

# **LATVIJAS BANKA**

FINANCIAL STATEMENTS OF LATVIJAS BANKA  
FOR THE YEAR ENDED 31 DECEMBER 2022

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## ABBREVIATIONS

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

## BALANCE SHEET

		(at the end of the year; in thousands of euro)	
	Note <sup>1</sup>	<b>2022</b>	2021
<b>ASSETS</b>			
Gold and gold receivables	6	<b>364 821</b>	344 166
Claims on non-euro area residents denominated in foreign currency	7	<b>3 788 044</b>	4 495 181
Receivables from the International Monetary Fund		549 961	542 959
Balances with banks and security investments, external loans and other external assets		3 238 083	3 952 222
Claims on euro area residents denominated in foreign currency	8	<b>522 039</b>	528 428
Claims on non-euro area residents denominated in euro	9	<b>156 383</b>	174 081
Lending to euro area credit institutions related to monetary policy operations denominated in euro	10	<b>522 900</b>	616 600
Longer-term refinancing operations		522 900	616 600
Other claims on euro area credit institutions denominated in euro	11	<b>6 304</b>	4 255
Securities of euro area residents denominated in euro	12	<b>14 081 606</b>	12 839 996
Securities held for monetary policy purposes		13 134 812	11 690 783
Other securities		946 794	1 149 213
Intra-Eurosystem claims	13	<b>5 926 959</b>	5 868 008
Participating interest in the European Central Bank		118 849	116 472
Claims equivalent to the transfer of foreign reserves		157 202	157 202
Other claims within the Eurosystem		5 650 908	5 594 334
Other assets	14	<b>381 638</b>	203 714
<b>TOTAL ASSETS</b>		<b>25 750 694</b>	25 074 429

<sup>1</sup> The accompanying Notes set out on pages 7 to 44 are an integral part of these financial statements.

<i>(continued)</i>	(at the end of the year; in thousands of euro)		
	Note	<b>2022</b>	2021
<b>LIABILITIES</b>			
Banknotes in circulation	15	<b>5 635 738</b>	5 536 624
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	16	<b>5 217 165</b>	6 406 673
Current accounts (covering the minimum reserve system)		343 816	6 406 673
Deposit facility		4 873 349	
Other liabilities to euro area credit institutions denominated in euro	17	<b>320 273</b>	649 746
Liabilities to other euro area residents denominated in euro	18	<b>2 517 104</b>	3 438 792
General government		1 157 761	1 803 339
Other liabilities		1 359 343	1 635 453
Liabilities to non-euro area residents denominated in euro	19	<b>171 688</b>	57 955
Liabilities to euro area residents denominated in foreign currency	20	<b>706 038</b>	1 594 262
Liabilities to non-euro area residents denominated in foreign currency	21	<b>34 701</b>	688 359
Intra-Eurosystem liabilities	13	<b>10 376 364</b>	5 356 980
Liabilities related to TARGET2 and correspondent accounts (net)		10 370 127	5 322 638
Other liabilities within the Eurosystem		6 237	34 342
Other liabilities	22	<b>184 740</b>	436 383
Capital and reserves	23	<b>586 883</b>	908 655
<b>TOTAL LIABILITIES</b>		<b>25 750 694</b>	25 074 429

The financial statements set out on pages 3 to 44. were authorised by the Council of Latvijas Banka on 9 March 2023.

Governor of Latvijas Banka

Mārtiņš Kazāks

#### *EXPLANATION REGARDING TRANSLATION*

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

## PROFIT AND LOSS STATEMENT

(in thousands of euro)

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

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

(in thousands of euro)

	Note	2022	2021
Profit for the year		<b>0</b>	20 908
Revaluation	23	<b>-605 906</b>	119 670
Realisation of the accumulated revaluation result	23	<b>-42 946</b>	-43 287
Recognition of revaluation result on financial assets and positions in profit and loss statement	23, 35	<b>341 715</b>	36 618
Total changes in the revaluation account	23	<b>-307 137</b>	113 001
<b>TOTAL</b>		<b>-307 137</b>	133 909

