

LATVIJAS BANKA

FINANCIAL STATEMENTS OF LATVIJAS BANKA
FOR THE YEAR ENDED 31 DECEMBER 2014

INDEPENDENT AUDITORS' REPORT TO THE COUNCIL
OF LATVIJAS BANKA

CONTENTS

Balance Sheet	3
Profit and Loss Statement	5
Statement of Total Recognised Gains and Losses	6
Notes to the Financial Statements	7
Independent Auditors' Report to the Council of Latvijas Banka	49

ABBREVIATIONS

BIS	Bank for International Settlements
EC	European Commission
ECB	European Central Bank
EMU	Economic and Monetary Union
ESCB	European System of Central Banks
EU	European Union
FCMC	Financial and Capital Market Commission
IMF	International Monetary Fund
JSC	Joint Stock Company
NCB	National central bank
OECD	Organisation for Economic Co-operation and Development
OTC	over-the-counter
SDR	Special Drawing Rights
TARGET2-Latvija system	TARGET2 component system of the Trans-European Automated Real-time Gross settlement Express Transfer system in Latvia
UK	United Kingdom
US	United States of America

BALANCE SHEET

	(at the end of the year; in thousands of euro)		
	Note ¹	2014	2013 ²
ASSETS			
Gold and gold receivables	6	210 774	217 923
Claims on non-euro area residents denominated in foreign currency	7	2 441 368	2 370 157
Receivables from the International Monetary Fund		144 069	136 157
Balances with banks and security investments, external loans and other external assets		2 297 299	2 234 000
Claims on euro area residents denominated in foreign currency	8	486 242	472 800
Claims on non-euro area residents denominated in euro	9	214 953	441 866
Lending to euro area credit institutions related to monetary policy operations denominated in euro	10	85 520	14 229
Main refinancing operations		–	14 229
Longer-term refinancing operations		85 520	–
Other claims on euro area credit institutions denominated in euro	11	4 475	1 295
Securities of euro area residents denominated in euro	12	1 095 446	1 094 153
Intra-Eurosystem claims	13	3 393 275	1 167 262
Participating interest in the European Central Bank		115 082	1 038
Claims equivalent to the transfer of foreign reserves		163 480	–
Claims related to TARGET2 and correspondent accounts (net)		–	1 166 224
Other claims within the Eurosystem		3 114 713	–
Other assets	14	92 455	110 119
TOTAL ASSETS		8 024 508	5 889 804

¹ The accompanying Notes set out on pages 7 to 47 are an integral part of these financial statements.

² The comparison of the layout of the published balance sheet of Latvijas Banka for 2013 with the changed layout of the balance sheet for 2013 is provided in Note 47. Assets and liabilities denominated in lats as at 31 December 2013 are reported in euro.

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

	Note	2014	2013
LIABILITIES			
Banknotes in circulation	15	3 849 170	801 869
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	16	2 423 356	4 127 804
Current accounts (covering the minimum reserve system)		2 073 356	4 013 974
Deposit facility		350 000	113 830
Other liabilities to euro area credit institutions denominated in euro	17	540	–
Liabilities to other euro area residents denominated in euro	18	126 919	226 372
General government		50 900	202 263
Other liabilities		76 019	24 109
Liabilities to non-euro area residents denominated in euro	19	23 986	12 685
Liabilities to euro area residents denominated in foreign currency	20	144 579	138 070
Liabilities to non-euro area residents denominated in foreign currency	21	–	983
Intra-Eurosystem liabilities	13	796 980	–
Liabilities related to TARGET2 and correspondent accounts (net)		796 980	–
Other liabilities	22	180 089	112 028
Capital and reserves	23	478 889	469 993
TOTAL LIABILITIES		8 024 508	5 889 804

PROFIT AND LOSS STATEMENT

(in thousands of euro)

	Note	2014	2013
Net interest income	33	38 799	41 853
Interest income		49 574	55 989
Interest expense		-10 775	-14 136
Net result of financial operations, write-downs and risk provisions		-5 310	56 418
Realised gains arising from financial operations	34	11 135	63 360
Write-downs of revaluation result on financial assets and positions	23, 35	-1 645	-6 942
Provisions for market risk and credit risk	36	-14 800	-
Net expense from fees and commissions		-1 213	-931
Fees and commissions income		302	512
Fees and commissions expense		-1 515	-1 443
Income from participating interest	37	3 650	388
Net result of pooling of monetary income	38	31 953	-
Other operating income	39	3 666	3 499
NET INCOME		71 545	101 227
Remuneration	40	-16 839	-15 563
Social security costs	40	-3 382	-3 669
Depreciation of fixed assets and amortisation of intangible assets	14	-3 685	-3 776
Banknote and coin acquisition costs	41	-2 633	-10 781
Other operating expenses	42	-8 246	-8 440
PROFIT OF THE REPORTING YEAR		36 760	58 998

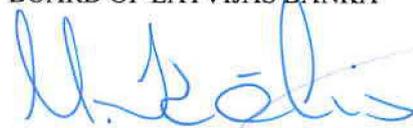
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

(in thousands of euro)

	Note	2014	2013
Profit of the reporting year		36 760	58 998
Revaluation	23	36 006	-43 453
Realisation of the accumulated revaluation result	23	-27 166	-36 169
Write-downs of revaluation result on financial assets and positions	23, 35	1 645	6 942
Total changes in the valuation account	23	10 485	-72 680
TOTAL		47 245	-13 682

The financial statements, which are set out on pages 3 to 48, were authorised by the Board of Latvijas Banka on 10 March 2015.

BOARD OF LATVIJAS BANKA



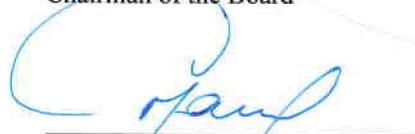
Māris Kālis
Chairman of the Board



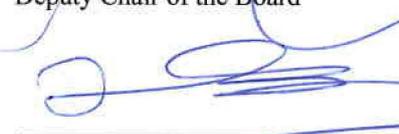
Ilze Posuma
Deputy Chair of the Board



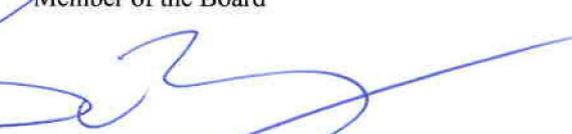
Jānis Blūms
Member of the Board



Jānis Caune
Member of the Board



Harijs Ozols
Member of the Board



Raivo Vanags
Member of the Board

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 Republic of Latvia and EU legislation as well as ECB legal acts in compliance with the Treaty on the Functioning of the European Union and the Statute of the ESCB and ECB.

The objectives and tasks of Latvijas Banka are set forth by the Law on Latvijas Banka. The primary goal of Latvijas Banka is to maintain price stability. As of 1 January 2014, the euro changeover day in Latvia, Latvijas Banka has the following primary tasks:

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

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

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

The Head Office of Latvijas Banka is situated at K. Valdemāra iela 2A, Riga. Latvijas Banka manages the storage, processing and circulation of cash through its Riga Branch and the regional branch in Liepāja. In 2014 Latvijas Banka closed down its branch in Daugavpils.

2. PRINCIPAL ACCOUNTING POLICIES

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

2.1 Change in accounting policies

Upon joining the Eurosystem, the structure of Latvijas Banka's balance sheet has been changed in line with the breakdown used by other central banks of the euro area and in drafting the consolidated financial statements of the Eurosystem. Apart from the breakdown by residence (euro area residents and non-euro area residents), the new structure of Latvijas Banka's balance sheet also provides breakdown by currency and reporting of transactions related to monetary policy operations (see also Note 47).

In accordance with the ECB's legal framework for accounting and financial reporting, on 1 January 2014 Latvijas Banka reclassified the accumulated revaluation result of foreign currency in the amount of 23 055 thousand euro to the initial valuation account. The balance on the initial valuation account is recognised in the profit and loss statement to compensate lower income on claims for the allocation of banknotes within the Eurosystem (see also Notes 23 and 33).

In 2014 the Council of Latvijas Banka decided to make provisions in the amount of 14 800 thousand euro for market risk and credit risk associated with transactions related to financial investment management of Latvijas Banka (see Notes 2.23 and 36).

2.2 Basis of presentation

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

2.3 Basis of measurement

These financial statements have been prepared in accordance with the historical cost basis of accounting. Gold, debt securities other than those held to maturity, participating interest (except the participating interest in the ECB), currency future contracts and interest rate derivatives are accounted for at fair value. Forward exchange rate contracts and currency swap arrangements are valued according to the principles described in Note 2.16. The comparison of the book value and fair value of these instruments is provided in Note 24.

2.4 Fair value of financial assets and financial liabilities

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

Fair value of financial instruments is determined by Latvijas Banka using quoted prices in active markets, other financial market information sources or discounted cash flows. The discounted cash flows are modelled using quoted market prices of financial instruments and money market interest rates. The breakdown of assets measured at fair value, taking into account the hierarchy of fair value determination, is provided in Note 5.

Fair value of the financial assets and financial liabilities of Latvijas Banka (except debt securities held to maturity; see Note 12) does not differ materially from the reported book value of the respective assets and liabilities.

2.5 Foreign currency and gold translation

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

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

The exchange rates set by Latvijas Banka on the basis of the exchange rate of the euro against the US dollar and the US dollar against other foreign currencies, as quoted in the electronic information system Reuters, as well as the lats peg to the euro have been used in the preparation of the financial statements for the year 2013.

