position**

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

- (a) realised gains and losses shall be recognised in the profit and loss statement;
- (b) unrealised gains shall be recognised in the balance sheet item "Capital and reserves" as the revaluation reserve;
- (c) unrealised losses recognised in the balance sheet item "Capital and reserves" as the revaluation reserve at the end of the reporting year shall be transferred to the profit and loss statement if they exceed the previous revaluation gain on the respective financial instrument, foreign currency or gold position;
- (d) unrealised losses recognised in the profit and loss statement at the end of the reporting year shall not be reversed and offset by unrealised gains of the respective financial instrument, foreign currency or gold position in the subsequent years;

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

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. 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.

#### **2.24 Interest income and expense**

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

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

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

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

#### **2.25 Realised gains or losses from financial operations**

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

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

#### **2.26 Income from equity securities and participating interest**

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

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

In recognising income from equity securities, the income recognition principles established by the ECB legal framework for accounting and financial reporting 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.

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. In addition, the Governing Council of the ECB may resolve to make deductions from the interim profit distribution result in respect of expenses incurred by the ECB in connection with the issue and handling of euro banknotes; the deductions may not exceed income on the claims related to the allocation of banknotes within the Eurosystem.

Moreover, 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).

Income from equity securities and participating interest is reported under the profit and loss statement item "Income from equity securities and participating interest".

#### **2.27 Net result of pooling of monetary income**

Pursuant to the Statute of the ESCB and of the ECB, euro area NCBs gain income from the implementation of the single monetary policy of the Eurosystem. Total monetary income of the Eurosystem equals the income on assets arising from the issue of euro banknotes and receiving deposits from credit institutions. The income is allocated to euro area NCBs in proportion to their shares in the capital of the ECB. For the first six years after an NCB has joined the Eurosystem, the euro area NCB's monetary income is adjusted in compliance with a definite coefficient to avoid significant euro area NCB income fluctuations (see also Note 33).

The net monetary income pooled by Latvijas Banka includes the income derived from earmarkable assets of Latvijas Banka, reduced by expenses for the monetary liabilities of Latvijas Banka. The earmarkable assets of Latvijas Banka for the allocation of monetary income include gold, assets acquired as a result of monetary policy operations, intra-Eurosystem claims as well as other assets in the amount necessary to fully cover the monetary liabilities. 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 comprises Latvijas Banka's share in the Eurosystem's total monetary income set on the basis of Latvijas Banka's share in the ECB's capital.

### **2.28 Banknote and coin acquisition costs**

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

### **2.29 Other expenses and income**

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 2020, Latvijas Banka's assets grew by 4300.2 million euro.

In 2020, the balance sheet item "Securities held for monetary policy purposes" increased by 2372.0 million euro. In March 2020, the Governing Council of the ECB decided to launch a new securities purchase programme PEPP providing for securities purchases in the Eurosystem to a total of 1850.0 billion euro; the PEPP will be continued until the impact of the COVID-19 pandemic on the economy decreases. At the end of 2020, asset purchases under the PEPP by Latvijas Banka amounted to 1690.9 million euro. Along with the PEPP, the previously launched asset purchase programme continued, under which the balance of this balance sheet item increased by 681.1 million euro.

In 2020, the amount of loans granted to credit institutions by Latvijas Banka as a result of longer-term refinancing operations increased by 1247.8 million euro (see also Note 10.2).

Other claims related to other operational requirements within the Eurosystem grew by 397.6 million euro, mostly due to a rise in claims on banknote allocation in the Eurosystem (see also Note 13.4).

In 2020, banknotes in circulation increased by 475.9 million euro, in line with the pickup in the overall amount of banknotes in circulation of the euro area NCBs.

The increases of 565.9 million euro and 462.6 million euro under balance sheet items "Other liabilities to euro area credit institutions denominated in euro" and "Liabilities to euro area residents denominated in foreign currency" respectively, as well as a decrease of 278.4 million euro under the balance sheet item "Liabilities to non-euro area residents denominated in foreign currency" are mostly related to repurchase agreements and gold swaps arrangements concluded in 2020 to reduce the costs for hedging currency risks and increase return on financial investments.

In 2020, demand deposits in euro from Latvian Government grew by 1146.1 million euro, as reported under the balance sheet item "Liabilities to general government".

At the end of 2020, 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 393.1 million euro. As a result of cross-border payments, liabilities to the ECB for the settlement result in TARGET2, reported under the balance sheet item "Intra-Eurosystem liabilities", increased by 983.1 million euro.

The capital and reserves of Latvijas Banka increased by 159.8 million euro due to net changes in the "Revaluation account" balance (152.1 million euro) and the profits earned in 2020 (26.6 million euro), while the share of profits earned in 2019 and remitted to the state budget revenue (19.0 million euro) had a decreasing effect.

### **3.2 Financial performance**

In 2020, Latvijas Banka's profit amounted to 26.6 million euro (27.2 million euro in 2019).

Net interest income in 2020 grew by 43.6 million euro as compared to 2019 and reached the amount of 139.5 million euro. This mainly resulted from a 52.1 million euro decrease in interest expense on account of lower costs of hedging currency risks.

The realised result from financial operations was positive (44.5 million euro; 46.3 million euro in 2019), while the recognition of the negative revaluation result on financial assets and positions in the profit and loss statement increased to stand at 35.2 million euro (3.9 million euro in 2019), mostly on account of depreciation of the US dollar vis-à-vis the euro (see also Notes 34 and 35).

In 2020, additional provisions in the amount of 78.2 million euro were established for market risk and credit risk (80.2 million in 2019).

Income from equity securities and participating interest amounted to 18.6 million euro (14.9 million euro in 2019), the increase resulting from higher dividends due to the equity securities portfolio growth.

Pursuant to the Statute of the ESCB and of the ECB, the income generated by euro area NCBs through the implementation of the single monetary policy of the Eurosystem is allocated to euro area NCBs in proportion to their shares in the ECB's capital. In 2019, Latvijas Banka's net result of pooling of monetary income was negative (27.7 million euro; negative at 6.8 million euro in 2019).

Other operating income stood at 1.3 million euro (1.3 million euro in 2019).

The total recognised financial result, including changes in the "Revaluation account" balance, decreased by 14.7 million euro in comparison with 2019 and reached 178.8 million euro on account of a decrease of 45.6 million euro in the positive result of revaluation and a 31.4 million euro rise in the negative result on revaluation of financial assets and positions in the profit and loss statement, while the profit for the reporting year was 0.5 million euro lower than in 2019.

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

During the reporting year, the COVID-19 pandemic had no material effect on Latvijas Banka's operating income and expenses, except net interest income related to conducting monetary policy operations. The restrictions imposed to limit the spread of the pandemic in Latvia in the reporting year had no significant impact on the performance of Latvijas Banka's functions and provision of services.

#### **4. FINANCIAL INVESTMENT POLICY**

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

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

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

The breakdown of investments by type of investment portfolio at the end of 2020 and 2019 was as follows:

	Book value (in thousands of euro)		Proportion (%)	
	2020	2019	2020	2019
1–10 year fixed income securities portfolios	<b>3 445 980</b>	3 535 151	<b>58.2</b>	62.5
Mortgage-backed securities portfolios	<b>1 211 775</b>	1 175 059	<b>20.5</b>	20.8
Equity securities portfolio	<b>573 316</b>	289 428	<b>9.7</b>	5.1
Gold portfolio	<b>330 139</b>	289 043	<b>5.6</b>	5.1
Long-term fixed income securities portfolio	<b>168 173</b>	168 099	<b>2.8</b>	3.0
The portfolio of borrowed funds	<b>143 350</b>	153 351	<b>2.4</b>	2.7
Latvian government securities portfolio	<b>47 025</b>	47 912	<b>0.8</b>	0.8
<b>Total</b>	<b>5 919 758</b>	5 658 043	<b>100.0</b>	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 equity securities portfolio benchmark is the equity securities index comprised of issuers from developed countries.

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

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

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

The benchmark currency of Latvijas Banka's investment portfolios is the euro, except for the portfolio of borrowed funds, the equity securities portfolio and the gold portfolio, thus limiting the currency risk. For the portfolio of borrowed funds, the benchmark currency structure is formed considering the currency of the respective liabilities.

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

## BALANCE SHEET NOTES

### 5. FAIR VALUE MEASUREMENT

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

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

– observable data. The fair value is determined using quoted prices for similar financial instruments in active markets, quoted prices for similar or identical 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 2020 and 2019, Latvijas Banka's assets carried at fair value were generally valued on the basis of a quoted market price.

At the end of 2020 and 2019, 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 2020 and 2019, 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		
<b>As at 31 December 2019</b>						
Gold	289 043	289 043	–	–	289 043	–
Securities in investment portfolios	5 151 246	4 552 682	610 900	–	5 163 582	12 336
Forward exchange rate contracts	24 649	–	24 043	–	24 043	–606
Interest rate swap arrangements	–533	–533	–	–	–533	–
Securities held for monetary policy purposes	7 703 471	8 155 588	–	–	8 155 588	452 117
Participating interest in the Bank for International Settlements	34 341	–	–	34 341	34 341	–
<b>Total</b>	<b>13 202 217</b>	<b>12 996 780</b>	<b>634 943</b>	<b>34 341</b>	<b>13 666 064</b>	<b>463 847</b>
<b>As at 31 December 2020</b>						
Gold	330 139	330 139	–	–	330 139	–
Securities in investment portfolios	5 362 253	4 842 019	541 405	–	5 383 424	21 171
Forward exchange rate contracts	25 613	–	25 063	–	25 063	–550
Interest rate swap arrangements	1	1	–	–	1	–
Securities held for monetary policy purposes	10 082 251	10 897 433	–	–	10 897 433	815 182
Participating interest in the Bank for International Settlements	35 960	–	–	35 960	35 960	–
<b>Total</b>	<b>15 836 217</b>	<b>16 069 592</b>	<b>566 468</b>	<b>35 960</b>	<b>16 672 020</b>	<b>835 803</b>

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 2018	213 384	239 195
<b>During 2019</b>		
Increase in gold market value	x	49 749
Net change resulting from gold swaps arrangements	73	99
As at 31 December 2019	213 457	289 043
<b>During 2020</b>		
Increase in gold market value	x	40 511
Net change resulting from gold swaps arrangements	379	585
<b>As at 31 December 2020</b>	<b>213 836</b>	<b>330 139</b>

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

At the end of 2020, all gold in the amount of 330 139 thousand euro (289 043 thousand euro at the end of 2019) had been involved in gold swaps arrangements (see also Notes 21 and 44).