# NOTES TO THE FINANCIAL STATEMENTS

## 1. PRINCIPAL ACTIVITIES

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

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

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

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

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

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

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

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

## 2. PRINCIPAL ACCOUNTING POLICIES

### 2.1 Basis of preparation

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

### 2.2 Basis of measurement

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

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

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

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

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

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

### 2.3 Fair value of financial assets and financial liabilities

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

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

### 2.4 Foreign currency and gold translation

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

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

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

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

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

### 2.5 Reverse and other collateralised transactions

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

## 2.6 Fixed and intangible assets

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

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

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

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

## 2.7 Use of estimates and assumptions

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

## 2.8 Impairment of assets

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

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

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

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

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

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

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

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

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

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

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

## **2.10 Interest income and expense**

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

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

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

## **2.11 Other expenses and income**

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

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

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

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

## **3.1 Financial position**

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

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

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

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

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

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

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

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

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

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

### 3.2 Financial performance

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

Net interest income reached the amount of 47.0 million euro (124.0 million euro in 2021). This mainly resulted from a 46.0 million euro increase in interest income and a 122.9 million euro increase in interest expense due to higher interest income on securities, lower interest income on deposits received, higher interest income on intra-Eurosystem requirements, higher currency hedging costs, and higher interest expense on intra-Eurosystem liabilities as a result of rising interest rates.

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

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

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

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

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

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

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

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

## 4. FINANCIAL INVESTMENT POLICY

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

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

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

The parameters for a benchmark reflecting the acceptable level of financial risks and expected return are set out for the 1–10 year fixed income securities portfolio, mortgage-backed securities portfolios, the portfolio of

borrowed funds, the developed markets equity securities portfolio, the global fixed income securities portfolio, the emerging markets equity securities portfolio and emerging markets fixed income securities portfolio.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## BALANCE SHEET NOTES

### 5. FAIR VALUE MEASUREMENT

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

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

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

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

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

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

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

	(in thousands of euro)					
	Book value	Fair value			Total fair value	Difference between fair value and book value
		Quoted market price	Observable data	Non-observable data		
<b>As at 31 December 2021</b>						
Gold	344 166	344 166	–	–	344 166	–
Securities in investment portfolios	5 741 342	5 014 198	741 456	–	5 755 654	14 312
Forward exchange rate contracts	–5 850	–	–6 314	–	–6 314	–464
Interest rate swap arrangements	1	1	–	–	1	–
Securities held for monetary policy purposes	11 761 724	12 096 792	–	–	12 096 792	335 068
Participating interest in the Bank for International Settlements	37 309	–	–	37 309	37 309	–
<b>Total</b>	<b>17 878 692</b>	<b>17 455 157</b>	<b>735 142</b>	<b>37 309</b>	<b>18 227 608</b>	<b>348 916</b>
<b>As at 31 December 2022</b>						
Gold	364 821	364 821	–	–	364 821	–
Securities in investment portfolios	4 815 309	4 165 042	638 344	–	4 803 386	–11 923
Forward exchange rate contracts	171 694	–	170 486	–	170 486	–1 208
Securities held for monetary policy purposes	13 212 490	10 985 608	–	–	10 985 608	–2 226 882
Participating interest in the Bank for International Settlements	37 119	–	–	37 119	37 119	–
<b>Total</b>	<b>18 601 433</b>	<b>15 515 471</b>	<b>808 830</b>	<b>37 119</b>	<b>16 361 420</b>	<b>–2 240 013</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 2020	213 836	330 139
During 2021		
Net change resulting from gold swaps arrangements	x	14 027
As at 31 December 2021	213 836	344 166
<b>During 2022</b>		
Increase in gold market value	x	20 655
<b>As at 31 December 2022</b>	<b>213 836</b>	<b>364 821</b>