Transactions in foreign currencies are included in the calculation of net foreign currency position of the respective currency. The transactions in foreign currencies reducing the respective currency position result in realised gains or losses. Any gain or loss arising from revaluation of transactions in foreign currencies and foreign currency positions are credited or charged to the profit and loss statement or the balance sheet caption "Capital and reserves" as the foreign currency revaluation reserve ("Valuation account") in accordance with the principles referred to in Note 2.24. The principles referred to herein and in Note 2.24 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 2014 and the year ended 31 December 2013 are as follows:

	(at the end of the year)		
	2014	2013	Changes (%)
US dollar (USD)	1.2141	1.3647	-11.0
Japanese yen (JPY)	145.23	142.56	1.9
Canadian dollar (CAD)	1.4063	1.4671	-4.1
British pound sterling (GBP)	0.7789	0.8337	-6.6
Gold (XAU)	987.769	876.229	12.7

2.6 Recognition and derecognition of financial assets and liabilities

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

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

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

2.7 Offsetting financial assets and financial liabilities

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

2.8 Use of estimates and assumptions

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

The major estimates and assumptions in the preparation of the financial statements have been made with respect to the following: impairment of assets (see Note 2.20), the method for establishing the fair value of the BIS shares (see Note 14.2), the useful life of fixed assets and intangible assets (see Notes 2.18 and 2.19), the repurchasing probability of collector coins (see Note 2.22), provisions for market risk and credit risk (see Notes 2.23 and 36), and the method for the initial valuation account write-downs (see Note 23).

2.9 Gold and gold receivables

Gold is stated at market value in the balance sheet in accordance with the principles described in Note 2.5.

Any gain or loss arising from transactions in gold and revaluation of gold reserves is credited or charged to the profit and loss statement or the balance sheet caption "Capital and reserves" as the foreign currency revaluation reserve in accordance with the principles described in Note 2.24.

2.10 Debt securities

Debt securities are stated at fair value in the balance sheet, except those held to maturity measured at amortised cost.

Interest on securities, including premium and discount, is recognised in the profit and loss statement as interest income.

Gain or loss arising from transactions in debt securities and revaluation of the debt securities stated at fair value are credited or charged to the profit and loss statement or the balance sheet caption "Capital and reserves" as the securities revaluation reserve in accordance with the principles referred to in Note 2.24.

2.11 Reverse repurchase agreements

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

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

2.12 Repurchase agreements

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

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

2.13 Securities lending

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

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

2.14 Loans to credit institutions, deposits and similar financial claims and financial liabilities

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

2.15 Participating interest

Participating interest includes long-term investments of Latvijas Banka in equity instruments. Latvijas Banka has no control or significant influence in any institution, therefore participating interest is not accounted

for as an investment in a subsidiary or an associate. Equity instruments are reported at fair value in the balance sheet, except participating interest in the ECB, which is reported at cost in the balance sheet in accordance with the ECB's legal framework for accounting and financial reporting.

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

2.16 Derivative financial instruments

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

Interest on derivative financial instruments, including the spot and forward interest rate spread of forward exchange rate contracts and currency swap arrangements, is recognised in the profit and loss statement as interest income or interest expense over the term of the agreement. Any gain or loss arising from a change in fair value of interest rate and currency future contracts is included in the profit and loss statement taking into account settlement. Any gain or loss arising from a change in fair value of other derivative financial instruments is credited or charged to the profit and loss statement or the balance sheet caption "Capital and reserves" as the revaluation reserve in accordance with the principles referred to in Note 2.24.

2.17 Accrued interest income and expense

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

2.18 Fixed assets

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

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

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

In 2014 and 2013, the useful lives set for fixed assets were as follows:

	(years)	
	2014	2013
Buildings and their components, improvements to the territory, incl.	5–100	5–100
structures	100	100
finishing, equipment and engineering communications	5–20	5–20
Transport vehicles	10–15	10–15
Office equipment and tools	5–25	5–25
Cash processing, verifying and storage equipment	5–15	5–15
Computer and telecommunication equipment	2–7	2–7
Other fixed assets	5–15	5–15

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

2.19 Intangible assets

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

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

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

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

2.20 Impairment of assets

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

2.21 Currency in circulation

In view of the fact that euro cash is issued by all NCBs of the Eurosystem and the ECB, they report a certain share of the total amount of euro banknotes issued by the Eurosystem on their balance sheets. The share allocated to the ECB is 8% of the total amount of euro banknotes issued by the Eurosystem; the remaining 92% are allocated to the NCBs in proportion to their share in the ECB's capital and reported under the balance sheet item "Banknotes in circulation". Of the total amount of euro banknotes issued by the Eurosystem, the share allocated to Latvijas Banka is larger than the actual amount of euro banknotes it has issued (see Note 15); consequently, claims on the ECB for the allocation of banknotes are reported under the balance sheet item "Intra-Eurosystem claims". In accordance with the ECB's legal framework for accounting and financial reporting, the balance sheet caption "Banknotes in circulation" at the end of 2014 and 2013 also comprises the nominal value of the lats banknotes in circulation which had not been exchanged for euro yet.

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

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

2.22 Collector coins

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

2.23 Provisions

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

On the basis of reasonable risk estimates, Latvijas Banka's Council may decide on making provisions for market risk (price, interest rate and foreign exchange risks) and credit risk associated with Latvijas Banka's investment management and other financial transactions (see also Note 36).

2.24 Recognition of gains or losses on financial instruments, foreign currency and gold

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

- (a) realised gains and losses shall be recognised in the profit and loss statement;
- (b) unrealised gains shall be recognised in the balance sheet caption "Capital and reserves" as the revaluation reserve;
- (c) unrealised losses recognised in the balance sheet caption "Capital and reserves" as the revaluation reserve at the end of the reporting year shall be transferred to the profit and loss statement if they exceed the previous revaluation gain on the respective financial instrument, foreign currency or gold position;
- (d) unrealised losses recognised in the profit and loss statement at the end of the reporting year shall not be reversed and offset by unrealised gains of the respective financial instrument, foreign currency or gold position in the subsequent years;
- (e) there shall be no netting of unrealised losses in a financial instrument, foreign currency or gold position against unrealised gains in other financial instrument, foreign currency or gold position.

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

position shall be increased or reduced by unrealised losses that are recognised in the profit and loss statement at year-end.

2.25 Interest income and expense

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

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

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

2.26 Realised gains or losses from financial operations

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

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

2.27 Income from participating interest

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

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

Pursuant to the decision of the Governing Council of the ECB, the income of the ECB gained on the claims for the allocation of banknotes within the Eurosystem and arising from the Securities Markets Programme, outright monetary transactions, the asset-backed securities purchase programme and the third covered bond purchase programme shall be distributed as interim profit for the reporting year in which it accrues. The Governing Council of the ECB distributes interim profit 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 interim profit distribution, as well as in the event the Governing Council decides to establish provisions for foreign exchange rate, interest rate, credit and gold price risks. In addition, the Governing Council of the ECB may resolve to make deductions from the interim profit distribution result in respect of expenses incurred by the ECB in connection with the issue and handling of euro banknotes.

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

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

2.28 Net result of pooling of monetary income

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

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

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

2.29 Banknote and coin acquisition costs

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

2.30 Other expense and income

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

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

3.1 Financial position

In 2014, Latvijas Banka's assets grew by 2 134.7 million euro, mainly on account of changes in intra-Eurosystem claims and liabilities related to Latvijas Banka's joining the Eurosystem.

Pursuant to the Statute of the ESCB and the ECB, euro area NCBs shall transfer a certain amount of their foreign reserves to the ECB. The amount of foreign reserves to be transferred is set in proportion to each euro area NCB's share in the ECB's subscribed capital. Upon joining the Eurosystem, Latvijas Banka transferred 205.3 million euro of its foreign reserves to the ECB which is Latvijas Banka's proportionate share of the market value of the foreign reserves already transferred by other euro area NCBs before. Gold accounted for 15% or 30.8 million euro of the transferred foreign reserves, and Japanese yen for 85% or 174.5 million euro. For the foreign reserves transferred to the ECB Latvijas Banka received a euro-denominated claim on the ECB in the amount of 163.5 million euro, in proportion to the value of the respective claims of other euro area NCBs. The difference between the market value of the transferred foreign reserves and the value of the euro-denominated claim in the amount of 41.8 million euro is reported as participating interest in the ECB. The above transactions had a decreasing effect on Latvijas Banka's balance sheet items "Gold and gold receivables" and "Claims on non-euro area residents denominated in euro", with a corresponding increase in the item "Intra-Eurosystem claims".

In 2014, the amount of loans granted to credit institutions by Latvijas Banka as a result of monetary policy operations grew by 71.3 million euro via conducting targeted longer-term refinancing operations. The main refinancing operations reported at the end of 2013 were conducted in line with the regulation for the use of monetary policy instruments of Latvijas Banka, in force by the time Latvijas Banka joined the Eurosystem.