At the end of 2020 and 2019, Latvijas Banka had no gold receivables.

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

### 7.1 Receivables from the International Monetary Fund

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

Latvia's claims on the IMF include SDR and Latvia's quota in the IMF. SDR is an international reserve asset created by the IMF and used in transactions between the IMF and its members. The quota in the IMF reflects the subscription in the IMF of respective members. Latvia's quota in the IMF is secured by the Latvian government promissory note issued to the IMF and 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 2020, the receivables from the IMF in SDR as recorded on Latvijas Banka's balance sheet were equivalent to 142 411 thousand euro (149 082 thousand euro at the end of 2019), whereas the liabilities to the IMF are made up of funds at the disposal of the IMF in the amount of 983 thousand euro (1035 thousand euro at the end of 2019) held on its Accounts No. 1 and No. 2 (see also Note 19).

At the end of 2020 and 2019, Latvia's net receivables from the IMF were as follows:

	(in thousands of euro)		(in thousands of SDR)	
	2020	2019	2020	2019
Latvia's quota in the International Monetary Fund	<b>391 649</b>	410 025	<b>332 300</b>	332 300
International Monetary Fund holdings in euro	<b>-391 588</b>	-409 967	<b>-332 249</b>	-332 253
Promissory note of the Latvian government	-390 605	-408 932	-331 414	-331 414
Account No. 1	-979	-1 025	-831	-831
Account No. 2	-4	-10	-4	-8
Reserve position in the International Monetary Fund	<b>65</b>	68	55	55
SDR	<b>142 411</b>	149 082	<b>120 830</b>	120 822
General allocation	<b>-110 786</b>	-115 984	<b>-93 998</b>	-93 998
Special allocation	<b>-31 615</b>	-33 098	<b>-26 824</b>	-26 824
Latvia's net receivables from the International Monetary Fund	<b>75</b>	68	<b>63</b>	55

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

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

	(in thousands of euro)	
	2020	2019
Securities	<b>3 783 432</b>	3 501 497
Demand deposits	<b>44 920</b>	38 375
Foreign currency in cash	<b>17</b>	18
Total	<b>3 828 369</b>	3 539 890

## 8. CLAIMS ON EURO AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY

	(in thousands of euro)	
	2020	2019
Securities	<b>332 969</b>	460 047
Demand deposits	<b>737</b>	368
Total	<b>333 706</b>	460 415

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

	(in thousands of euro)	
	2020	2019
Securities	<b>105 509</b>	84 352
Demand deposits	<b>13 634</b>	5 787
Total	<b>119 143</b>	90 139

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

At the end of 2020, the total amount of Eurosystem loans in monetary policy operations reached 1 793 194 million euro (624 233 million euro at the end of 2019), including 1260 million euro (12.3 million euro at the end of 2019) 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 (see Note 2.27). 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 2020 and 2019, Latvijas Banka had granted no loans in main refinancing operations.

### **10.2 Longer-term refinancing operations**

Longer-term refinancing operations are open market operations, executed through reverse transactions with the aim to provide credit institutions with additional longer-term refinancing. Such operations are conducted through monthly standard tenders with maturities between 3 and 48 months. In addition, following the decision of the Governing Council of the ECB, TLTROs were launched in 2014. They are liquidity providing reverse operations providing longer-term liquidity to credit institutions on attractive terms, so that they can continue easing the terms and conditions of lending to the private sector and to encourage their lending to the real economy. In 2016, the Governing Council of the ECB introduced a new series of four targeted longer-term refinancing operations (TLTRO II). These operations have a four-year maturity, with a possibility of early repayment after two years. 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. In 2020, the Governing Council of the ECB added three further operations to this series, which will be 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%. Additionally, in April 2020, the Governing Council of the ECB decided to conduct a new series of seven additional longer-term refinancing operations (maturing at the third quarter of 2021) called pandemic emergency longer-term refinancing operations (PELTROs). 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 2020, Latvijas Banka granted loans in the amount of 1 260 000 thousand euro to Latvian credit institutions at TLTRO III auctions and received 12 250 thousand euro as repayment of loans granted to credit institutions. At the end of 2020, the balance of the TLTROs conducted by Latvijas Banka stood at 1 260 000 thousand euro; these operations will mature in 2023 (at the end of 2019, the balance was 12 250 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 (120 thousand euro at the end of 2020; 8 thousand euro at the end of 2019).

## **12. SECURITIES OF EURO AREA RESIDENTS DENOMINATED IN EURO**

At the end of 2020, the amount of securities held by the Eurosystem for monetary policy purposes totalled 3695 billion euro (2632 billion euro at the end of 2019). Of them, Latvijas Banka held 10 008 million euro (7636 million euro at the end of 2019). 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 2020, the amount of government securities purchased by the euro area NCBs under the PSPP totalled 1872 billion euro (1681 billion euro at the end of 2019); of them, Latvijas Banka held Latvian government securities in the amount of 1848 million euro (1448 million euro at the end of 2019). At the end of 2020, the amount of government securities purchased by the euro area NCBs under the PEPP totalled 586 913 million euro (0 euro at the end of 2019); of them, the amount of Latvian government securities held by Latvijas Banka was 749 million euro.

Between the end of 2018 and October 2019, only the principal payments from the purchased and matured securities were fully reinvested. As of 1 November 2019, the Governing Council of the ECB decided to restart its net purchases of securities under the APP at a monthly pace of 20 billion euro. In March 2020, the Governing Council of the ECB made a decision on additional temporary net asset purchases in the amount of 120 billion euro until the end of 2020. The Governing Council of the ECB expects them to run for as long as necessary to reinforce the accommodative impact of its monetary policy rates, and to end shortly before the ECB starts raising the key ECB interest rates. 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, with an overall envelope of 750 billion euro. In June and December 2020, the Governing Council of the ECB decided to increase the initial PEPP envelope by 600 billion euro and 500 billion euro respectively; thus, the total PEPP envelope reached 1850 billion euro at the end of 2020. The purchase period of the net assets was also extended to at least March 2022 or until the crisis caused by the COVID-19 pandemic is over.

Securities held for monetary policy purposes and securities held to maturity are measured at amortised cost subject to impairment. The comparison of the book value and fair value of the above securities is represented in Note 5. Other securities are accounted for at fair value.

	(in thousands of euro)	
	Book value	
	2020	2019
Securities held for monetary policy purposes	<b>10 008 456</b>	7 636 472
Latvian government securities	2 596 791	1 447 653
PSPP government securities	1 848 233	1 447 653
PEPP government securities	748 558	0
Debt securities issued by international institutions	7 411 665	6 188 819
PSPP debt securities issued by international institutions	6 469 341	6 118 819
PEPP debt securities issued by international institutions	942 324	0
Other securities	<b>1 120 984</b>	1 084 665
Securities not held to maturity	952 811	916 566
Securities held to maturity	168 173	168 099
<b>Total</b>	<b>11 129 440</b>	8 721 137

### 13. INTRA-EUROSISTEM CLAIMS/LIABILITIES (–)

		(in thousands of euro)	
	Note	2020	2019
Participating interest in the European Central Bank	13.1	<b>114 095</b>	114 108
Claims in respect of foreign reserves transferred to the European Central Bank	13.2	<b>157 202</b>	158 264
Claims related to the allocation of banknotes in the Eurosystem	13.4	<b>5 397 767</b>	4 999 497
Claims related to other operational requirements within the Eurosystem	13.5	<b>4 910</b>	5 614
<b>Total intra-Eurosystem claims</b>		<b>5 673 974</b>	5 277 483
Liabilities related to TARGET2 and national central bank correspondent accounts (net)	13.3	<b>–4 809 553</b>	–3 826 452
Other liabilities within the Eurosystem	13.5	<b>–28 060</b>	–7 088
<b>Total intra-Eurosystem liabilities</b>		<b>–4 837 613</b>	–3 833 540
<b>Intra-Eurosystem claims/liabilities (–) (net)</b>		<b>836 361</b>	1 443 943

### 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. Since 1 January 2014, Latvijas Banka's weighting in the ECB's capital key was 0.2821%, equivalent to 30 537 thousand euro; however, on 1 January 2019, the weightings of the NCBs in the ECB's capital subscription key were adjusted, therefore Latvijas Banka's weighting in the ECB capital subscription key slightly decreased to 0.2731%, equivalent to 29 563 thousand euro. As a result of the departure of the United Kingdom from the European Union and the subsequent withdrawal of the Bank of England from the ESCB, the weightings assigned to the remaining NCBs in the key for subscription to the ECB's capital were adjusted in 2020. The Bank of England's share in the ECB's subscribed capital (14.3374%) was reallocated among other NCBs; hence the capital key of Latvijas Banka increased from 0.2731% to 0.3169%, equivalent to 34 304 thousand euro.