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

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

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

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

### 7.1 Receivables from the International Monetary Fund

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

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

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

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

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

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

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

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

	(in thousands of euro)	
	2022	2021
Securities	<b>3 182 643</b>	3 881 610
Demand deposits	<b>44 939</b>	70 594
Reverse repurchase agreements	<b>10 407</b>	-
Foreign currency in cash	<b>94</b>	18
Total	<b>3 238 083</b>	3 952 222

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

	(in thousands of euro)	
	2022	2021
Securities	<b>521 132</b>	527 531
Demand deposits	<b>907</b>	897
Total	<b>522 039</b>	528 428

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

	(in thousands of euro)	
	2022	2021
Securities	<b>148 569</b>	167 048

Demand deposits	7 814	7 033
Total	<b>156 383</b>	174 081

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

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

### **10.1 Main refinancing operations**

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

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

Longer-term refinancing operations are open market operations, executed through reverse transactions with the aim to provide credit institutions with additional longer-term refinancing. Such operations are conducted through monthly standard tenders with maturities between 3 and 48 months. In addition, following the decision of the Governing Council of the ECB, TLTROs were launched in 2014. They are liquidity providing reverse operations providing longer-term liquidity to credit institutions on attractive terms, so that they can continue easing the terms and conditions of lending to the private sector and to encourage their lending to the real economy. In 2016, the Governing Council of the ECB introduced a new series of four targeted longer-term refinancing operations (TLTRO II). These operations had a four-year maturity, with a possibility of early repayment after two years. In 2021, the operations were discontinued. Additionally, in 2019, the Governing Council of the ECB introduced a new series of seven targeted longer-term refinancing operations (TLTRO III). These operations have a three-year maturity, with a possibility of early repayment after two years and since September 2021 – after one year. In 2020, the Governing Council of the ECB added three further operations to this series, which were conducted in 2021 and have a three-year maturity, with a possibility of early repayment. According to the initial decisions, the interest rate applicable to TLTRO III operations could be as low as the average interest rate on the deposit facility. In response to the impact of the COVID-19 pandemic, in 2020 the Governing Council of the ECB decided to lower this rate, establishing that for the period between 24 June 2020 and 23 June 2022 the interest rate applicable can be as low as 50 basis points below the average interest rate on the deposit facility, but in any case may not become less negative than –1%. In addition, on 27 October 2022, the Governing Council of the ECB decided that, from 23 November 2022 until the maturity date or early repayment date of each respective outstanding TLTRO III operation, the interest rate on TLTRO III operations will be indexed to the average applicable key ECB interest rates over this period. On the same date, the Governing Council of the ECB decided to introduce three additional voluntary early repayment dates to provide TLTRO III participants with additional opportunities to partly, or fully, repay their respective TLTRO III borrowings before their maturity. The Governing Council of the ECB launched four additional pandemic emergency longer-term refinancing operations (PELTROs) in 2021 (three matured in the course of 2022 and one was maturing in January 2023). These operations provide further liquidity support after the expiry of the bridge longer-term refinancing operations (LTROs) that have been conducted since March 2020. In 2022, Latvijas Banka received 93 700 thousand euro as repayment of loans granted to credit institutions. At the end of 2022, the balance of the TLTROs conducted by Latvijas Banka stood at 522 900 thousand euro (at the end of 2021, the balance was 616 600 thousand euro).

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

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

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

At the end of 2022, the amount of securities held by the Eurosystem for monetary policy purposes totalled 4 937 179.2 million euro (4 713 403.5 million euro at the end of 2021). Of them, Latvijas Banka held

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

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

(in thousands of euro)

	Book value	
	2022	2021
Securities held for monetary policy purposes	<b>13 134 812</b>	11 690 783
Latvian government securities	4 207 501	3 548 199
PSPP government securities	2 757 747	2 306 559
PEPP government securities	1 449 753	1 241 640
Debt securities issued by international institutions	8 927 311	8 142 584
PSPP debt securities issued by international institutions	7 034 554	6 564 407
PEPP debt securities issued by international institutions	1 892 758	1 578 177
Other securities	<b>946 794</b>	1 149 213
Securities not held to maturity	778 474	980 967
Securities held to maturity	168 320	168 246
<b>Total</b>	<b>14 081 606</b>	12 839 996