The Statute of the ESCB and the ECB stipulates that a euro area NCB shall pay up its share in the ECB's capital in full, as well as in the ECB's reserve capital, provisions equivalent to reserves and the financial instrument revaluation account, in proportion to its share in the ECB's capital. At the beginning of 2014, the subscribed share of Latvijas Banka in the ECB's capital was 30.5 million euro (the percentage share was 0.2821%); pursuant to the transitional provisions of the Statute of the ESCB and the ECB and the decision of the ECB's General Council, it was paid up in the amount of 1.1 million euro or 3.75% up to 1 January 2014. At the beginning of 2014 Latvijas Banka paid up its remaining share in the ECB's capital in the amount of 29.4 million euro, as well as transferred 54.1 million euro to the ECB's provisions equivalent to reserves and the financial instrument revaluation account. The above contributions are reported as a contribution to the ECB's capital under the balance sheet item "Intra-Eurosystem claims".

In view of the fact that euro banknotes are issued by all NCBs of the Eurosystem and the ECB, they report a certain share of the total amount of euro banknotes issued by the Eurosystem on their balance sheets in proportion to their share in the ECB's capital. Of the total amount of euro banknotes issued, the share allocated to Latvijas Banka is larger than the amount of euro banknotes it has actually issued, therefore Latvijas Banka's balance sheet item "Banknotes in circulation" grew by 3 079.3 million euro in 2014, resulting in a corresponding increase in the claims on the ECB for the allocation of banknotes, reported under the balance sheet item "Intra-Eurosystem claims".

Upon joining the Eurosystem, the minimum reserve requirements for credit institutions in the Eurosystem took effect and the liquidity management policy of some credit institutions changed. At the beginning of June 2014, the ECB reduced its interest rates, setting a negative interest rate on credit institution deposits exceeding the minimum reserve requirements, as well as on the government sector deposits exceeding the limit established by the ECB Governing Council. In addition to the above, the ECB discontinued its tenders of fixed-term deposits. Consequently, deposits of credit institutions and the Latvian government with Latvijas Banka contracted. The balance sheet items "Liabilities to euro area credit institutions related to monetary policy operations denominated in euro" and "Liabilities to other euro area residents denominated in euro" decreased by 1 704.4 million euro and 99.5 million euro respectively.

As a result of cross-border payments made by credit institutions and the Latvian government, liabilities to the ECB for the settlement result in TARGET2, reported under the balance sheet item "Intra-Eurosystem liabilities", increased to 797.0 million euro (claims amounted to 1 166.2 million euro at the end of 2013).

Capital and reserves of Latvijas Banka grew by 8.9 million euro on account of net changes in valuation of financial instruments (10.5 million euro) and profits earned in 2014 (36.8 million euro), while the share of profits earned in 2013 and remitted to the state budget revenue in the amount of 38.3 million euro had a decreasing effect.

3.2 Financial performance

In 2014, Latvijas Banka's profit amounted to 36.8 million euro (59.0 million euro in 2013). Net interest income in 2014 decreased by 3.1 million euro as compared to 2013.

Further shrinking of actual securities yields in a low interest rate environment prevailing in the global financial markets notably contributed to a fall of 6.4 million euro in interest income. Interest income of Latvijas Banka was basically derived from debt securities totalling 45.3 million euro (51.9 million euro in 2013).

A 3.4 million euro drop in interest expense was a result of several factors: a lower minimum reserve ratio for credit institutions, a decrease in credit institution deposits and a reduction in the key ECB interest rates. At the beginning of June 2014, the Governing Council of the ECB adopted a decision to implement a series of measures aimed at ensuring price stability in the medium term. These measures included a reduction in all key ECB interest rates, including the rate on main refinancing operations, which decreased from 0.25% to 0.05%, and the deposit facility rate, which declined from 0% to -0.2%.

In 2014, realised gains from financial operations decreased by 52.2 million euro in comparison with 2013. The realised gains from financial operations fell on account of currency future contracts concluded for the purpose of hedging the currency risk and the result of interest rate future contracts. In view of Latvijas Banka hedging the risks related to gold price and foreign exchange fluctuations, the positive revaluation result of the respective hedged balance sheet items is reported under the balance sheet caption "Capital and reserves". The realised gains from financial operations were positively affected by the result of the initial valuation account write-downs.

The write-downs of the revaluation result on financial assets and positions decreased by 5.3 million euro as compared to 2013.

In 2014, the Council of Latvijas Banka decided to establish provisions amounting to 14.8 million euro for market risk and credit risk with regard to transactions related to investment management of Latvijas Banka.

Pursuant to the Statute of the ESCB and ECB, the income generated by euro area NCBs through the implementation of the single monetary policy of the Eurosystem is allocated to euro area NCBs in proportion to their shares in the ECB's capital. In 2014, Latvijas Banka's net result of pooling of monetary income was 32.0 million euro.

After becoming a member of the Eurosystem, Latvijas Banka receives income from the participating interest in the ECB. For 2014, Latvijas Banka was allocated its share of interim profit totalling 3.4 million euro in proportion to Latvijas Banka's share in the ECB's capital key.

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

4. FINANCIAL INVESTMENT POLICY

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

Investments include assets reported under the balance sheet captions "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 "Securities of euro area residents denominated in euro", as well as derivative financial instruments and spot exchange rate contracts whose book value is reported under relevant balance sheet captions of other assets or other liabilities.

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

The parameters for a benchmark reflecting the acceptable level of financial risks and return target are set out for the portfolios managed against multi-currency fixed income securities benchmark and asset-backed securities benchmark and portfolios of borrowed funds.

The breakdown of investments by type of investment portfolio at the end of 2014 and 2013 was as follows:

	Portfolio value (in thousands of euro)		Percentage (%)	
	2014	2013	2014	2013
Portfolios managed against multi-currency fixed income securities benchmark	3 665 508	3 792 126	82.5	85.6
Portfolios managed against asset-backed securities benchmark	267 672	255 363	6.0	5.8
Gold portfolio	211 846	223 224	4.8	5.0
Portfolio of long-term fixed income securities	149 843	–	3.4	–
Portfolios of borrowed funds	144 579	158 760	3.3	3.6
Total	4 439 448	4 429 473	100.0	100.0

At the beginning of 2014 Latvijas Banka established a long-term fixed income securities portfolio comprising euro denominated government bonds included in the Citigroup EMU Government Bond Index with the long term credit rating from AA-/AA-/Aa3 to AAA/AAA/Aaa.

Latvijas Banka's multi-currency fixed income securities benchmark is tied to the weighted 1–3 year government securities index of the UK, the US, Denmark, euro area countries, Japan, Canada, and Singapore.

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

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

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

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

BALANCE SHEET NOTES

5. ASSETS AT FAIR VALUE

Fair value of Latvijas Banka's assets is determined using the following hierarchy (see also Note 2.4):

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

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

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

At the end of 2014 and 2013, Latvijas Banka's assets carried at fair value were generally valued on the basis of a quoted market price.

At the end of 2014 and 2013, participating interest in the BIS was assessed using non-observable data. The assessment was conducted using the 70% net asset value model (see also Note 14.2).

At the end of 2014 and 2013, the breakdown of assets carried at fair value according to the fair value hierarchy was as follows:

	(in thousands of euro)			
	Quoted market price	Observable data	Non-observable data	Total
As at 31 December 2014				
Gold	210 774	–	–	210 774
Debt securities	3 231 897	527 134	–	3 759 031
Participating interest in the Bank for International Settlements	–	–	28 176	28 176
Total	3 442 671	527 134	28 176	3 997 981
As at 31 December 2013				
Gold	217 923	–	–	217 923
Debt securities	3 417 947	400 442	–	3 818 389
Participating interest in the Bank for International Settlements	–	–	28 446	28 446
Total	3 635 870	400 442	28 446	4 064 758

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

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

6. GOLD AND GOLD RECEIVABLES

	Troy ounces	In thousands of euro
As at 31 December 2012	248 706	311 253
During 2013		
Decrease in gold market value	x	–93 330
As at 31 December 2013	248 706	217 923
During 2014		
Transfer of gold reserves to the ECB	–35 322	–30 774
Increase in gold market value	x	23 625
As at 31 December 2014	213 384	210 774

Pursuant to the Statute of the ESCB and the ECB, euro area NCBs shall transfer a definite amount of foreign reserves to the ECB. The amount of the foreign reserves to be transferred shall be defined according to the percentage share of each NCB in the ECB's capital. Upon joining the Eurosystem, Latvijas Banka transferred 205 273 thousand euro to the ECB which equals Latvijas Banka's proportionate share of the market value of the foreign reserves transferred by other euro area NCBs. Gold accounted for 15% or 30 774 thousand euro, and Japanese yen accounted for 85% or 174 499 thousand euro. The above share transferred in gold constituted a decrease in the balance sheet caption "Gold and gold receivables". For the foreign reserves transferred to the ECB Latvijas Banka received a euro-denominated claim on the ECB reported under the balance sheet item "Intra-Eurosystem claims".

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

At the end of 2014 and 2013, Latvijas Banka had no gold receivables.

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

7.1 Receivables from the International Monetary Fund

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

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

Latvia's liabilities to the IMF are made up of the IMF holdings in euro and IMF allocations. At the end of 2014, the receivables from the IMF in SDR as recorded on Latvijas Banka's balance sheet were equivalent to 144 069 thousand euro (136 157 thousand euro at the end of 2013), whereas the liabilities to the IMF are made up of funds at the disposal of the IMF in the amount of 445 thousand euro (420 thousand euro at the end of 2013) held on its Accounts No. 1 and No. 2.