The Statute of the ESCB and of the ECB stipulates that a euro area NCB shall pay up its subscribed share in the ECB's capital in full, as well as contribute to the ECB's reserve capital, to those provisions equivalent to reserves and to the revaluation account for financial instruments in proportion to its share in the ECB's capital. After Latvijas Banka's weighting in the ECB capital subscription key changed in 2020, and in line with the decisions of the Governing Council of the ECB regarding the paying up of the ECB's capital following the withdrawal of the United Kingdom from the EU, the paid-up share in the ECB's capital decreased by 13 thousand euro, and claims equivalent to the transfer of foreign reserves to the ECB shrank by 1062 thousand euro (see also Note 13.2). At the end of 2020, the participating interest in the ECB consisted of the paid-up shares in the amount of 29 550 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 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)	
	2020	2019
Total amount of the European Central Bank's subscribed capital	<b>10 825 007</b>	10 825 007
The subscribed share of Latvijas Banka in the European Central Bank's capital	<b>34 304</b>	<b>29 563</b>
The paid-up share of Latvijas Banka in the European Central Bank's capital	<b>29 550</b>	29 563
The percentage share of Latvijas Banka in the European Central Bank's capital (capital key; %)	<b>0.3169</b>	<b>0.2731</b>

At the end of 2020 and 2019, the percentage shares of NCBs in the ECB's capital (capital key) were as follows:

	(%)	
	2020	2019
Nationale Bank van België/Banque Nationale de Belgique	<b>2.9630</b>	2.5280
Deutsche Bundesbank	<b>21.4394</b>	18.3670
Eesti Pank	<b>0.2291</b>	0.1968
Banc Ceannais na hÉireann/Central Bank of Ireland	<b>1.3772</b>	1.1754
Bank of Greece	<b>2.0117</b>	1.7292
Banco de España	<b>9.6981</b>	8.3391
Banque de France	<b>16.6108</b>	14.2061
Banca d'Italia	<b>13.8165</b>	11.8023
Central Bank of Cyprus	<b>0.1750</b>	0.1503
Latvijas Banka	<b>0.3169</b>	0.2731
Lietuvos bankas	<b>0.4707</b>	0.4059
Banque centrale du Luxembourg	<b>0.2679</b>	0.2270
Bank Ċentrali ta' Malta/Central Bank of Malta	<b>0.0853</b>	0.0732
De Nederlandsche Bank	<b>4.7662</b>	4.0677
Oesterreichische Nationalbank	<b>2.3804</b>	2.0325
Banco de Portugal	<b>1.9035</b>	1.6367
Banka Slovenije	<b>0.3916</b>	0.3361
Národná banka Slovenska	<b>0.9314</b>	0.8004
Suomen Pankki – Finlands Bank	<b>1.4939</b>	1.2708
Subtotal for euro area NCBs	<b>81.3286</b>	69.6176
Българска народна банка (Bulgarian National Bank)	<b>0.9832</b>	0.8511
Česká národní banka	<b>1.8794</b>	1.6172
Danmarks Nationalbank	<b>1.7591</b>	1.4986
Hrvatska narodna banka	<b>0.6595</b>	0.5673
Magyar Nemzeti Bank	<b>1.5488</b>	1.3348
Narodowy Bank Polski	<b>6.0335</b>	5.2068
Banca Națională a României	<b>2.8289</b>	2.4470
Sveriges Riksbank	<b>2.9790</b>	2.5222
Bank of England	<b>0.0000</b>	14.3374
Subtotal for non-euro area NCBs	<b>18.6714</b>	30.3824
Total	<b>100.0000</b>	100.0000

In 2020, the subscribed capital of the ECB remained unchanged at 10 825 million euro; therefore, the share of Latvijas Banka in the ECB's subscribed capital increased by 4741 thousand euro, to 34 304 thousand euro. When the Bank of England left the ESCB, the total amount of the ECB's capital to be paid up increased by 1221 million euro due to the overall increase in the weightings of the euro area NCBs (with fully paid-up subscription) in the ECB's subscribed capital and the equivalent decrease in the weightings of non-euro area NCBs (which have only paid up 3.75% of their subscriptions) in the ECB's subscribed capital. The Governing Council of the ECB decided that the euro area NCBs would pay up in full their increased subscriptions in two instalments: at the end of 2021 and 2022 respectively.

The subscribed and paid-up NCB shares in the ECB's capital at the end of 2020 and 2019 were as follows:

(in thousands of euro)

	Subscribed capital		Paid-up capital	
	2020	2019	2020	2019
Nationale Bank van België/ Banque Nationale de Belgique	<b>320 745</b>	273 656	<b>276 291</b>	273 656
Deutsche Bundesbank	<b>2 320 817</b>	1 988 229	<b>1 999 160</b>	1 988 229
Eesti Pank	<b>24 800</b>	21 304	<b>21 363</b>	21 304
Banc Ceannais na hÉireann/Central Bank of Ireland	<b>149 082</b>	127 237	<b>128 420</b>	127 237
Bank of Greece	<b>217 767</b>	187 186	<b>187 585</b>	187 186
Banco de España	<b>1 049 820</b>	902 708	<b>904 319</b>	902 708
Banque de France	<b>1 798 120</b>	1 537 811	<b>1 548 908</b>	1 537 811
Banca d'Italia	<b>1 495 637</b>	1 277 600	<b>1 288 347</b>	1 277 600
Central Bank of Cyprus	<b>18 944</b>	16 270	<b>16 318</b>	16 270
Latvijas Banka	<b>34 304</b>	29 563	<b>29 550</b>	29 563
Lietuvos bankas	<b>50 953</b>	43 939	<b>43 891</b>	43 939
Banque centrale du Luxembourg	<b>29 000</b>	24 573	<b>24 981</b>	24 573
Bank Ċentrali ta' Malta/Central Bank of Malta	<b>9 234</b>	7 924	<b>7 954</b>	7 924
De Nederlandsche Bank	<b>515 941</b>	440 329	<b>444 434</b>	440 329
Oesterreichische Nationalbank	<b>257 678</b>	220 018	<b>221 965</b>	220 018
Banco de Portugal	<b>206 054</b>	177 173	<b>177 496</b>	177 173
Banka Slovenije	<b>42 391</b>	36 383	<b>36 516</b>	36 383
Národná banka Slovenska	<b>100 824</b>	86 643	<b>86 850</b>	86 643
Suomen Pankki – Finlands Bank	<b>161 715</b>	137 564	<b>139 302</b>	137 564
Subtotal for euro area NCBs	<b>8 803 827</b>	7 536 110	<b>7 583 649</b>	7 536 110
Българска народна банка (Bulgarian National Bank)	<b>106 431</b>	92 132	<b>3 991</b>	3 455
Česká národní banka	<b>203 445</b>	175 062	<b>7 629</b>	6 565
Danmarks Nationalbank	<b>190 423</b>	162 224	<b>7 141</b>	6 083
Hrvatska narodna banka	<b>71 391</b>	61 410	<b>2 677</b>	2 303
Magyar Nemzeti Bank	<b>167 658</b>	144 492	<b>6 287</b>	5 418
Narodowy Bank Polski	<b>653 127</b>	563 636	<b>24 492</b>	21 136
Banca Națională a României	<b>306 229</b>	264 888	<b>11 484</b>	9 933
Sveriges Riksbank	<b>322 477</b>	273 028	<b>12 093</b>	10 239
Bank of England	<b>0</b>	1 552 025	<b>0</b>	58 201
Subtotal for non-euro area NCBs	<b>2 021 182</b>	3 288 897	<b>75 794</b>	123 334
Total <sup>2</sup>	<b>10 825 007</b>	10 825 007	<b>7 659 444</b>	7 659 444

<sup>2</sup> The total amount and the sum of the components may differ due to rounding.

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

Pursuant to the Statute of the ESCB and of the ECB, euro area NCBs shall transfer a definite amount of their foreign reserves to the ECB. The amount of foreign reserves to be transferred shall be fixed in proportion to the capital key weighting of each euro area NCB in the ECB's capital. For the foreign reserves transferred to the ECB, Latvijas Banka received a euro-denominated claim on the ECB in the amount of 163 480 thousand euro, i.e. in proportion to the value of the respective claims of other euro area NCBs. After Latvijas Banka's weighting in the ECB's capital subscription key changed in 2020, this claim decreased to the amount of 157 202 thousand euro. The difference between the market value of the foreign reserves transferred to the ECB and the value of the corresponding euro-denominated claim in the amount of 41 793 thousand euro is reported as participating interest in the ECB (see also Note 13.1). The interest rate on the main refinancing operations set by the ECB is applied to the claims equivalent to the transfer of foreign reserves to the ECB (see also Note 33).

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

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

In 2020, the liabilities related to TARGET2 and national central bank correspondent accounts (net) increased as a result of the cross-border payments effected by credit institutions and Latvijas Banka.

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

### **13.4 Claims related to the allocation of banknotes within the Eurosystem**

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

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

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

Monetary income to be pooled by Latvijas Banka in 2020 was higher than monetary income to be received. This resulted in a liability to the ECB associated with the net result of pooling of monetary income, standing at 28 060 thousand euro at the end of 2020 (7088 thousand euro claim at the end of 2019; see also Notes 2.27 and 38).

Claims for the ECB's interim profit distribution in the amount of 4910 thousand euro are set as per Latvijas Banka's percentage share in the ECB's capital (5614 thousand euro at the end of 2019; see also Notes 2.26 and 37).