### 13. INTRA-EUROSYSTEM CLAIMS/LIABILITIES (-)

(in thousands of euro)

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

Total intra-Eurosystem liabilities	<b>-10 376 364</b>	-5 356 980
Intra-Eurosystem claims	<b>-4 449 405</b>	511 028

### 13.1 Participating interest in the European Central Bank

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

The Statute of the ESCB and of the ECB stipulates that a euro area NCB shall pay up its subscribed share in the ECB's capital in full, as well as contribute to the ECB's reserve capital, to those provisions equivalent to reserves and to the revaluation account for financial instruments in proportion to its share in the ECB's capital. Following the withdrawal of the Bank of England from the ESCB, the ECB's total paid-up capital increased by 1221 million euro, as the subscriptions of the euro area NCB's (subscribed capital paid up in full) in the ECB's subscribed capital grew and the subscriptions of non-euro area NCB's (pay up 3.75% of their subscriptions) in the ECB's subscribed capital decreased accordingly. The Governing Council of the ECB decided that the euro area NCB's were to pay up their subscriptions fully; therefore, their subscribed capital would increase in two instalments, at the end of 2021 and 2022 respectively.

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

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

	(in thousands of euro)	
	2022	2021
Total amount of the European Central Bank's subscribed capital	<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>	34 304
The paid-up share of Latvijas Banka in the European Central Bank's capital	<b>34 304</b>	31 927
The percentage share of Latvijas Banka in the European Central Bank's capital (capital key; %)	<b>0.3169</b>	0.3169

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

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

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

TARGET2 is a real-time gross settlement system for large value payments in euro. Claims and liabilities related to TARGET2 settlements originate as a result of cross-border payments settled in the central bank money.

The above settlements result in bilateral claims and liabilities in the TARGET2 accounts held by NCBs. The net positions for the bilateral balances are attributed to the ECB and calculated on a daily basis, leaving each NCB with a single net position vis-à-vis the ECB. This is reported on the NCB's balance sheet as net claims or liabilities related to TARGET2 settlements.

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

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

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

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

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

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

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

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

## 14. OTHER ASSETS

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

## 14.1 Fixed assets and intangible assets

(in thousands of euro)

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

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

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

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

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

#### 15. BANKNOTES IN CIRCULATION

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

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

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

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

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

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

Current accounts contain the credit balances on the transaction accounts of credit institutions that are required to hold minimum reserves. The latest available interest rate used by the Eurosystem in its tenders for main refinancing operations is applied to the balances held on those accounts within the framework of the reserve requirements. Since June 2014, the lower rate of either 0% or the ECB's deposit facility rate has been applied to the reserves held in excess of the minimum requirements. On 12 September 2019, the Governing Council of the ECB decided to introduce a two-tier system for reserve remuneration, which exempts part of credit institutions' excess liquidity holdings (i.e. reserve holdings in excess of minimum reserve requirements) from the negative remuneration rate applicable on the deposit facility. Following the raising of the ECB's deposit facility rate to above zero as of 14 September 2022, the Governing Council of the ECB decided to suspend the two-tier system by setting the multiplier to zero as this system for the remuneration of the excess reserves was no longer necessary.

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

##### 16.2 Deposit facility

Deposit facility is a standing facility of the Eurosystem used by credit institutions to place their overnight deposits at a pre-specified rate. No such deposits were placed with Latvijas Banka at the end of 2021 because the

ECB deposit facility interest rate was negative. In turn, in the second half of 2022, credit institutions resumed using the deposit facility, as the ECB deposit facility interest rate turned positive.