At the end of 2014 and 2013, Latvia's net receivables from the IMF were as follows:

	(in thousands of euro)		(in thousands of SDR)	
	2014	2013	2014	2013
Latvia's quota in the IMF	169 440	160 134	142 100	142 100
IMF holdings in euro	-169 395	-160 092	-142 062	-142 062
Promissory notes of the Latvian government	-168 950	-159 672	-141 690	-141 690
Account No. 1	-424	-400	-355	-355
Account No. 2	-21	-20	-17	-17
Reserve position in IMF	66	62	55	55
SDR	144 069	136 157	120 823	120 824
General allocation	-112 083	-105 927	-93 998	-93 998
Special allocation	-31 985	-30 228	-26 824	-26 824
Latvia's net receivables from the IMF	67	64	56	57

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

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

	(in thousands of euro)	
	2014	2013
Debt securities	2 108 735	2 065 191
Demand deposits	132 373	133 698
Time deposits	56 173	17 147
Foreign currency in cash	18	17 964
Total	2 297 299	2 234 000

8. CLAIMS ON EURO AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY

	(in thousands of euro)	
	2014	2013
Debt securities	482 752	454 581
Demand deposits	3 490	18 219
Total	486 242	472 800

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

	(in thousands of euro)	
	2014	2013
Debt securities	203 266	185 992
Demand deposits	11 687	255 874
Total	214 953	441 866

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

At the end of 2014, the total amount of Eurosystem loans in monetary policy operations reached 630 341 million euro (752 288 million euro at the end of 2013), including 85.5 million euro of loans granted by Latvijas Banka. Pursuant to the Statute of the ESCB and the ECB, risks associated with the implementation of monetary policy (if any materialise) are allocated among euro area NCBs in proportion to their share in the ECB's capital.

10.1 Main refinancing operations

Main refinancing operations are open market operations executed through liquidity providing reverse transactions, conducted through weekly standard tenders with a maturity of one week. These operations play a key role in steering interest rates, managing market liquidity and signalling the monetary policy stance. At the end of 2014, Latvijas Banka had granted no loans in main refinancing operations. In 2013, the main refinancing operations were conducted in line with the Regulation for the Use of Monetary Policy Instruments of Latvijas Banka, in force by the time Latvijas Banka joined the Eurosystem (balance of 14 229 thousand euro at the end of 2013).

10.2 Longer-term refinancing operations

Longer-term refinancing operations are open market operations with a maturity of over 1 week, executed through reverse transactions with the aim to provide credit institutions with additional longer-term refinancing. Following the decision of the Governing Council of the ECB, targeted longer-term refinancing operations were launched in September 2014. These liquidity providing reverse operations are planned to be conducted through standard tenders until 2016 by way of a fixed-rate tender procedure, aiming to promote lending to households and non-financial corporations by credit institutions in euro area countries. At the end of 2014, the balance of the targeted longer-term refinancing operations conducted by Latvijas Banka stood at 85 520 thousand euro. These operations mature on 26 September 2018.

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

Other claims on euro area credit institutions denominated in euro mainly comprise the pledged assets of Latvijas Banka to provide collateral for transactions in financial derivatives. At the end of 2014, the market value of the pledged assets amounted to 3 590 thousand euro (430 thousand euro at the end of 2013; see also Note 44).

Other claims also include demand deposits in euro with euro area credit institutions amounting to 885 thousand euro at the end of 2014 (865 thousand euro at the end of 2013).

12. SECURITIES OF EURO AREA RESIDENTS DENOMINATED IN EURO

	(in thousands of euro)	
	2014	2013
Securities not held to maturity	947 138	1 094 153
Securities held to maturity	148 308	–
Total	1 095 446	1 094 153

At the end of 2014 the fair value of debt securities held to maturity by Latvijas Banka was 168 344 thousand euro.

13. INTRA-EUROSISTEM CLAIMS/LIABILITIES(–)

		(in thousands of euro)	
	Note	2014	2013
Participating interest in the European Central Bank	13.1	115 082	1 038
Claims in respect of foreign reserves transferred to the European Central Bank	13.2	163 480	–
Claims related to TARGET2 and national central bank correspondent accounts (net)	13.3	–	1 166 224
Claims for the allocation of banknotes in the Eurosystem	13.4	3 079 370	–
Claims related to other operational requirements within the Eurosystem	13.5	35 343	–
Total intra-Eurosystem claims		3 393 275	1 167 262
Liabilities related to TARGET2 and national central bank correspondent accounts (net)	13.5	–796 980	–
Total intra-Eurosystem liabilities		–796 980	–
Total intra-Eurosystem claims (net)		2 596 295	1 167 262

13.1 Participating interest in the European Central Bank

With Latvia's accession to the EU, Latvijas Banka became a subscriber of the capital of the ECB. In accordance with the Statute of the ESCB and of the ECB, Latvijas Banka's ECB capital key is calculated on the basis of Latvia's population and gross domestic product data. The NCB capital keys are adjusted every five years or at shorter intervals depending on changes in the number of the EU Member States. Until 1 January 2014, Latvijas Banka's ECB capital key was 0.2742%, equivalent to 29 682 thousand euro. On 1 January 2014, the NCB capital keys were adjusted in compliance with the Statute of the ESCB and the ECB; as a result, as of 1 January 2014 Latvijas Banka's ECB capital key is 0.2821%, equivalent to 30 537 thousand euro.

The Statute of the ESCB and the ECB stipulates that a euro area NCB shall pay up its subscribed share in the ECB's capital in full, as well as in the ECB's reserve capital, provisions equivalent to reserves and the valuation account for financial instruments, in proportion to its share in the ECB's capital. At the beginning of 2014, Latvijas Banka paid up the unpaid subscribed share in the ECB's capital in the amount of 29 424 thousand euro (pursuant to the transitional provisions of the Statute of the ESCB and the ECB and the decision of the ECB's General Council, until 31 December 2013 it was paid up in the amount of 1 113 thousand euro or 3.75% of the subscribed share of Latvijas Banka in the ECB's capital). It also transferred 42 752 thousand euro to the ECB's provisions equivalent to reserves and in the valuation account for financial instruments. In addition, the difference between the market value of the transferred foreign reserves and the value of the corresponding

euro-denominated claim on the ECB in the amount of 41 793 thousand euro is reported as participating interest in the ECB (see also Note 13.2).

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

	2014	2013
Total amount of the ECB's subscribed capital (in thousands of euro)	10 825 007	10 825 007
The subscribed share of Latvijas Banka in the ECB's capital (%)	0.2821	0.2742
The subscribed share of Latvijas Banka in the ECB's capital (in thousands of euro)	30 537	29 682
The paid-up share of Latvijas Banka in the ECB's capital (%)	100.00	3.75
The paid-up share of Latvijas Banka in the ECB's capital (in thousands of euro)	30 537	1 113

At the end of 2014 and 2013, the percentage shares of NCBs in the ECB's capital (capital key) were as follows:

	(%)	
	2014	2013
Nationale Bank van België/Banque Nationale de Belgique	2.4778	2.4176
Deutsche Bundesbank	17.9973	18.7603
Eesti Pank	0.1928	0.178
Banc Ceannais na hÉireann/Central Bank of Ireland	1.1607	1.1111
Bank of Greece	2.0332	1.9483
Banco de España	8.8409	8.2533
Banque de France	14.1792	14.1342
Banca d'Italia	12.3108	12.457
Central Bank of Cyprus	0.1513	0.1333
Latvijas Banka	0.2821	–
Banque centrale du Luxembourg	0.203	0.1739
Bank Ċentrali ta' Malta/Central Bank of Malta	0.0648	0.0635
De Nederlandsche Bank	4.0035	3.9663
Oesterreichische Nationalbank	1.9631	1.937
Banco de Portugal	1.7434	1.7636
Banka Slovenije	0.3455	0.327
Národná banka Slovenska	0.7725	0.6881
Suomen Pankki – Finlands Bank	1.2564	1.2456
Subtotal for euro area NCBs	69.9783	69.5581
Българска народна банка (Bulgarian National Bank)	0.859	0.8644
Česká národní banka	1.6075	1.4539
Danmarks Nationalbank	1.4873	1.4754
Hrvatska narodna banka	0.6023	0.5945
Latvijas Banka	–	0.2742
Lietuvos bankas	0.4132	0.4093
Magyar Nemzeti Bank	1.3798	1.374
Narodowy Bank Polski	5.123	4.8581
Banca Națională a României	2.6024	2.4449
Sveriges Riksbank	2.2729	2.2612
Bank of England	13.6743	14.432
Subtotal for non-euro area NCBs	30.0217	30.4419
Total	100.0	100.0

In 2014, the subscribed capital of the ECB remained unchanged, while the adjustment of NCB percentage shares in the ECB's capital and Latvijas Banka's joining the Eurosystem resulted in an increase of 43 781 thousand euro in the ECB's total paid-up capital.