#### 14. OTHER ASSETS

(in thousands of euro)

	Note	2020	2019
Accrued interest on securities held for monetary policy purposes		<b>73 795</b>	66 999
Participating interest in the Bank for International Settlements	14.2	<b>35 960</b>	34 341
OTC financial derivative contracts	24	<b>34 169</b>	32 492
Fixed assets	14.1	<b>33 590</b>	35 319
Claims on collateral for the use of the instant payment service	17	<b>26 306</b>	11 581
Accrued interest on other securities		<b>18 196</b>	20 146
Intangible assets	14.1	<b>2 160</b>	2 263
Other accrued income		<b>2 660</b>	1 491
Prepaid expenses		<b>1 030</b>	951
Other		<b>574</b>	479
<b>Total</b>		<b>228 440</b>	206 062

## 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
<b>As at 31 December 2018</b>							
Cost	61 349	6 315	4 595	7 046	9 910	89 215	7 800
Accumulated depreciation/amortisation	-30 871	-4 098	-3 472	-5 684	-7 300	-51 425	-5 394
<b>Net book value</b>	<b>30 478</b>	<b>2 217</b>	<b>1 123</b>	<b>1 362</b>	<b>2 610</b>	<b>37 790</b>	<b>2 406</b>
<b>During 2019</b>							
Additions	616	35	431	1 540	202	2 824	387
Change in classification	-3	-	-	-	3	-	-
Disposals and write-offs	-3 664	-119	-259	-3 253	-285	-7 580	-77
<b>Net change in cost</b>	<b>-3 051</b>	<b>-84</b>	<b>172</b>	<b>-1 713</b>	<b>-80</b>	<b>-4 756</b>	<b>310</b>
Depreciation/amortisation charge	-1 982	-264	-564	-310	-479	-3 599	-530
Change in classification	3	-	-	-	-3	-	-
Accumulated depreciation/amortisation on disposals and write-offs	2 269	116	258	2 963	278	5 884	77
<b>Net change in accumulated depreciation/amortisation</b>	<b>290</b>	<b>-148</b>	<b>-306</b>	<b>2 653</b>	<b>-204</b>	<b>2 285</b>	<b>-453</b>
<b>As at 31 December 2019</b>							
Cost	58 298	6 231	4 767	5 333	9 830	84 459	8 110
Accumulated depreciation/amortisation	-30 581	-4 246	-3 778	-3 031	-7 504	-49 140	-5 847
<b>Net book value</b>	<b>27 717</b>	<b>1 985</b>	<b>989</b>	<b>2 302</b>	<b>2 326</b>	<b>35 319</b>	<b>2 263</b>
<b>During 2020</b>							
Additions	346	48	430	673	165	1 662	457
Change in classification	-1	-6	6	-	-24	-25	25
Disposals and write-offs	-	-146	-154	-86	-1 483	-1 869	-
<b>Net change in cost</b>	<b>345</b>	<b>-104</b>	<b>282</b>	<b>587</b>	<b>-1 342</b>	<b>-232</b>	<b>482</b>
Depreciation/amortisation charge	-1 917	-252	-444	-251	-427	-3 291	-560
Change in classification	1	6	-6	-	24	25	-25
Accumulated depreciation/amortisation on disposals and write-offs	-	144	153	86	1 386	1 769	-
<b>Net change in accumulated depreciation/amortisation</b>	<b>-1 916</b>	<b>-102</b>	<b>-297</b>	<b>-165</b>	<b>983</b>	<b>-1 497</b>	<b>-585</b>
<b>As at 31 December 2020</b>							
Cost	58 643	6 127	5 049	5 920	8 488	84 227	8 592
Accumulated depreciation/amortisation	-32 497	-4 348	-4 075	-3 196	-6 521	-50 637	-6 432
<b>Net book value</b>	<b>26 146</b>	<b>1 779</b>	<b>974</b>	<b>2 724</b>	<b>1 967</b>	<b>33 590</b>	<b>2 160</b>

At the end of 2020, Latvijas Banka's contractual commitments related to acquisition of fixed assets were 24 thousand euro (11 thousand euro at the end of 2019).

#### **14.2 Participating interest in the Bank for International Settlements**

At the end of 2020 and 2019, 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 46). At the end of 2020 and 2019, the BIS shareholding is reported in Latvijas Banka's balance sheet at fair value. The shares in the BIS are not traded in the public securities market. In the opinion of Latvijas Banka, the most appropriate method for establishing the fair value of the BIS shares is the use of 70% of the BIS net asset value based on the latest published financial statements of the BIS. The BIS applied this valuation method for calculating the issue price of its shares; the International Court of Justice at The Hague has also recognised it as appropriate for the valuation of shares when repurchasing them from former private shareholders of the BIS. Pursuant to the Statutes of the BIS, only central banks can be shareholders in the BIS. At the end of 2020, the estimated fair value of BIS shares was 35 960 thousand euro (34 341 thousand euro at the end of 2019).

#### **15. BANKNOTES IN CIRCULATION**

	(in thousands of euro)	
	<b>2020</b>	2019
Euro banknotes	<b>5 142 726</b>	4 666 799
Net issuance of euro banknotes by Latvijas Banka	-255 041	-332 698
Adjustment for banknote allocation in the Eurosystem	5 397 767	4 99 497
<b>Total</b>	<b>5 142 726</b>	4 666 799

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 2020 decreased, reducing the difference between the amount of banknotes deposited with Latvijas Banka and the amount of banknotes withdrawn from Latvijas Banka; consequently, the negative net issuance of euro banknotes by Latvijas Banka reached 255 041 thousand euro. At the end of 2020, the total amount of euro banknotes in circulation in the Eurosystem grew to 1435 billion euro (1293 billion euro at the end of 2019); as a result, an increase in the adjustment for banknote allocation in the Eurosystem was reported on the balance sheet of Latvijas Banka.

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

##### **16.1 Current accounts (covering the minimum reserve system)**

Current accounts contain the credit balances on the transaction accounts of credit institutions that are required to hold minimum reserves. The latest available interest rate used by the Eurosystem in its tenders for main refinancing operations is applied to the balances held on those accounts within the framework of the reserve requirements. Since June 2014, the lower rate of either 0% or the ECB's deposit facility rate has been applied to the reserves held in excess of the minimum requirements. On 12 September 2019, the Governing Council of the ECB decided to introduce a two-tier system for reserve remuneration, which exempts part of credit institutions' excess liquidity holdings (i.e. reserve holdings in excess of minimum reserve requirements) from the negative remuneration rate applicable on the deposit facility.

At the end of 2020, the balance on the current accounts with Latvijas Banka was 6 053 812 thousand euro (5 660 676 thousand euro at the end of 2019), including the minimum reserves in the amount of 168 154 thousand euro (156 304 thousand euro at the end of 2019).

##### **16.2 Deposit facility**

Deposit facility is a standing facility of the Eurosystem used by credit institutions to place their overnight deposits at a pre-specified rate. No such deposits were placed with Latvijas Banka at the end of 2020 and 2019.

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

	(in thousands of euro)	
	2020	2019
Liabilities for repurchase agreements	551 537	–
Collateral received for the use of the instant payment service	26 209	11 871
Total	577 746	11 871

## 18. LIABILITIES TO OTHER EURO AREA RESIDENTS DENOMINATED IN EURO

Liabilities to other euro area residents denominated in euro comprise demand deposits by the Latvian government and other financial institutions. Government deposits comprise the Treasury demand deposits received by Latvijas Banka acting as the financial agent of the Latvian government (see also Note 43).

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

Liabilities to other financial institutions mostly comprise funds received under repurchase agreements concluded in 2020.

	(in thousands of euro)	
	2020	2019
Other financial institutions	237 744	306 195
International Monetary Fund	983	1 035
European Commission	9	9
Total	238 737	307 239

## 20. LIABILITIES TO EURO AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY

	(in thousands of euro)	
	2020	2019
Liabilities for repurchase agreements	472 636	–
Demand deposits of the Latvian government	143 350	153 351
Total	615 986	153 351

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

	(in thousands of euro)	
	2020	2019
Liabilities for repurchase agreements	1 042 015	1 363 337
Liabilities for gold swap arrangements	321 995	279 031
Total	1 364 010	1 642 368

## 22. OTHER LIABILITIES

		(in thousands of euro)	
	Note	2020	2019
Provisions for market risk and credit risk	36	281 723	203 900
Euro coins in circulation	22.1	79 690	79 496
Lats banknotes in circulation	22.1	22 584	23 719
Accrued expense and similar liabilities		13 637	9 805
OTC financial derivative contracts and spot exchange rate contracts	24	7 479	7 837
Lats coins in circulation	22.1	2 750	2 855
Tax liabilities	22.2	19	13
Other		1 818	1 701
<b>Total</b>		<b>409 700</b>	<b>329 326</b>

### 22.1 Banknotes and coins in circulation

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 7034 thousand euro at the end of 2020 (6960 thousand euro at the end of 2019). The above coins in circulation have not been reported under the balance sheet item "Other liabilities" (see also Notes 2.21 and 46).

Issued lats banknotes and coins with a low probability of exchange in the amount of 95 600 thousand euro, including lats banknotes in the amount of 35 791 thousand euro and lats coins in the amount of 59 809 thousand euro at the end of 2019) have not been reported as a liability on the balance sheet at the end of 2020 and 2019 (see also Note 46).

### 22.2 Tax liabilities

At the end of 2020 and 2019, tax liabilities of Latvijas Banka were as follows:

	(in thousands of euro)						
	Personal income tax	State compulsory social security contributions and ST (by employer)	State compulsory social security contributions and ST (by employee)	Tax on real estate	Value added tax	Other taxes and duties	Total
Liabilities as at 31 December 2018	–	–	–	–	65	1	66
<b>During 2019</b>							
Calculated	3 076	3 941	1 843	225	1 349	1	10 435
Increase in deferred liabilities	–	101	–	–	–	–	101
Paid	–3 076	–4 042	–1 843	–225	–1 401	–2	–10 589
Liabilities as at 31 December 2019	–	–	–	–	13	–	13
<b>During 2020</b>							
Calculated	2 999	3 764	1 790	220	1 156	3	9 932
Increase in deferred liabilities	–	40	–	–	–	–	40
Paid	–2 999	–3 802	–1 789	–220	–1 154	–2	–9 966
<b>Liabilities as at 31 December 2020</b>	<b>–</b>	<b>2</b>	<b>1</b>	<b>–</b>	<b>15</b>	<b>1</b>	<b>19</b>

In addition to the tax payments indicated herein, in 2020, Latvijas Banka transferred to the state budget 70% of the profit for the previous year (19 009 thousand euro in 2020; 10 196 thousand euro in 2019; see also Notes 23 and 43). The transfer includes the payment for the usage of state capital. Latvijas Banka is not subject to corporate income tax.