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

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

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

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

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

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

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

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

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

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

	(in thousands of euro)	
	2022	2021
Liabilities for collateral for financial derivative instruments	34 512	–
Demand deposits	189	–
Liabilities for repurchase agreements	–	347 148
Liabilities for gold swap arrangements	–	341 211
Total	34 701	688 359

## 22. OTHER LIABILITIES

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

### 22.1 Banknotes and coins in circulation

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

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

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

## 23. CAPITAL AND RESERVES

(in thousands of euro)

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

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

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

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

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

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

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

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

(in thousands of euro)

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

  

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

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

## 24. DERIVATIVE FINANCIAL INSTRUMENTS AND SPOT EXCHANGE RATE CONTRACTS

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

(in thousands of euro)

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

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

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

## MAJOR RISKS AND PRINCIPLES FOR THEIR MANAGEMENT

### 25. RISK MANAGEMENT

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

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

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

#### 25.1 Financial risks

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

Latvijas Banka manages financial risks related to its investments in line with the Procedure adopted by the Council of Latvijas Banka; the basic principles of the investment policy are described in Note 4. Investments are managed by classifying them into different investment portfolios. The parameters for a benchmark reflecting the acceptable level of financial risks and expected return are set out for each financial instrument portfolio. The Risk

Management Division of the Market Operations Department monitors the compliance of investments with the established requirements and, in case of any departure from the provisions of the Procedure established by the Council of Latvijas Banka, duly notifies the Council of Latvijas Banka in accordance with the procedure adopted by the Council of Latvijas Banka.