The subscribed and paid-up NCB shares in the ECB's capital at the end of 2014 and 2013 were as follows:
(in thousands of euro)

	Subscribed capital		Paid-up capital	
	2014	2013	2014	2013
Nationale Bank van België/ Banque Nationale de Belgique	268 222	261 705	268 222	261 705
Deutsche Bundesbank	1 948 209	2 030 804	1 948 209	2 030 804
Eesti Pank	20 871	19 269	20 871	19 269
Banc Ceannais na hÉireann/Central Bank of Ireland	125 646	120 277	125 646	120 277
Bank of Greece	220 094	210 904	220 094	210 904
Banco de España	957 028	893 420	957 028	893 420
Banque de France	1 534 899	1 530 028	1 534 899	1 530 028
Banca d'Italia	1 332 645	1 348 471	1 332 645	1 348 471
Central Bank of Cyprus	16 378	14 430	16 378	14 430
Latvijas Banka	30 537	–	30 537	–
Banque centrale du Luxembourg	21 975	18 825	21 975	18 825
Bank Ċentrali ta' Malta/Central Bank of Malta	7 015	6 874	7 015	6 874
De Nederlandsche Bank	433 379	429 352	433 379	429 352
Oesterreichische Nationalbank	212 506	209 680	212 506	209 680
Banco de Portugal	188 723	190 910	188 723	190 910
Banka Slovenije	37 400	35 398	37 400	35 398
Národná banka Slovenska	83 623	74 487	83 623	74 487
Suomen Pankki – Finlands Bank	136 005	134 836	136 005	134 836
Subtotal for euro area NCBs	7 575 156	7 529 669	7 575 156	7 529 669
Българска народна банка (Bulgarian National Bank)	92 987	93 571	3 487	3 509
Česká národní banka	174 012	157 385	6 525	5 902
Danmarks Nationalbank	161 000	159 712	6 038	5 989
Hrvatska narodna banka	65 199	64 355	2 445	2 413
Latvijas Banka	–	29 682	–	1 113
Lietuvos bankas	44 729	44 307	1 677	1 662
Magyar Nemzeti Bank	149 363	148 736	5 601	5 578
Narodowy Bank Polski	554 565	525 890	20 796	19 721
Banca Națională a României	281 710	264 661	10 564	9 925
Sveriges Riksbank	246 042	244 775	9 227	9 179
Bank of England	1 480 244	1 562 265	55 509	58 585
Subtotal for non-euro area NCBs	3 249 851	3 295 338	121 869	123 575
Total	10 825 007	10 825 007	7 697 025	7 653 244

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

Pursuant to the Statute of the ESCB and the ECB, euro area NCBs shall transfer a definite amount of their foreign reserves to the ECB. The amount of foreign reserves to be transferred shall be fixed in proportion to the

each euro area NCB's ECB capital key. Upon joining the Eurosystem, Latvijas Banka transferred its foreign reserves to the ECB in the amount of 205 273 thousand euro, which is equal to Latvijas Banka's proportionate share in the market value of the foreign reserves already transferred by other euro area NCBs before. Gold accounted for 15% or 30 774 thousand euro, and Japanese yen accounted for 85% or 174 499 thousand euro. For the foreign reserves transferred to the ECB Latvijas Banka received a euro-denominated claim on the ECB in the amount of 163 480 thousand euro, i.e. in proportion to the value of the respective claims of other euro area NCBs. The difference between the market value of the foreign reserves transferred to the ECB and the value of the corresponding euro-denominated claim in the amount of 41 793 thousand euro is reported as participating interest in the ECB (see also Note 13.1). For the foreign reserves transferred to the ECB Latvijas Banka receives interest income calculated at the rate on the main refinancing operations set by the ECB (see also Note 33).

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

TARGET2 system is a real-time gross settlement system for large value payments in euro. Claims and liabilities related to TARGET2 settlements originate as a result of cross-border payments settled in the EU central bank money. The above settlements result in bilateral claims and liabilities in the TARGET2 accounts held by NCBs of EU countries. 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 2014, 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 the government of Latvia. Interest is paid on the above claims and liabilities as per the rate on the main refinancing operations set by the ECB.

13.4 Claims for the allocation of banknotes in the 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 in proportion to their share in the ECB's capital. Of the total amount of euro banknotes issued, the share allocated to Latvijas Banka is larger than the amount of euro banknotes it has actually issued (see Note 15); in view of the above, the adjustment related to banknotes in circulation results in corresponding claims on the ECB for the allocation of banknotes, reported under the balance sheet item "Claims related to other operational requirements within the Eurosystem" (see Note 13).

13.5 Claims related to other operational requirements within the Eurosystem

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

Monetary income received by Latvijas Banka in 2014 was higher than its monetary income pooled. It resulted in a claim on the ECB associated with the net result of pooling of monetary income, standing at 31 953 thousand euro at the end of 2014 (see also Notes 2.28 and 38).

Claims for the ECB's interim profit distribution in the amount of 3 390 thousand euro are set as per Latvijas Banka's ECB capital key (see also Notes 2.27 and 37).

14. OTHER ASSETS

		(in thousands of euro)	
	Note	2014	2013
Fixed assets	14.1	40 256	42 971
Participating interest in the Bank for International Settlement	14.2	28 176	28 447
Accrued income on debt securities		17 871	18 685
OTC financial derivative contracts and spot exchange rate contracts	24	2 638	18 255
Intangible assets	14.3	1 815	657
Prepaid expenses		875	820
Other accrued income		391	2
Other		433	282
Total		92 455	110 119

14.1 Fixed assets and leasing

(in thousands of euro)

	Buildings, improve- ment of territory, and land	Furniture and office equipment	Computer and telecom- muni- cation equipment	Cash processing equipment	Transport vehicles	Other fixed assets	Total
As at 31 December 2012							
Cost	58 947	5 117	4 551	6 521	1 669	8 206	85 011
Accumulated depreciation	-20 559	-3 880	-3 368	-4 148	-1 175	-6 404	-39 534
Net book value	38 388	1 237	1 183	2 373	494	1 802	45 477
During 2013							
Additions	124	55	326	514	21	88	1 128
Change in classification	-	-	-	-	-30	-1	-31
Disposals and write-offs	-	-28	-138	-14	-	-238	-418
Net change in cost	124	27	188	500	-9	-151	679
Depreciation charge	-2 274	-138	-366	-341	-58	-425	-3 602
Change in classification	-	-	-	-	30	-30	-
Accumulated depreciation on disposals and write-offs	-	28	137	14	-	238	417
Net change in accumulated depreciation	-2 274	-110	-229	-327	-28	-217	-3 185
As at 31 December 2013							
Cost	59 071	5 144	4 739	7 021	1 660	8 055	85 690
Accumulated depreciation	-22 833	-3 990	-3 597	-4 475	-1 203	-6 621	-42 719
Net book value	36 238	1 154	1 142	2 546	457	1 434	42 971
During 2014							
Additions	212	82	832	356	65	86	1 633
Change in classification	-	-179	-	179	-	-	-
Disposals and write-offs	-2 026	-50	-548	-113	-84	-284	-3 105
Net change in cost	-1 814	-147	284	422	-19	-198	-1 472
Depreciation charge	-2 139	-144	-387	-430	-62	-307	-3 469
Change in classification	-	178	-	-178	-	-	-
Accumulated depreciation on disposals and write-offs	1 167	47	547	113	84	268	2 226
Net change in accumulated depreciation	-972	81	160	-495	22	-39	-1 243
As at 31 December 2014							
Cost	57 257	4 997	5 023	7 443	1 641	7 857	84 218
Accumulated depreciation	-23 805	-3 909	-3 437	-4 970	-1 181	-6 660	-43 962
Net book value	33 452	1 088	1 586	2 473	460	1 197	40 256

At the end of 2014, the total cadastral value of land under the ownership and possession of Latvijas Banka was 2 962 thousand euro (2 712 thousand euro at the end of 2013; the change is related to a revision in the cadastral value of land). Land is reported in the balance sheet of Latvijas Banka at cost (2 375 thousand euro at the end of 2014 and 2013).

At the end of 2014, Latvijas Banka's contractual commitments related to acquisition of fixed assets were 18 thousand euro (300 thousand euro at the end of 2013).

A small share of Latvijas Banka's fixed assets are given on lease. Latvijas Banka's assets subject to leases are premises and equipment. In the balance sheet they are reported as fixed assets. Asset lease agreements where Latvijas Banka acts as a lessor are operating leases. Lease payments, except those that are directly transferred to the state budget, are recognised in the profit and loss statement proportionally over the term of the respective agreement. The depreciation of the assets given on lease is calculated on the basis of the depreciation policy described in Note 2.18 and reported in the profit and loss statement as depreciation charges.

Carrying amount of assets given on lease at the end of 2014 and 2013 was as follows:

(in thousands of euro)	
As at 31 December 2013	
Cost	1 660
Accumulated depreciation	-874
Net book value	786
As at 31 December 2014	
Cost	997
Accumulated depreciation	-533
Net book value	464

14.2 Participating interest in the Bank for International Settlements

At the end of 2014 and 2013, Latvijas Banka owned 1 070 shares in the BIS, which corresponded to 0.19% of the total subscribed and paid-up BIS capital.

The total nominal value of Latvijas Banka's shareholding in the BIS is 5 350 thousand SDR (the nominal value per share is 5 thousand SDR), paid up in the amount of 1 338 thousand SDR or 25% (see also Note 46). At the end of 2014 and 2013, the BIS shareholding is reported in Latvijas Banka's balance sheet at fair value. The shares in the BIS are not traded in the public securities market. In the opinion of Latvijas Banka's management, the most appropriate method for establishing the fair value of the BIS shares is the use of 70% of the BIS net asset value based on the latest audited financial statements of the BIS. The BIS applied this valuation method for calculating the issue price of its shares; the International Court at the Hague has also recognised it as appropriate for the valuation of shares when repurchasing them from former private shareholders of the BIS. Pursuant to the Statutes of the BIS, only central banks can be shareholders in the BIS. At the end of 2014, the fair value of BIS shares was 28 176 thousand euro (28 447 thousand euro at the end of 2013).