## 23. CAPITAL AND RESERVES

(in thousands of euro)

	Nominal capital	Reserve capital	Revaluation account	Profit for the year	Capital and reserves
As at 31 December 2018	100 000	236 363	99 439	14 566	450 368
<b>During 2019</b>					
Net result of revaluation, realisation, and revaluation result recognition in profit and loss statement	x	x	166 303	x	166 303
Profit appropriated to the state budget	x	x	x	-10 196	-10 196
Profit transferred to the reserve capital	x	4 370	x	-4 370	-
Profit for the year	x	x	x	27 155	27 155
As at 31 December 2019	100 000	240 733	265 742	27 155	633 630
<b>During 2020</b>					
Net result of revaluation, realisation, and revaluation result recognition in profit and loss statement	x	x	152 131	x	152 131
Profit appropriated to the state budget	x	x	x	-19 009	-19 009
Profit transferred to the reserve capital	x	8 146	x	-8 146	-
Profit for the year	x	x	x	26 646	26 646
<b>As at 31 December 2020</b>	<b>100 000</b>	<b>248 879</b>	<b>417 873</b>	<b>26 646</b>	<b>793 398</b>

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

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

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

The Law on Latvijas Banka establishes that a part of Latvijas Banka's profit for the reporting year, calculated by applying the same percentage as the corporate income tax rate set by the Law on Corporate Income Tax, together with a payment in the amount of 50% of the profit for the reporting year for the usage of state capital shall be transferred to the state budget. Furthermore, 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 2020 and 2019, the corporate income tax rate was 20%. Therefore, unless the Council of Latvijas Banka decides otherwise, 70% of Latvijas Banka's profit for the reporting year or 18 652 thousand euro shall be transferred to the state budget within 15 days following the approval of the Annual Report of 2020 by the Council of Latvijas Banka.

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

In 2020 and 2019, the changes in the revaluation account were as follows:

(in thousands of euro)

	2020	Recognition in profit and loss statement	Revaluation	Realisation	2019
Revaluation reserve for participating interest	<b>33 451</b>	–	1 619	–	31 832
Result on revaluation of foreign currencies and gold	<b>131 683</b>	28 642	11 622	–	91 419
Result on revaluation of interest rate swap arrangements	–	296	–296	–62	62
Result on revaluation of securities	<b>252 739</b>	6 299	128 005	–23 994	142 429
<b>Total</b>	<b>417 873</b>	35 237	140 950	–24 056	265 742

  

	2019	Recognition in profit and loss statement	Revaluation	Realisation	2018
Initial revaluation account	–	x	x	–2 859	2 859
Revaluation reserve for participating interest	31 832	–	3 020	–	28 812
Result on revaluation of foreign currencies and gold	91 419	145	45 994	–	45 280
Result on revaluation of interest rate swap arrangements	62	431	–369	–	–
Result on revaluation of securities	142 429	3 280	120 788	–4 127	22 488
<b>Total</b>	<b>265 742</b>	3 856	169 433	–6 986	99 439

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

The balance on the initial revaluation account is recognised in the profit and loss statement to compensate lower remuneration for claims related to the banknote allocation within the Eurosystem as per the coefficients applied in accordance with the decisions of the Governing Council of the ECB for the calculation of the remuneration adjustment for claims related to the banknote allocation within the Eurosystem in the first six years after an NCB joins the Eurosystem (see Note 33). The amount to be recognised in the profit and loss statement for the respective year is calculated by multiplying the balance on the initial revaluation account as at 1 January 2014 with the share of the coefficient for calculating the compensation amount for the respective year in the total coefficients (indicated in Note 33) during the transition period when the adjustment amounts for the claims on banknote allocation in the Eurosystem are calculated. In 2019, the above six-year transition period following the date Latvijas Banka joined the Eurosystem expired.

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 2020 and 2019, the contract or notional amounts and book value of the above transactions were as follows:

(in thousands of euro)

	Contract or notional amount		Book value			
			Assets		Liabilities	
	2020	2019	2020	2019	2020	2019
OTC financial derivative and spot exchange rate contracts						
Forward exchange rate contracts and currency swap arrangements	2 487 071	2 524 378	31 971	31 570	5 004	6 477
Spot exchange rate contracts	409 272	396 631	–	–	1 354	444
Forward transactions in securities	1 186 202	788 442	2 197	843	812	304
Interest rate swap arrangements	24 366	36 229	1	79	309	612
<b>Total</b>	<b>x</b>	<b>x</b>	<b>34 169</b>	<b>32 492</b>	<b>7 479</b>	<b>7 837</b>
Derivative OTC gold swap arrangements	321 995	279 031	330 139	289 043	322 104	279 419
Traded financial derivative contracts						
Interest rate future contracts	912 276	1 374 836	x	x	x	x
Currency future contracts	100 000	100 000	x	x	x	x

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

To reduce the costs for hedging currency risks and increase return on financial investments, Latvijas Banka engages in gold swap arrangements (see also Notes 6 and 21).

## MAJOR RISKS AND PRINCIPLES FOR THEIR MANAGEMENT

### 25. RISK MANAGEMENT

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

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

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

#### 25.1 Financial risks

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

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 duly notifies the Council and the Board 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 and the Board 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 Board 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.

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 gold portfolio and the equity securities portfolio, 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 portfolios, mortgage-backed securities portfolios, and the equity securities portfolio (see Note 4) is managed by determining the tracking error limit. The tracking error in 2020 and 2019 is disclosed in Note 28.

The equity securities portfolio is exposed to the market price risk (the risk that the value of an investment might decrease due to price changes). As the equity securities portfolio is highly diversified, it is mostly exposed to the risk of systematic share price movements.

For investment portfolios, except for the portfolio of borrowed funds, the equity securities portfolio, and the gold portfolio, the benchmark currency is the euro. For the portfolio of borrowed funds, the benchmark currency structure is formed in compliance with the respective currency. Deviations from the benchmark currency structure give rise to the open currency position. In order to achieve the compliance of open foreign currency positions with the set limits, Latvijas Banka hedges the currency risk by using forward exchange rate contracts, currency swap arrangements, and currency future contracts.

The Risk Management Division of the Market Operations Department monitors the compliance of the 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 2020 and 2019) is disclosed in Notes 26–28.

### **25.1.2 Credit risk**

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

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

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

In 2020 and 2019, 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 market risk (as at the end of 2020 and 2019) is disclosed in Notes 30–32.

### **25.1.3 Liquidity risk**

Liquidity risk is associated with a failure to dispose of investments in a short time and at a competitive market price. Since Latvia joined the euro area, the need for liquidity and the risk associated with a failure to meet liabilities in a timely manner have considerably decreased. In compliance with its investment strategy, Latvijas Banka manages liquidity risk by investing a certain amount of its investments in liquid debt securities issued by international institutions, foreign governments and the corporate sector, in short-term deposits with foreign financial institutions and in other financial instruments. The liquidity structure of Latvijas Banka's assets and liabilities as at the end of 2020 and 2019 is disclosed in Note 29.

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

### **25.2 Operational risks**

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

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

Latvijas Banka's operational risks are managed through processes and projects by classifying the processes and risks, evaluating the impact of risks on the results of the processes or projects and, depending on the risk classification, defining and implementing the most appropriate actions to ensure adequate risk management. The Operational Risk Management Department is in charge of maintaining a common operational risk management framework, organising incident management as well as providing regular information on operational risk management pursuant to the legal acts of Latvijas Banka. The improved 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 increasing the effectiveness of this management model. In 2020, operational risk management was overseen by the Security Oversight Commission of Latvijas Banka.

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

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

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

Risks related to information security are managed to prevent unauthorised disclosure or use of confidential information, classifying it by its degree of confidentiality and ensuring appropriate protection, at the same time

taking care that the protective measures do not prevent Latvijas Banka from providing non-classified information to its cooperation partners and general public.

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

Latvijas Banka ensures 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.

As part of the framework for operational risk mitigation measures, Latvijas Banka is insured against a possible impact of certain types of operational risks.

In 2020, the main focus of operational risk management was on managing risks related to the COVID-19 pandemic and remote working. Operational risks were appropriately managed in 2020, and the risk mitigation measures limit those risks to acceptable levels.

## 26. CURRENCY STRUCTURE

	(in thousands of euro)						
	EUR	USD	CAD	GBP	Gold	Other	Total
<b>As at 31 December 2020</b>							
Total assets	18 443 448	3 400 387	367 842	348 093	330 139	155 833	23 045 742
Total liabilities	21 108 390	1 445 139	337 486	127 662	–	27 065	23 045 742
Net position on balance sheet	–2 664 942	1 955 248	30 356	220 431	330 139	128 768	0
Net position on financial instruments' off-balance sheet accounts	1 842 451	–1 575 561	–10 287	–195 983	–	–33 930	26 690
<b>Net position on balance sheet and off-balance sheet accounts</b>	<b>–822 491</b>	<b>379 687</b>	<b>20 069</b>	<b>24 448</b>	<b>330 139</b>	<b>94 838</b>	<b>26 690</b>
<b>Net position on balance sheet and off-balance sheet accounts to total assets (%)</b>	<b>–3.5</b>	<b>1.6</b>	<b>0.1</b>	<b>0.1</b>	<b>1.4</b>	<b>0.4</b>	<b>0.1</b>
<b>As at 31 December 2019</b>							
Total assets	14 338 668	3 264 840	386 768	360 716	289 043	105 474	18 745 509
Total liabilities	16 986 997	1 274 718	346 416	109 526	–	27 852	18 745 509
Net position on balance sheet	–2 648 329	1 990 122	40 352	251 190	289 043	77 622	0
Net position on financial instruments' off-balance sheet accounts	2 131 383	–1 811 033	–28 960	–235 321	–	–31 414	24 655
Net position on balance sheet and off-balance sheet accounts	–516 946	179 089	11 392	15 869	289 043	46 208	24 655
Net position on balance sheet and off-balance sheet accounts to total assets (%)	–2.8	1.0	0.1	0.1	1.5	0.2	0.1