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

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

#### **25.1.1 Market risk**

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

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

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

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

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

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

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

#### **25.1.2 Credit risk**

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

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

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

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

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

### **25.1.3 Liquidity risk**

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

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

### **25.2 Operational risks**

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

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

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

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

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

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

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

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

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

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

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

## 26. CURRENCY STRUCTURE

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

## 27. REPRICING MATURITY

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

	(in thousands of euro)						
	Up to 3 months	3–12 months	1–3 years	3–5 years	Over 5 years	Non-interest bearing items	Total
<b>As at 31 December 2022</b>							
Gold and gold receivables	–	–	–	–	–	364 821	364 821
Claims on non-euro area residents denominated in foreign currency	602 235	45 962	180 991	420 060	2 084 836	453 960	3 788 044
Claims on euro area residents denominated in foreign currency	907	–	36 764	94 536	100 909	288 923	522 039
Claims on non-euro area residents denominated in euro	7 568	–	895	1 319	146 355	246	156 383
Lending to euro area credit institutions related to monetary policy operations denominated in euro	–	–	522 900	–	–	–	522 900
Other claims on euro area credit institutions denominated in euro	6 304	–	–	–	–	–	6 304
Securities of euro area residents denominated in euro	–	–	288 279	373 686	13 419 641	–	14 081 606
Intra-Eurosystem claims	5 808 110	–	–	–	–	118 849	5 926 959
Other assets	2	–	1 054	3 333	90 082	287 167	381 638
<b>Total assets</b>	<b>6 425 126</b>	<b>45 962</b>	<b>1 030 883</b>	<b>892 934</b>	<b>15 841 823</b>	<b>1 513 966</b>	<b>25 750 694</b>
Banknotes in circulation	–	–	–	–	–	5 635 738	5 635 738
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	4 982 193	–	–	–	–	234 972	5 217 165
Other liabilities to euro area credit institutions denominated in euro	320 273	–	–	–	–	–	320 273
Liabilities to other euro area residents denominated in euro	2 517 104	–	–	–	–	–	2 517 104
Liabilities to non-euro area residents denominated in euro	59 440	–	–	–	–	112 248	171 688
Liabilities to euro area residents denominated in foreign currency	155 539	–	–	–	–	550 499	706 038
Liabilities to non-euro area residents denominated in foreign currency	34 701	–	–	–	–	–	34 701
Intra-Eurosystem liabilities	10 376 364	–	–	–	–	–	10 376 364
Other liabilities	886	–	–	–	–	183 854	184 740
Capital and reserves	–	–	–	–	–	586 883	586 883
<b>Total liabilities</b>	<b>18 446 500</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>7 304 194</b>	<b>25 750 694</b>
Net position on balance sheet	–12 021 374	45 962	1 030 883	892 934	15 841 823	–5 790 228	–
Assets on financial instruments' off-balance sheet accounts	765 385	5 752	3 410 527	123 289	2 007 300	–	6 312 253
Liabilities on financial instruments' off-balance sheet accounts	5 387 367	5 738	100 506	127 407	520 604	–	6 141 622
<b>Net position on balance sheet and off-balance sheet accounts</b>	<b>–16 643 356</b>	<b>45 976</b>	<b>4 340 904</b>	<b>888 816</b>	<b>17 328 519</b>	<b>–5 790 228</b>	<b>170 631</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 2021							
Gold and gold receivables	–	–	–	–	–	344 166	344 166
Claims on non-euro area residents denominated in foreign currency	14 124	272 185	99 584	462 493	2 327 595	1 319 200	4 495 181
Claims on euro area residents denominated in foreign currency	–	–	17 775	87 739	83 817	339 097	528 428
Claims on non-euro area residents denominated in euro	1 230	–	–	1 623	164 471	6 757	174 081
Lending to euro area credit institutions related to monetary policy operations denominated in euro	–	–	616 600	–	–	–	616 600
Other claims on euro area credit institutions denominated in euro	4 138	–	–	–	–	117	4 255
Securities of euro area residents denominated in euro	–	–	261 894	180 054	12 398 048	–	12 839 996
Intra-Eurosystem claims	5 750 951	–	–	–	–	117 057	5 868 008
Other assets	5	34	426	2 650	82 203	118 396	203 714
<b>Total assets</b>	<b>5 770 448</b>	<b>272 219</b>	<b>996 279</b>	<b>734 559</b>	<b>15 056 134</b>	<b>2 244 790</b>	<b>25 074 429</b>
Banknotes in circulation	–	–	–	–	–	5 536 624	5 536 624
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	6 406 673	–	–	–	–	–	6 406 673
Other liabilities to euro area credit institutions denominated in euro	649 746	–	–	–	–	–	649 746
Liabilities to other euro area residents denominated in euro	3 438 792	–	–	–	–	–	3 438 792
Liabilities to non-euro area residents denominated in euro	56 519	–	–	–	–	1 436	57 955
Liabilities to euro area residents denominated in foreign currency	1 594 262	–	–	–	–	–	1 594 262
Liabilities to non-euro area residents denominated in foreign currency	688 359	–	–	–	–	–	688 359
Intra-Eurosystem liabilities	5 322 638	–	–	–	–	34 342	5 356 980
Other liabilities	24 198	–	–	–	–	412 185	436 383
Capital and reserves	–	–	–	–	–	908 655	908 655
<b>Total liabilities</b>	<b>18 181 187</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>6 893 242</b>	<b>25 074 429</b>
Net position on balance sheet	–12 410 739	272 219	996 279	734 559	15 056 134	–4 648 452	–
Assets on financial instruments' off-balance sheet accounts	4 423 728	33 551	180 823	42 681	886 285	–	5 567 068
Liabilities on financial instruments' off-balance sheet accounts	4 031 948	–	146 151	133 672	1 260 351	–	5 572 122
Net position on balance sheet and off-balance sheet accounts	–12 018 959	305 770	1 030 951	643 568	14 682 068	–4 648 452	–5 054