14.3 Intangible assets

(in thousands of euro)

As at 31 December 2012	
Cost	6 011
Accumulated amortisation	-5 434
Net book value	577
During 2013	
Additions	223
Change in classification	31
Derecognised intangible assets	-26
Net change in cost	228
Amortisation charge	-174
Accumulated amortisation on derecognised intangible assets	26
Net change in accumulated amortisation	-148
As at 31 December 2013	
Cost	6 239
Accumulated amortisation	-5 582
Net book value	657
During 2014	
Additions	1 374
Amortisation charge	-216
As at 31 December 2014	
Cost	7 613
Accumulated amortisation	-5 798
Net book value	1 815

15. BANKNOTES IN CIRCULATION

(in thousands of euro)

	2014	2013
Euro banknotes	3 771 356	-
Euro banknotes issued by Latvijas Banka	691 986	-
Adjustment for banknote allocation in the Eurosystem	3 079 370	-
Lats banknotes	77 814	801 869
Total	3 849 170	801 869

In 2014, an increase in banknotes in circulation relates to the reporting of the adjustment for banknote allocation in the Eurosystem on the balance sheet of Latvijas Banka following Latvijas Banka's joining the Eurosystem on 1 January 2014 (see also Note 2.21). The euro coins issued by Latvijas Banka and the non-exchanged lats coins are reported under the balance sheet caption "Other liabilities" (see also Note 22).

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

16.1 Current accounts (covering the minimum reserve system)

Current accounts contain the credit balances on the transaction accounts of credit institutions that are required to hold minimum reserves. Minimum reserve balances have been remunerated at the latest available interest rate used by the Eurosystem in its tenders for main refinancing operations. Since June 2014 the reserves held in excess of the minimum requirements are remunerated at the lower rate of either zero per cent or the ECB's deposit facility rate. At the end of 2014 balance on the current accounts placed with Latvijas Banka was 2 073 356 thousand euro (4 013 974 thousand euro at the end of 2013).

16.2 Deposit facility

Deposit facility is a standing facility of the Eurosystem used by credit institutions to place their overnight deposits at a pre-specified rate. At the end of 2014 the balance on Latvijas Banka's balance sheet item "Deposit facility" was 350 000 thousand euro. In 2013, deposit facility was used in line with the Regulation for the Use of Monetary Policy Instruments of Latvijas Banka, in force by the time Latvijas Banka joined the Eurosystem (113 830 thousand euro at the end of 2013).

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

Other liabilities to euro area credit institutions denominated in euro resulted from funds received as collateral for forward exchange contracts accounting for 540 thousand euro at the end of 2014 (0 at the end of 2013).

18. LIABILITIES TO OTHER EURO AREA RESIDENTS DENOMINATED IN EURO

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

Deposits of other financial institutions mostly include the funds of the FCMC and the Deposit Guarantee Fund and Fund for the Protection of the Insured, both managed by the FCMC, in the amount of 73 562 thousand euro (11 437 thousand euro at the end of 2013).

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

Liabilities to non-euro area residents denominated in euro mostly comprise funds on the EC account for settlement in euro. The EC account is used by the EC for the distribution of EU budgetary funds.

	(in thousands of euro)	
	2014	2013
European Commission	23 052	7 361
International Monetary Fund	444	420
Other financial institutions	490	4 904
Total	23 986	12 685

20. LIABILITIES TO EURO AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY

Liabilities to euro area residents denominated in foreign currency comprise demand deposits of the Latvian government in foreign currency standing at 144 579 thousand euro at the end of 2014 (138 070 thousand euro at the end of 2013; see also Note 43).

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

At the end of 2013, liabilities to non-euro area residents denominated in foreign currency resulted from funds received as collateral for transactions in financial derivatives.

22. OTHER LIABILITIES

		(in thousands of euro)	
	Note	2014	2013
Lats coins in circulations	22.1	64 741	95 615
Euro coins in circulation	22.1	43 742	–
OTC financial derivative contracts and spot exchange rate contracts	24	51 894	9 674
Provisions for market risk and credit risk	36	14 800	–
Accrued expense and similar liabilities		3 801	3 619
Tax liabilities	22.2	175	211
Other		936	2 909
Total		180 089	112 028

22.1 Coins in circulation

Apart from the lats and euro circulation coins issued by Latvijas Banka and reported on the liabilities side of the balance sheet, euro collector coins, lats collector coins and precious metal circulation coins were also in circulation with the total nominal value of 5 627 thousand euro at the end of 2014 (5 442 thousand euro at the end of 2013). The above coins in circulation have not been reported under the balance sheet caption "Other liabilities" (see also Note 2.22).

22.2 Tax liabilities

At the end of 2014 and 2013, tax liabilities of Latvijas Banka were as follows:

	(in thousands of euro)						
	Personal income tax	Compul- sory social security contribu- tions (by employer)	Compul- sory social security contribu- tions (by employee)	Tax on real estate	Value added tax	Other taxes and duties	Total
Liabilities as at 31 December 2012	–	–	–	–	137	0	137
During 2013							
Calculated	2 940	3 668	1 618	142	747	6	9 121
Decrease in deferred liabilities	–	–125	–	–	–	–	–125
Paid	–2 940	–3 542	–1 618	–142	–585	–3	–8 830
Recalculation of liabilities	–	–	–	–	–92	–	–92
Liabilities as at 31 December 2013	–	1	–	–	207	3	211
During 2014							
Calculated	3 288	3 382	1 547	154	827	2	9 200
Increase in deferred liabilities	–	94	–	–	–	–	94
Paid	–3 288	–3 477	–1 547	–154	–859	–5	–9 330
Liabilities as at 31 December 2014	–	–	–	–	175	0	175

In addition to the tax payments indicated herein, Latvijas Banka transfers to the state budget 65% of the profit for the reporting year (38 349 thousand euro in 2014; 31 410 thousand euro in 2013; see also Notes 23 and 43). The transfer includes the payment for the usage of state capital. Latvijas Banka is not subject to corporate income tax.

23. CAPITAL AND RESERVES

(in thousands of euro)

	Nominal capital	Reserve capital	Valuation account	Profit of the reporting year	Capital and reserves
As at 31 December 2012	35 572	227 371	203 820	48 322	515 085
During 2013					
Revaluation, realisation, and write-downs	x	x	-72 680	x	-72 680
Profit appropriated to the state budget	x	x	x	-31 410	-31 410
Profit transferred to the reserve capital	x	16 912	x	-16 912	0
Profit of the reporting year	x	x	x	58 998	58 998
As at 31 December 2013	35 572	244 283	131 140	58 998	469 993
During 2014					
Revaluation, realisation, and write-downs	x	x	10 485	x	10 485
Profit appropriated to the state budget	x	x	x	-38 349	-38 349
Profit transferred to the reserve capital	x	20 649	x	-20 649	0
Increase in the nominal capital	64 428	-64 428	x	x	0
Profit of the reporting year	x	x	x	36 760	36 760
As at 31 December 2014	100 000	200 504	141 625	36 760	478 889

The capital of Latvijas Banka is comprised of the nominal capital, reserve capital and the valuation account, as well as the undistributed profit of the reporting year.

The legislation 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 the ECB and the Law on Latvijas Banka. The implementation of the monetary policy as well as exposure to other financial and operational risks may adversely affect Latvijas Banka's income or result in losses to be covered from the capital and reserves of Latvijas Banka.

The nominal capital of Latvijas Banka is comprised of the state-allotted resources, transfers from the reserve capital and Latvijas Banka's profit allocations. Pursuant to Paragraph 2 of the transitional provisions of the Law on Latvijas Banka, on 3 January 2014 Latvijas Banka transferred part of its reserve capital into its nominal capital, raising it to 100 000 thousand euro.

The Law on Latvijas Banka establishes that a part of Latvijas Banka's profit of the reporting year, calculated by applying the same percentage as the tax rate set for resident corporate entities of Latvia by the Law on Corporate Income Tax, together with a payment in the amount of 50% of the profit of the reporting year for the usage of state capital shall be transferred to the state budget, as well as that the Council of Latvijas Banka, upon approving the annual report, may make a decision on reducing the percentage share of the payment for the usage of state capital where it is necessary for increasing the reserve capital of Latvijas Banka in relation to the financial risks Latvijas Banka is exposed to when executing its tasks. At the end of 2014 and 2013, the corporate income tax rate applicable to residents of Latvia was 15%. Therefore, unless the Council of Latvijas Banka decides otherwise, 65% of Latvijas Banka's profit of the reporting or 23 894 thousand euro year shall be transferred to the state budget within 15 days following the approval of the Annual Report of 2014 by the Council of Latvijas Banka.

Latvijas Banka's profit remaining after making the above deductions shall be transferred to the reserve capital as prescribed by the Law on Latvijas Banka. The reserve capital shall be formed to cover potential losses.