## 27. REPRICING MATURITY

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

	(in thousands of euro)						
	Up to 3 months	3–12 months	1–3 years	3–5 years	Over 5 years	Non-interest bearing items	Total
<b>As at 31 December 2020</b>							
Gold and gold receivables	–	–	–	–	–	330 139	330 139
Claims on non-euro area residents denominated in foreign currency	201 815	163 406	119 098	653 618	2 137 144	695 699	3 970 780
Claims on euro area residents denominated in foreign currency	–	–	95 974	112 328	115 143	10 261	333 706
Claims on non-euro area residents denominated in euro	–	–	205	6 908	97 408	14 622	119 143
Lending to euro area credit institutions related to monetary policy operations denominated in euro	–	–	1 260 000	–	–	–	1 260 000
Other claims on euro area credit institutions denominated in euro	–	–	–	–	–	120	120
Securities of euro area residents denominated in euro	–	–	247 995	193 961	10 687 484	–	11 129 440
Intra-Eurosystem claims	–	–	–	–	–	5 673 974	5 673 974
Other assets	192	4	1 433	4 029	86 166	136 616	228 440
<b>Total assets</b>	<b>202 007</b>	<b>163 410</b>	<b>1 724 705</b>	<b>970 844</b>	<b>13 123 345</b>	<b>6 861 431</b>	<b>23 045 742</b>
Banknotes in circulation	–	–	–	–	–	5 142 726	5 142 726
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	6 053 812	–	–	–	–	–	6 053 812
Other liabilities to euro area credit institutions denominated in euro	574 869	–	–	–	–	2 877	577 746
Liabilities to other euro area residents denominated in euro	3 012 014	–	–	–	–	–	3 012 014
Liabilities to non-euro area residents denominated in euro	232 019	–	–	–	–	6 718	238 737
Liabilities to euro area residents denominated in foreign currency	615 986	–	–	–	–	–	615 986
Liabilities to non-euro area residents denominated in foreign currency	1 364 010	–	–	–	–	–	1 364 010
Intra-Eurosystem liabilities	4 809 553	–	–	–	–	28 060	4 837 613
Other liabilities	463	–	–	–	–	409 237	409 700
Capital and reserves	–	–	–	–	–	793 398	793 398
<b>Total liabilities</b>	<b>16 662 726</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>6 383 016</b>	<b>23 045 742</b>
Net position on balance sheet	–16 460 719	163 410	1 724 705	970 844	13 123 345	478 415	–
Assets on financial instruments' off-balance sheet accounts	3 464 812	16 299	417 896	4 700	789 748	–	4 693 455
Liabilities on financial instruments' off-balance sheet accounts	4 201 209	31 782	60 328	98 688	274 758	–	4 666 765
<b>Net position on balance sheet and off-balance sheet accounts</b>	<b>–17 197 116</b>	<b>147 927</b>	<b>2 082 273</b>	<b>876 856</b>	<b>13 638 335</b>	<b>478 415</b>	<b>26 690</b>

*(continued)*

(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 2019							
Gold and gold receivables	–	–	–	–	–	289 043	289 043
Claims on non-euro area residents denominated in foreign currency	31 972	24 540	125 046	746 551	2 315 288	445 575	3 688 972
Claims on euro area residents denominated in foreign currency	–	–	148 724	158 393	148 076	5 222	460 415
Claims on non-euro area residents denominated in euro	–	–	134	6 061	78 120	5 824	90 139
Lending to euro area credit institutions related to monetary policy operations denominated in euro	–	–	–	12 250	–	–	12 250
Other claims on euro area credit institutions denominated in euro	–	–	–	–	–	8	8
Securities of euro area residents denominated in euro	–	–	–	185 186	8 535 951	–	8 721 137
Intra-Eurosystem claims	–	–	–	–	–	5 277 483	5 277 483
Other assets	146	–	1 860	5 013	79 906	119 137	206 062
<b>Total assets</b>	<b>32 118</b>	<b>24 540</b>	<b>275 764</b>	<b>1 113 454</b>	<b>11 157 341</b>	<b>6 142 292</b>	<b>18 745 509</b>
Banknotes in circulation	–	–	–	–	–	4 666 799	4 666 799
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	5 660 676	–	–	–	–	–	5 660 676
Other liabilities to euro area credit institutions denominated in euro	11 871	–	–	–	–	–	11 871
Liabilities to other euro area residents denominated in euro	1 506 709	–	–	–	–	–	1 506 709
Liabilities to non-euro area residents denominated in euro	306 204	–	–	–	–	1 035	307 239
Liabilities to euro area residents denominated in foreign currency	153 351	–	–	–	–	–	153 351
Liabilities to non-euro area residents denominated in foreign currency	1 642 368	–	–	–	–	–	1 642 368
Intra-Eurosystem liabilities	3 833 540	–	–	–	–	–	3 833 540
Other liabilities	3 016	–	–	–	–	326 310	329 326
Capital and reserves	–	–	–	–	–	633 630	633 630
<b>Total liabilities</b>	<b>13 117 735</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>5 627 774</b>	<b>18 745 509</b>
Net position on balance sheet	–13 085 617	24 540	275 764	1 113 454	11 157 341	514 518	–
Assets on financial instruments' off-balance sheet accounts	3 700 161	7 922	637 084	23 431	807 984	–	5 176 582
Liabilities on financial instruments' off-balance sheet accounts	4 495 103	130 374	93 564	101 122	331 764	–	5 151 927
Net position on balance sheet and off-balance sheet accounts	–13 880 559	–97 912	819 284	1 035 763	11 633 561	514 518	24 655

## 28. TRACKING ERROR

The exposure to aggregate market risk and credit risk of investments, included in the 1–10 year government fixed income securities portfolios, mortgage-backed securities portfolios and the 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 2020 and 2019, the actual (ex-post) tracking error was as follows:

	(basis points)	
	2020	2019
1–10 year fixed income securities portfolios	89	30
Mortgage-backed securities portfolios	159	75
Equity securities portfolio	17	22

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

	Book value (at the end of the year; in thousands of euro)	Expected tracking error (number of business days)				
		10–39	40–69	70–99	100–139	140–179
<b>During 2020</b>						
1–10 year fixed income securities portfolios	3 445 980	51	106	45	23	26
Mortgage-backed securities portfolios	1 211 775	49	8	146	48	–
<b>During 2019</b>						
1–10 year fixed income securities portfolios	3 535 151	250	–	–		
Mortgage-backed securities portfolios	1 175 059	166	84	–		

## 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	<b>Total</b>
<b>As at 31 December 2020</b>				
<b>Assets</b>				
Gold and gold receivables	330 139	–	–	<b>330 139</b>
Claims on non-euro area residents denominated in foreign currency	3 970 780	–	–	<b>3 970 780</b>
Claims on euro area residents denominated in foreign currency	333 706	–	–	<b>333 706</b>
Claims on non-euro area residents denominated in euro	119 143	–	–	<b>119 143</b>
Lending to euro area credit institutions related to monetary policy operations denominated in euro	–	1 260 000	–	<b>1 260 000</b>
Other claims on euro area credit institutions denominated in euro	120	–	–	<b>120</b>
Securities of euro area residents denominated in euro	10 961 267	168 173	–	<b>11 129 440</b>
Intra-Eurosystem claims	4 910	–	5 669 064	<b>5 673 974</b>
Other assets	155 126	–	73 314	<b>228 440</b>
<b>Total assets</b>	<b>15 875 191</b>	<b>1 428 173</b>	<b>5 742 378</b>	<b>23 045 742</b>
<b>Liabilities</b>				
Banknotes in circulation	–	–	5 142 726	<b>5 142 726</b>
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	6 053 812	–	–	<b>6 053 812</b>
Other liabilities to euro area credit institutions denominated in euro	577 746	–	–	<b>577 746</b>
Liabilities to other euro area residents denominated in euro	3 012 014	–	–	<b>3 012 014</b>
Liabilities to non-euro area residents denominated in euro	238 737	–	–	<b>238 737</b>
Liabilities to euro area residents denominated in foreign currency	615 986	–	–	<b>615 986</b>
Liabilities to non-euro area residents denominated in foreign currency	1 364 010	–	–	<b>1 364 010</b>
Intra-Eurosystem liabilities	4 837 613	–	–	<b>4 837 613</b>
Other liabilities	304 655	–	105 045	<b>409 700</b>
<b>Total liabilities</b>	<b>17 004 573</b>	<b>–</b>	<b>5 247 771</b>	<b>22 252 344</b>
<b>Net position on balance sheet</b>	<b>–1 129 382</b>	<b>1 428 173</b>	<b>494 607</b>	<b>x</b>

*(continued)*

(in thousands of euro)

	Up to 3 months	Over 3 months	No fixed maturity	Total
As at 31 December 2019				
<b>Assets</b>				
Gold and gold receivables	289 043	–	–	289 043
Claims on non-euro area residents denominated in foreign currency	3 688 972	–	–	3 688 972
Claims on euro area residents denominated in foreign currency	460 415	–	–	460 415
Claims on non-euro area residents denominated in euro	90 139	–	–	90 139
Lending to euro area credit institutions related to monetary policy operations denominated in euro	–	12 250	–	12 250
Other claims on euro area credit institutions denominated in euro	8	–	–	8
Securities of euro area residents denominated in euro	8 553 038	168 099	–	8 721 137
Intra-Eurosystem claims	5 614	–	5 271 869	5 277 483
Other assets	132 709	–	73 353	206 062
<b>Total assets</b>	<b>13 219 938</b>	<b>180 349</b>	<b>5 345 222</b>	<b>18 745 509</b>
<b>Liabilities</b>				
Banknotes in circulation	–	–	4 666 799	4 666 799
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	5 660 676	–	–	5 660 676
Other liabilities to euro area credit institutions denominated in euro	11 871	–	–	11 871
Liabilities to other euro area residents denominated in euro	1 506 709	–	–	1 506 709
Liabilities to non-euro area residents denominated in euro	307 239	–	–	307 239
Liabilities to euro area residents denominated in foreign currency	153 351	–	–	153 351
Liabilities to non-euro area residents denominated in foreign currency	1 642 368	–	–	1 642 368
Intra-Eurosystem liabilities	3 833 540	–	–	3 833 540
Other liabilities	223 228	–	106 098	329 326
<b>Total liabilities</b>	<b>13 338 982</b>	<b>–</b>	<b>4 772 897</b>	<b>18 111 879</b>
<b>Net position on balance sheet</b>	<b>–119 044</b>	<b>180 349</b>	<b>572 325</b>	<b>x</b>