## 28. TRACKING ERROR

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

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

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

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

## 29. LIQUIDITY STRUCTURE

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

	(in thousands of euro)			
	Up to 3 months	Over 3 months	No fixed maturity	<b>Total</b>
<b>As at 31 December 2022</b>				
<b>Assets</b>				
Gold and gold receivables	364 821	–	–	<b>364 821</b>
Claims on non-euro area residents denominated in foreign currency	3 788 044	–	–	<b>3 788 044</b>
Claims on euro area residents denominated in foreign currency	522 039	–	–	<b>522 039</b>
Claims on non-euro area residents denominated in euro	156 383	–	–	<b>156 383</b>
Lending to euro area credit institutions related to monetary policy operations denominated in euro	–	522 900	–	<b>522 900</b>
Other claims on euro area credit institutions denominated in euro	6 304	–	–	<b>6 304</b>
Securities of euro area residents denominated in euro	13 913 286	168 320	–	<b>14 081 606</b>
Intra-Eurosystem claims	300	–	5 926 659	<b>5 926 959</b>
Other assets	310 495	–	71 143	<b>381 638</b>
<b>Total assets</b>	<b>19 061 672</b>	<b>691 220</b>	<b>5 997 802</b>	<b>25 750 694</b>
<b>Liabilities</b>				
Banknotes in circulation	–	–	5 635 738	<b>5 635 738</b>
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	5 217 165	–	–	<b>5 217 165</b>
Other liabilities to euro area credit institutions denominated in euro	320 273	–	–	<b>320 273</b>
Liabilities to other euro area residents denominated in euro	2 517 104	–	–	<b>2 517 104</b>
Liabilities to non-euro area residents denominated in euro	171 688	–	–	<b>171 688</b>
Liabilities to euro area residents denominated in foreign currency	706 038	–	–	<b>706 038</b>
Liabilities to non-euro area residents denominated in foreign currency	34 701	–	–	<b>34 701</b>
Intra-Eurosystem liabilities	10 376 364	–	–	<b>10 376 364</b>
Other liabilities	77 502	–	107 238	<b>184 740</b>
<b>Total liabilities</b>	<b>19 420 835</b>	<b>–</b>	<b>5 742 976</b>	<b>25 163 811</b>
<b>Net position</b>	<b>–359 163</b>	<b>691 220</b>	<b>254 826</b>	<b>x</b>

*(continued)*

(in thousands of euro)

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

### 30. SECTORAL STRUCTURE OF ASSETS

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

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

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

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

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

## PROFIT AND LOSS STATEMENT NOTES

### 33. NET INTEREST INCOME

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The level of Latvijas Banka's financial risks for monetary policy operations and investment portfolio credit risk has been assessed in compliance with the ECB's common methodology for Eurosystem financial risk assessment, whereas for investment portfolio market risk — in compliance with the risk assessment methodology used by Latvijas Banka in its financial risk management system; in both cases, the Expected Shortfall (ES) measure with a confidence level of 99% for a risk horizon of one year is used: it describes the losses determined by the average value of 1% of the most unfavourable simulated profitability scenarios. When assessing the level of financial risks, various market risk and credit risk factors, assumptions defined by the Eurosystem/ESCB's Risk

Management Committee and assumptions used in the financial risk management system are taken into account, as well as historical data and assumptions concerning the development of adverse financial market factors, e.g. an increase in interest rates, widening interest rate spreads, euro appreciation, and credit rating downgrades.

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

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

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

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

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

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

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

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

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

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

	(in thousands of euro)	
	<b>2022</b>	2021
Monetary income pooled	<b>-34 212</b>	-39 502
Monetary income received	<b>27 975</b>	5 160
Net result of pooling of monetary income	<b>-6 237</b>	-34 342

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

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

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

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

### 39. OTHER OPERATING INCOME

	(in thousands of euro)	
	2022	2021
Revaluation of liabilities for the issued lats banknotes and coins	4 100	2 380
Income from sale of numismatic products	1 014	627
Other	652	584
<b>Total</b>	<b>5 766</b>	<b>3 591</b>

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

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

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

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

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

#### 41. BANKNOTE AND COIN ACQUISITION COSTS

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

#### 42. OTHER OPERATING EXPENSES

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

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

#### OTHER NOTES

##### 43. PLEDGED ASSETS

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

##### 44. SECURITIES LENDING

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

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

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

#### **45. CONTINGENT LIABILITIES AND COMMITMENTS**

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

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

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

#### **46. EVENTS AFTER THE REPORTING YEAR**

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

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

(in thousands of euro)

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

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