The valuation account comprises the positive result on revaluation of the financial instruments and gold. The accounting policy, harmonised with the principal accounting policies established by the ECB's legal framework for accounting and financial reporting and described in Note 2 stipulates that the realised gains are recognised in the profit and loss statement only after the disposal of a financial instrument or settlement while unrealised gains are recorded under the balance sheet caption "Capital and reserves" as the revaluation reserve, thus facilitating the preservation of the capital under the impact of financial instrument price, interest rate and exchange rate fluctuations.

In 2014 and 2013, changes in the valuation account were as follows:

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

	2013	Write-downs	Revaluation	Realisation	2012
Initial valuation account	34 175	x	x	-	34 175
Revaluation reserve for equity instruments	25 937	-	1	-	25 936
Result on revaluation of foreign currencies and gold	43 081	154	-34 024	-2 436	79 387
Result on revaluation of securities	27 947	6 788	-9 430	-33 733	64 322
Total	131 140	6 942	-43 453	-36 169	203 820

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

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

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

24. DERIVATIVE FINANCIAL INSTRUMENTS AND SPOT EXCHANGE RATE CONTRACTS

Latvijas Banka enters into forward and spot exchange rate contracts, currency and interest rate swap arrangements and interest rate and currency future contracts in order to manage interest rate and currency risks associated with Latvijas Banka's investments.

(in thousands of euro)

	Contract or notional amount		Book value			
			Assets		Liabilities	
	2014	2013	2014	2013	2014	2013
OTC financial derivative and spot exchange rate contracts						
Forward exchange rate contracts and currency swap arrangements	3 451 371	3 543 833	1 693	14 312	51 463	9 167
Spot exchange rate contracts	105 401	266 706	–	3 650	289	–
Forward transactions in securities	382 093	244 674	945	293	142	507
Swap arrangements	6 460	–	x	–	x	–
Total	x	x	2 638	18 255	51 894	9 674
Traded financial derivative contracts						
Interest rate future contracts	439 495	991 430	x	x	x	x
Currency future contracts	187 615	183 855	x	x	x	x

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

The reconciliation of the book value and net fair value of OTC contracts at the end of 2014 and 2013 was as follows:

(in thousands of euro)

	Net fair value		Net book value		Difference	
	2014	2013	2014	2013	2014	2013
OTC financial derivative and spot exchange rate contracts						
Forward exchange rate contracts and currency swap arrangements	–50 576	5 194	–49 770	5 145	–806	49
Spot exchange rate contracts	–289	3 651	–289	3 650	–	1
Total	–50 865	8 845	–50 059	8 795	–806	50

MAJOR RISKS AND PRINCIPLES FOR THEIR MANAGEMENT

25. RISK MANAGEMENT

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

25.1 Financial risks

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

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

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

25.1.1 Market Risk

Market risk is exposure to losses due to adverse changes in financial markets (for example, movements in interest rates or exchange rates).

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

Latvijas Banka's exposure to currency risk is determined by its investment structure, which cannot be formed in compliance with Latvijas Banka's liability parameters. Latvijas Banka manages currency risk by determining open currency position limits and using tracking error. Tracking error is calculated as the expected annualised standard deviation of the difference in return between the investment portfolio and the respective benchmark. The aggregate market and credit risk of portfolios managed against multi-currency fixed income securities benchmark and asset-backed securities benchmark (see Note 4) is managed by determining the tracking error limit. Tracking error in 2014 and 2013 is disclosed in Note 28.

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

The Risk Management Division of the Market Operations Department monitors the compliance of the modified duration limits and open currency positions with the Procedure and the related resolutions passed by the Investment Committee of Latvijas Banka.

Latvijas Banka's exposure to market risk (as at the end of 2014 and 2013) is disclosed in Notes 26–28.

25.1.2 Credit Risk

Credit risk is exposure to losses resulting from counterparty default. Latvijas Banka's exposure to credit risk results mainly from investments in foreign financial instruments and short-term lending to domestic credit institutions.

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

In 2014, loans granted to credit institutions in monetary policy operations were secured by securities collateral in compliance with the ECB requirements (in 2013 loans were secured by collateral of Latvian government securities and private sector debt securities in accordance with the requirements established by the

Council of Latvijas Banka). The Market Operations Department reviews the compliance of credit ratings assigned to issuers of the securities provided as collateral with the requirements of the Council of Latvijas Banka and monitors the adequacy of collateral of the respective loans on a regular basis.

Latvijas Banka's exposure to market risk (as at the end of 2014 and 2013) is disclosed in Notes 30–32.

25.1.3 Liquidity Risk

Liquidity risk is associated with a failure to dispose investment in a short time and at a competitive market price. Along with participation in the euro area, the need for liquidity as well as the risk associated with a failure to meet liabilities in a timely manner has moderated. Following its investment strategy, Latvijas Banka manages liquidity risk by investing in liquid debt securities issued by international institutions, foreign governments and the corporate sector, short-term deposits with foreign financial institutions and other financial instruments. The liquidity profile of Latvijas Banka's assets and liabilities as at the end of 2014 and 2013 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 risk is exposure to financial and other losses resulting from inadequate or failed internal processes, individual's actions, operation of information or technical systems, or from external events.

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

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

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

Latvijas Banka conducts, on a regular basis, educational sessions for employees on information and information systems security, operational risk management and management of business continuity.

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

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

In 2014 and 2013, operational risks were appropriately managed and did not substantially hamper Latvijas Banka's operation.

26. CURRENCY PROFILE

(in thousands of euro)

	EUR	USD	JPY	CAD	GBP	Gold	Other	Total
As at 31 December 2014								
Total assets	4 928 769	1 689 358	385 456	303 995	299 815	210 774	206 341	8 024 508
Total liabilities	7 929 904	66 766	10 148	186	17 402	–	102	8 024 508
Net position on balance sheet	–3 001 135	1 622 592	375 308	303 809	282 413	210 774	206 239	0
Net position on financial instruments' off-balance sheet accounts	2 950 588	–1 618 727	–373 470	–307 431	–278 226	–210 790	–211 200	–49 256
Net position on balance sheet and off-balance sheet accounts	–50 547	3 865	1 838	–3 622	4 187	–16	–4 961	–49 256
Profile of the net position on balance sheet and off-balance sheet accounts (%)	–0.6	0	0	0	0.1	0	–0.1	–0.6
Benchmark currency structure (%)	0	0	0	0	0	0	0	0
As at 31 December 2013¹								
Total assets	2 870 598	1 643 635	377 710	302 646	280 976	217 923	196 316	5 889 804
Total liabilities	5 801 148	61 306	10 487	165	16 640	–	58	5 889 804
Net position on balance sheet	–2 930 550	1 582 329	367 223	302 481	264 336	217 923	196 258	0
Net position on financial instruments' off-balance sheet accounts	2 740 997	–1 568 987	–187 714	–300 862	–262 365	–217 919	–194 569	8 581
Net position on balance sheet and off-balance sheet accounts	–189 553	13 342	179 509	1 619	1 971	4	1 689	8 581
Profile of the net position on balance sheet and off-balance sheet accounts (%)	–3.2	0.2	3.0	0	0	0	0	0
Benchmark currency structure (%)	0	0	0	0	0	0	0	0

¹ Assets and liabilities denominated in lats as at 31 December 2013 are reported in euro.

27. REPRICING MATURITY

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

(in thousands of euro)

	Up to 3 months	3–6 months	6–12 months	1–3 years	Over 3 years	Total
As at 31 December 2014						
Claims on non-euro area residents denominated in foreign currency	592 578	29 700	53 289	934 682	682 825	2 293 074
Claims on euro area residents denominated in foreign currency	36 037	–	–	209 065	238 082	483 184
Claims on non-euro area residents denominated in euro	39 830	25 470	–	110 965	33 165	209 430
Lending to euro area credit institutions related to monetary policy operations denominated in euro	–	–	–	–	85 520	85 520
Other claims on euro area credit institutions denominated in euro	4 458	–	–	–	–	4 458
Securities of euro area residents denominated in euro	405 212	37 388	–	332 484	320 362	1 095 446
Intra-Eurosystem claims	3 278 193	–	–	–	–	3 278 193
Other assets	1 329	985	69	8 697	5 956	17 036
Total interest-sensitive assets	4 357 637	93 543	53 358	1 595 893	1 365 910	7 466 341
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	2 423 356	–	–	–	–	2 423 356
Other liabilities to euro area credit institutions denominated in euro	540	–	–	–	–	540
Liabilities to other euro area residents denominated in euro	50 903	–	–	–	–	50 903
Liabilities to euro area residents denominated in foreign currency	23 502	–	–	–	–	23 502
Intra-Eurosystem liabilities	796 980	–	–	–	–	796 980
Total interest-sensitive liabilities	3 295 281	–	–	–	–	3 295 281
Net position on balance sheet	1 062 356	93 543	53 358	1 595 893	1 365 910	4 171 060
Assets on financial instruments' off-balance sheet accounts	4 004 686	–	–	280 929	283 887	4 569 502
Liabilities on financial instruments' off-balance sheet accounts	4 364 440	9 884	1 235	1 977	241 222	4 618 758
Net position on balance sheet and off-balance sheet accounts	702 602	83 659	52 123	1 874 845	1 408 575	4 121 804
As at 31 December 2013						
Total interest-sensitive assets	2 673 293	69 366	188 760	1 576 669	1 139 420	5 647 508
Total interest-sensitive liabilities	3 178 757	–	–	–	–	3 178 757
Net position on balance sheet	–505 464	69 366	188 760	1 576 669	1 139 420	2 468 751
Assets on financial instruments' off-balance sheet accounts	4 424 435	–	–	642 624	172 361	5 239 420
Liabilities on financial instruments' off-balance sheet accounts	4 809 718	–	–	69 614	351 506	5 230 838
Net position on balance sheet and off-balance sheet accounts	–890 748	69 366	188 760	2 149 679	960 275	2 477 332

28. TRACKING ERROR

The exposure to aggregate market risk and credit risk of investments, included in portfolios managed against multi-currency fixed income securities benchmark and asset-backed securities benchmark is characterised by the tracking error, which is measured as the expected annualised standard deviation of the difference in return between the investment portfolio and the respective benchmark (see also Note 25.1). At the end of 2014 and 2013, the actual (ex-post) tracking errors of the portfolios managed against multi-currency fixed income securities benchmark were 19 basis points and 23 basis points respectively, whereas the tracking errors of the portfolios managed against asset-backed securities benchmark were 66 basis points and 94 basis points respectively.