### 30. SECTORAL STRUCTURE OF ASSETS

	Amount (in thousands of euro)		Proportion (%)	
	2020	2019	2020	2019
Investment operations	<b>5 927 237</b>	5 665 880	<b>25.7</b>	30.2
Central governments and other governmental institutions	2 726 649	2 480 997	11.7	13.2
Other financial institutions	1 474 111	1 744 598	6.4	9.3
Central banks and credit institutions	710 982	638 498	3.1	3.4
Non-financial corporations	519 143	246 393	2.3	1.3
International institutions	275 804	315 024	1.2	1.7
Local governments	219 950	218 538	1.0	1.2
Unclassified assets	598	21 832	0	0.1
Monetary policy operations	<b>11 342 251</b>	7 715 721	<b>49.2</b>	41.2
International institutions	7 461 626	4 857 749	32.4	25.9
Central governments and other governmental institutions	2 620 625	2 845 722	11.3	15.2
Credit institutions	1 260 000	12 250	5.5	0.1
Other operations	<b>5 776 254</b>	5 363 908	<b>25.1</b>	28.6
Intra-Eurosystem claims	5 673 974	5 277 483	24.6	28.2
International institutions	62 266	45 922	0.3	0.2
Unclassified assets	40 014	40 503	0.2	0.2
<b>Total</b>	<b>23 045 742</b>	18 745 509	<b>100.0</b>	100.0

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

	Amount (in thousands of euro)		Proportion (%)	
	2020	2019	2020	2019
Investment operations	<b>5 927 237</b>	5 665 880	<b>25.7</b>	30.2
US	2 293 603	2 106 897	9.9	11.1
Euro area countries	1 441 336	1 517 175	6.2	8.1
UK	707 186	658 809	3.1	3.5
Canada	669 855	595 578	2.9	3.2
International institutions	275 804	315 024	1.2	1.7
Other EU countries	165 045	128 087	0.7	0.7
Japan	152 276	86 384	0.7	0.5
Other countries	222 132	257 926	1.0	1.4
Monetary policy operations	<b>11 342 251</b>	7 715 721	<b>49.2</b>	41.2
International institutions	7 461 626	4 857 749	32.4	25.9
Euro area countries	3 880 625	2 857 972	16.8	15.3
Other operations	<b>5 776 254</b>	5 363 908	<b>25.1</b>	28.6
Intra-Eurosystem claims	5 673 974	5 277 483	24.6	28.2
International institutions	62 266	45 922	0.3	0.2
Unclassified assets	40 014	40 503	0.2	0.2
<b>Total</b>	<b>23 045 742</b>	18 745 509	<b>100.0</b>	100.0

### 32. ASSETS BY CREDIT RATING ASSIGNED TO THE COUNTERPARTY

	Amount (in thousands of euro)		Proportion (%)	
	2020	2019	2020	2019
Investment operations	<b>5 927 237</b>	5 665 880	<b>25.7</b>	30.2
AAA	3 203 434	1 884 377	13.8	10.1
AA	1 288 025	2 706 229	5.6	14.4
A	495 629	403 832	2.2	2.2
BBB	367 665	378 991	1.6	2.0
Assets without counterparty credit rating	1 944	4 260	0	0
Assets not exposed to credit risk	570 540	288 191	2.5	1.5
Monetary policy operations	<b>11 342 251</b>	7 715 721	<b>49.2</b>	41.2
AAA	5 983 541	4 837 585	25.9	25.8
AA	1 478 085	1 401 603	6.4	7.5
A	2 620 625	1 464 283	11.4	7.8
Assets without counterparty credit rating	1 260 000	12 250	5.5	0.1
Other operations	<b>5 776 254</b>	5 363 908	<b>25.1</b>	28.6
Intra-Eurosystem claims	5 673 974	5 277 483	24.6	28.2
Unclassified assets	66 530	48 843	0.3	0.2
Assets not exposed to credit risk	35 750	37 582	0.2	0.2
<b>Total</b>	<b>23 045 742</b>	18 745 509	<b>100.0</b>	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 equity securities portfolio, participating interest in the BIS, fixed assets and intangible assets.

## PROFIT AND LOSS STATEMENT NOTES

### 33. NET INTEREST INCOME

	(in thousands of euro)	
	2020	2019
Interest income	<b>190 313</b>	198 804
Interest on investments	105 848	127 405
Interest on customer deposits	16 662	7 689
Interest on monetary policy operations	67 803	63 710
Interest expense	<b>-50 776</b>	-102 858
Interest on investments	-40 021	-100 505
Interest on monetary policy operations	-10 755	-2 353
Net interest income	<b>139 537</b>	95 946

Net interest income was mainly derived from debt securities investments in debt securities as well as from interest income on monetary policy operations. In 2020, net interest income increased by 43 591 thousand euro compared to 2019. This was mainly due to a decrease in both interest income and expense on investment.

In 2020, interest income on investment declined on account of lower average yields on securities. A decrease in interest expense on investment resulted from lower costs of hedging currency risk, as the money market interest rates on the US dollar and Canadian dollar declined faster than those on the euro.

In 2020, interest income on deposits received grew on account of higher negative interest on deposits from the Government and other financial institutions. The application of interest on deposits is stipulated in Guideline (EU) 2019/671 of the ECB of 9 April 2019 on domestic asset and liability management operations by the national central banks (recast) (ECB/2019/7).

In 2020, interest income on monetary policy operations grew as a result of increasing the PSPP and PEPP. A rise in interest expense on monetary policy operations in 2020 mostly resulted from granting TLTRO III and higher negative interest under the PSPP and PEPP. Interest income from and interest expense on the intra-Eurosystem claims and liabilities are remunerated by applying the ECB's interest rate on the main refinancing operations and include income from foreign reserves transferred to the ECB and claims on allocation of banknotes in the Eurosystem, as well as expense on liabilities related to TARGET2 settlements. The interest rate on the main refinancing operations set by the ECB was 0% in 2020 and 2019; therefore, Latvijas Banka had neither such interest income nor interest expense.

According to the ECB Governing Council's decision on the allocation of monetary income for the first six years following the euro changeover, the remunerable part of the euro area NCBs' claims on the banknote allocation in the Eurosystem is reduced in compliance with a definite coefficient to avoid significant income fluctuations of these NCBs. The adjustment of the reduction of the remunerable part of Latvijas Banka's claims on banknote allocation in the Eurosystem ended in 2019 and in the course of these six years was as follows:

Reporting year	Coefficient (%)
2014	100.00000
2015	86.06735
2016	70.13472
2017	53.34835
2018	35.98237
2019	18.17225
2020	–

### 34. REALISED GAINS/LOSSES ARISING FROM FINANCIAL OPERATIONS

	(in thousands of euro)	
	2020	2019
Debt securities	32 252	54 186
Derivative financial instruments	11 392	-19 903
Foreign exchange transactions	827	11 970
Total	44 471	46 253

The result on the disposal of debt securities increased by 21 934 thousand euro compared to 2019, mostly due to a decrease in interest rates and disposal of securities held in the long-term fixed income securities portfolio.

The result on derivative financial instruments showed an improvement of 31 295 thousand euro compared to 2019, mostly on account of the positive result on interest rate future contracts due to falling interest rates in the course of 2020, and on account of the positive result on currency future contracts concluded for the purpose of hedging currency risk exposure, affected by the US dollar depreciation against the euro. The positive result of the currency future contracts concluded for the purpose of hedging currency risk exposure is offset in an equal value by the negative revaluation result of the balance sheet items hedged for foreign currency risk.

In 2019, the realised gains on foreign exchange transactions also included the recognition of the initial revaluation account in the profit and loss statement (see also Note 23). In 2020, the realised gains on foreign exchange transactions were positively affected by the depreciation of the US dollar against the euro.

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

	(in thousands of euro)	
	2020	2019
Foreign currency positions	-28 642	-145
Securities	-6 299	-3 280
Interest rate swap arrangements	-296	-431
Total	-35 237	-3 856

The revaluation result of several debt securities, foreign currency positions, and interest rate swap arrangements at the end of 2020 and 2019 was negative and has been recognised in the profit and loss statement. At the end of 2020 and 2019, the net revaluation result on the equity securities portfolio was positive and has been reported under the balance sheet item "Capital and reserves" as the securities revaluation result. The positive result on the revaluation of debt securities, foreign currency positions, and interest rate swap arrangements has been reported under the balance sheet item "Capital and reserves" as the revaluation reserve of securities, foreign currency, and interest rate swap arrangements (see also Note 23).

The rise in the negative result on the revaluation of foreign currencies is related to an increase in the open position of the US dollar and to the depreciation of the US dollar against the euro.

### 36. PROVISIONS FOR MARKET RISK AND CREDIT RISK

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 2020, Latvijas Banka introduced improvements to its methodology for measuring financial risks and assessed the market risk of all investment portfolios using the Expected Shortfall measure with the confidence level of 99% for a risk horizon of one year. In 2019, this methodology was only applied to the gold portfolio, long-term fixed income securities portfolio and equity securities portfolio, whereas the financial risks of other investment portfolios for the purpose of determining the targeted amount of provisions were measured according to the change in the investment portfolio value if the interest rates rise by 100 basis points. Based on the previously applied methodology, Latvijas Banka's targeted amount of provisions in 2020 would be estimated at 460.0 million euro (310.0 million euro in 2019). From 2020, the targeted amount of provisions is no longer estimated separately as it corresponds to the level of financial risks.

In 2020, the level of financial risks has been estimated at 771.9 million euro (501.1 million euro in 2019). In 2020, the level of financial risks rose on account of financial market volatility caused by the COVID-19 pandemic and an increase in the amount of equity securities portfolio and securities held for monetary policy purposes.

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)	
	<b>2020</b>	2019
Level of financial risks	<b>771 900</b>	501 100
Provisions for the market risk and credit risk	<b>281 723</b>	203 900
Provisions for the market risk and credit risk against the level of financial risks (%)	<b>36</b>	41

In 2020, due to the above-mentioned risk assessment, the Council of Latvijas Banka decided to increase the provisions for market risk and credit risk related to the financial investments managed by Latvijas Banka by 78 181 thousand euro or a percentage of the positive total financial performance result included in the profit and loss statement before establishing provisions for financial risks as laid down in the above-mentioned methodology (in 2019, the respective provisions were increased by 80 218 thousand euro). In addition, the provisions for credit risk associated with the Eurosystem monetary policy operations were reduced by 358 thousand euro (by 288 thousand euro in 2019); as a result, the total outstanding amount of provisions reached 281 723 thousand euro at the end of 2020 (203 900 thousand euro at the end of 2019).

### **37. INCOME FROM EQUITY SECURITIES AND PARTICIPATING INTEREST**

Income from participating interest comprises dividends received from the participating interest in the BIS (in 2020, dividends from the participating interest in the BIS were not paid out; 322 thousand euro in 2019; see also Note 14.2) and income from the ECB's interim profit distribution for the reporting year, the remainder of the ECB's annual profit for the previous year, and realised gains on a decrease in the participating interest in the ECB (see also Note 13.1) in the amount of 9616 thousand euro (9910 thousand euro in 2019, see also Note 2.26).

Income from equity securities comprises the accrued and received dividends of the equity securities portfolio in the amount of 8989 thousand euro (4652 thousand euro in 2019). Income grew on account of higher dividends due to an increase in the equity securities portfolio.

### **38. NET RESULT OF POOLING OF MONETARY INCOME**

	(in thousands of euro)	
	<b>2020</b>	2019
Monetary income pooled	<b>-44 679</b>	-51 356
Monetary income received	<b>16 978</b>	44 555
Net result of pooling of monetary income	<b>-27 701</b>	-6 801

Net result of pooling of monetary income decreased on account of smaller monetary income received, primarily due to the decisions of the Governing Council of the ECB on applying more favourable conditions to TLTRO III, and due to the redemptions of securities held for monetary policy purposes within the framework of the discontinued asset purchase programmes.

### 39. OTHER OPERATING INCOME

	(in thousands of euro)	
	2020	2019
Income from sale of numismatic products	613	675
Other	655	625
Total	1 268	1 300

### 40. REMUNERATION, SOCIAL SECURITY COSTS, AND SOLIDARITY TAX

	(in thousands of euro)	
	2020	2019
Remuneration		
Remuneration for performance of duties of the Council and the Board	-855	-984
Remuneration of other personnel	-16 012	-16 676
Total remuneration	-16 867	-17 660
Social security costs and solidarity tax	-3 764	-3 941
Total remuneration, social security costs, and solidarity tax	-20 631	-21 601

At the end of 2020, the number of employees was 421 (479 at the end of 2019), representing 425 full-time equivalents at the end of 2020 (465 at the end of 2019). The decrease in the number of employees is mostly related to the implementation of cost efficiency improvement measures, inter alia, upgrading the cash processing equipment of the Riga Branch and closing the Liepāja Branch of Latvijas Banka on 30 January 2020, as well as changes in the implementation of other functions.

### 41. BANKNOTE AND COIN ACQUISITION COSTS

	(in thousands of euro)	
	2020	2019
Acquisition of banknotes	-1 229	-1 140
Acquisition of collector coins	-188	-363
Acquisition of circulation coins	-129	-288
Total	-1 546	-1 791

## 42. OTHER OPERATING EXPENSES

	(in thousands of euro)	
	2020	2019
Maintenance and operation of information systems	-4 023	-3 850
Municipal services	-547	-734
Maintenance of buildings, territory and equipment	-436	-621
Risk insurance	-254	-217
Information and public relations	-231	-245
Tax on real estate	-220	-226
Telecommunication services and system maintenance	-168	-183
Acquisition of low value office supplies	-94	-225
Personnel training	-85	-225
Business travel	-66	-462
Event services	-32	-151
Transport provision	-30	-53
Disposal of material values	-30	-1 695
Other	-478	-338
Total	-6 694	-9 225

Other operating expenses also comprise remuneration in the amount of 33 thousand euro paid to SIA ERNST & YOUNG BALTIC for the audit of 2020 financial statements of Latvijas Banka (29 thousand euro in 2019 to KPMG Baltics AS). Expenses on the disposal of material values in 2019 comprise the write-off of the residual book value of capital investment in the building of Latvijas Banka's Liepāja Branch in the amount of 1401 thousand euro due to the closure of the said branch. The possession of the building of Latvijas Banka's Liepāja Branch was transferred to the Ministry of Finance of the Republic of Latvia without any compensation (see also Note 43).

## OTHER NOTES

### 43. TRANSACTIONS WITH THE LATVIAN GOVERNMENT

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

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

Pursuant to 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), Latvijas Banka applies the euro overnight index average (EONIA) rate (it was negative at the end of both 2020 and 2019 (-0.498% and -0.446% respectively) to the amount of the Treasury's deposits in euro up to 200 million euro. As regards the total outstanding amount of the Treasury's settlement accounts in euro and foreign currencies exceeding 200 million euro, by 30 September 2019 Latvijas Banka applied the deposit facility rate set by the ECB, but as of 1 October 2019 the lower of the following rates: the ECB's deposit facility rate or the euro overnight index average (EONIA) rate (the ECB's deposit facility rate was negative at the end of both 2020 and 2019 at -0.50%).

At the end of 2020 and 2019, the breakdown of Latvijas Banka's claims and liabilities to the Latvian government was as follows:

	(in thousands of euro)	
	2020	2019
<b>Claims</b>		
Securities held for monetary policy purposes	<b>2 596 790</b>	1 447 653
Other securities	<b>46 167</b>	47 057
Accrued interest on debt securities	<b>18 614</b>	17 485
<b>Total claims</b>	<b>2 661 571</b>	1 512 195
<b>Liabilities</b>		
Demand deposits in euro	<b>1 588 192</b>	442 044
Demand deposits in foreign currencies	<b>143 350</b>	153 351
Tax liabilities	<b>19</b>	13
<b>Total liabilities</b>	<b>1 731 561</b>	595 408

In 2020 and 2019, the breakdown of Latvijas Banka's income and expense related to the Latvian government, as well as Latvijas Banka's profit for the previous reporting year appropriated to the state budget was as follows (see also Notes 22.2 and 23):

	(in thousands of euro)	
	2020	2019
<b>Income (-)/expense and Latvijas Banka's profit appropriated to the state budget</b>		
Interest on debt securities	<b>-13 495</b>	-10 381
Negative interest on government deposits	<b>-10 400</b>	-2 478
Taxes	<b>9 932</b>	10 435
Profit appropriated to the state budget	<b>19 009</b>	10 196
Disposal of the real estate	<b>-</b>	1 401
<b>Total net expense and Latvijas Banka's profit appropriated to the state budget</b>	<b>5 046</b>	9 173

Expenses on the disposal of real estate comprise the transfer of the real estate of Latvijas Banka's Liepāja Branch (the decision to close the branch was made in 2019) in the possession of the Ministry of Finance without any compensation pursuant to the Law on Public Entity's Property Disposal.

#### **44. PLEDGED ASSETS**

Debt securities, gold and other financial instruments purchased by Latvijas Banka with the market value of 2 667 712 thousand euro, as at the end of 2020 (1 977 786 thousand euro at the end of 2019), have been pledged to provide repurchase agreement deals, collateral for gold swap arrangements, forward exchange rate contracts, interest rate and currency future contracts, and to ensure the operation of payment systems. At the end of 2020, the pledged assets mostly consisted of securities pledged under repurchase agreements in the amount of 2 309 742 thousand euro (1 670 109 thousand euro at the end of 2019).

#### **45. SECURITIES LENDING**

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

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

At the end of 2020, the fair value of the securities lent, determined using quoted prices in an active market, was 439 thousand euro (1460 thousand euro at the end of 2019); inter alia, the fair value of securities purchased and lent under the PSPP and PEPP stood at 285 thousand euro at the end of 2020 (16 thousand euro at the end of 2019).

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 (see also Note 2.12).

#### **46. CONTINGENT LIABILITIES AND COMMITMENTS**

The uncalled portion of the BIS shares held by Latvijas Banka is 75% of their nominal value; these shares are callable following a respective decision of the BIS Board. At the end of 2020, the uncalled portion of the BIS shareholding was 4012 thousand SDR (4729 thousand euro; 4012 thousand SDR (4951 thousand euro) at the end of 2019; see also Note 14.2).

At the end of 2020, Latvijas Banka had issued euro collector coins, lats collector coins and precious metal circulation coins in the nominal value of 7034 thousand euro (6960 thousand euro at the end of 2019). 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 and no provisions have been made.

At the end of 2020, Latvijas Banka had issued lats banknotes and coins with the face value of 120 934 thousand euro (122 174 thousand euro at the end of 2019), reported on the balance sheet in the amount of 25 334 thousand euro (26 574 thousand euro at the end of 2019). Pursuant to the Law on the Procedure for Introducing the Euro, the period for exchanging the lats cash to the euro at Latvijas Banka is unlimited. In the opinion of Latvijas Banka's management, the probability that Latvijas Banka would be required to exchange lats banknotes and coins in the amount of 95 600 thousand euro (95 600 thousand euro at the end of 2019) at face value is low.

#### **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.