The expected (ex-ante) tracking error lay within the following basis point intervals during the year:

	Book value (at the end of the year; in thousands of euro)	Expected tracking error (number of business days)			
		10–39	40–69	70–99	100–110
During 2014					
Portfolios managed against multi-currency fixed income securities benchmark	3 665 508	249	–	–	–
Portfolios managed against asset-backed securities benchmark	267 672	–	41	208	–
During 2013					
Portfolios managed against multi-currency fixed income securities benchmark	3 792 126	158	92	–	–
Portfolios managed against asset-backed securities benchmark	255 363	–	145	93	12

29. LIQUIDITY PROFILE

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

(in thousands of euro)

	Up to 3 months	Over 3 months	No fixed maturity	Total
As at 31 December 2014				
Assets				
Gold and gold receivables	210 774	–	–	210 774
Claims on non-euro area residents denominated in foreign currency	2 441 368	–	–	2 441 368
Claims on euro area residents denominated in foreign currency	486 242	–	–	486 242
Claims on non-euro area residents denominated in euro	214 953	–	–	214 953
Lending to euro area credit institutions related to monetary policy operations denominated in euro	–	85 520	–	85 520
Other claims on euro area credit institutions denominated in euro	4 475	–	–	4 475
Securities of euro area residents denominated in euro	1 095 446	–	–	1 095 446
Intra-Eurosystem claims	35 343	–	3 357 932	3 393 275
Other assets	21 264	–	71 191	92 455
Total assets	4 509 865	85 520	3 429 123	8 024 508

Liabilities				
Banknotes in circulation	–	–	3 849 170	3 849 170
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	2 423 356	–	–	2 423 356
Other liabilities to euro area credit institutions denominated in euro	540	–	–	540
Liabilities to other euro area residents denominated in euro	126 919	–	–	126 919
Liabilities to non-euro area residents denominated in euro	23 986	–	–	23 986
Liabilities to euro area residents denominated in foreign currency	144 579	–	–	144 579
Intra-Eurosystem liabilities	796 980	–	–	796 980
Other liabilities	71 580	–	108 509	180 089
Total liabilities	3 587 940	–	3 957 679	7 545 619
Net position on balance sheet	921 925	85 520	–528 556	x

	(in thousands of euro)		
	Up to 3 months	No fixed maturity	Total
As at 31 December 2013			
Assets			
Gold and gold receivables	217 923	–	217 923
Claims on non-euro area residents denominated in foreign currency	2 370 157	–	2 370 157
Claims on euro area residents denominated in foreign currency	472 800	–	472 800
Claims on non-euro area residents denominated in euro	441 866	–	441 866
Lending to euro area credit institutions related to monetary policy operations denominated in euro	14 229	–	14 229
Other claims on euro area credit institutions denominated in euro	1 295	–	1 295
Securities of euro area residents denominated in euro	1 094 153	–	1 094 153
Intra-Eurosystem claims	1 166 224	1 038	1 167 262
Other assets	37 095	73 024	110 119
Total assets	5 815 742	74 062	5 889 804
Liabilities			
Banknotes in circulation	–	801 869	801 869
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	4 127 804	–	4 127 804
Liabilities to other euro area residents denominated in euro	226 372	–	226 372
Liabilities to non-euro area residents denominated in euro	12 685	–	12 685
Liabilities to euro area residents denominated in foreign currency	138 070	–	138 070
Liabilities to non-euro area residents denominated in foreign currency	983	–	983
Other liabilities	16 369	95 659	112 028
Total liabilities	4 522 283	897 528	5 419 811
Net position on balance sheet	1 293 459	–823 466	x

At the end of 2013, Latvijas Banka had no assets that could not be converted into cash within a period of three months and no liabilities with a maturity of over three months.

30. SECTORAL PROFILE OF ASSETS

	Amount (in thousands of euro)		Percentage (%)	
	2014	2013	2014	2013
European Central Bank	3 393 621	1 166 697	42.3	19.8
Foreign central governments and other governmental institutions	1 728 885	1 746 472	21.5	29.7
Other foreign financial institutions	1 391 751	1 340 280	17.3	22.8
Foreign central banks and credit institutions	964 281	1 150 741	12.0	19.5
International institutions	326 059	352 980	4.1	6.0
Domestic credit institutions	85 520	14 230	1.1	0.2
Foreign local governments	76 882	37 838	1.0	0.6
Non-financial corporations	14 403	17 459	0.2	0.3
Unclassified assets	43 106	63 107	0.5	1.1
Total	8 024 508	5 889 804	100.0	100.0

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

	Amount (in thousands of euro)		Percentage (%)	
	2014	2013	2014	2013
European Central Bank	3 393 621	1 166 697	42.3	19.8
Euro area countries	1 681 741	1 601 464	21.0	27.2
UK	630 096	657 745	7.9	11.2
US	531 739	534 724	6.6	9.1
Japan	407 393	397 410	5.1	6.7
Canada	380 999	388 370	4.7	6.6
Other European Union countries	346 537	317 804	4.3	5.4
Other countries and international institutions	652 382	825 590	8.1	14.0
Total	8 024 508	5 889 804	100.0	100.0

32. ASSETS BY CREDIT RATING ASSIGNED TO THE COUNTERPARTY

	Amount (in thousands of euro)		Percentage (%)	
	2014	2013	2014	2013
European Central Bank	3 393 621	1 166 697	42.3	19.9
AAA	2 115 702	2 611 961	26.4	44.3
AA	1 845 629	1 602 341	23.0	27.2
A	521 962	426 231	6.5	7.2
BBB	17 843	23 613	0.2	0.4
Different assets	129 751	58 961	1.6	1.0
Total	8 024 508	5 889 804	100.0	100.0

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

PROFIT AND LOSS NOTES

33. NET INTEREST INCOME

	(in thousands of euro)	
	2014	2013
Interest income	49 574	55 989
Interest on deposits	47 802	55 988
Interest on monetary policy operations	19	1
Interest on intra-Eurosystem claims	1 753	–
Interest expense	–10 775	–14 136
Interest on deposits	–7 806	–11 340
Interest on monetary policy operations	–831	–1 046
Interest on customer deposits	–470	–1 750
Interest on intra-Eurosystem liabilities	–1 668	–
Net interest income	38 799	41 853

Net interest income was mainly derived from debt securities. In 2014, net interest income decreased by 3 054 thousand euro in comparison with 2013, mostly on account of the shrinking actual securities yields in 2014 since yields remained at their lows.

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

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

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

Lower interest rates in 2014 (see Note 16) and smaller credit institution minimum reserve ratio had a positive impact on the interest expense on monetary policy operations. Interest expense on monetary policy operations also includes the received negative interest on credit institution deposits.

The contraction of interest expense on deposits in 2014 resulted from a change in Latvijas Banka's procedure for interest payment as a result of the application of the Guideline of the ECB of 20 February 2014 on domestic asset and liability management operations by the national central banks (ECB/2014/9) (2014/304/EU) and Guideline of the ECB of 5 June 2014 amending Guideline ECB/2014/9 on domestic asset and liability management operations by the national central banks (ECB/2014/22) (2014/339/EU) (see Note 43) as well as by the reduction of the key ECB interest rates. Interest expense on deposits also includes the received negative interest on deposits.

34. REALISED GAINS/LOSSES FROM FINANCIAL OPERATIONS

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

Gains from the disposal of debt securities increased by 2 038 thousand euro in comparison with 2013.

The realised gains and losses from financial operations were negatively affected by the result on derivative financial instruments posting a decrease of 66 173 thousand euro in comparison with 2013, mostly on account of the result of interest rate future contracts as well as the result of currency future contracts concluded for the purpose of hedging currency risks. In view of Latvijas Banka hedging the risks related to gold price and foreign exchange fluctuations, the negative result of the currency future contracts concluded for the purpose of hedging currency and gold price risk exposure is offset in equal value by the positive revaluation result of the hedged balance sheet items reported under the balance sheet caption "Capital and reserves" as the revaluation result of foreign currency and gold, and the realised gains on foreign exchange transactions recognised in the profit and loss statement.

The realised gains or losses from financial operations were positively affected by the write-downs on the initial valuation account (an increase of 15 735 thousand euro in comparison with 2013; see also Note 23).

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

The revaluation result of several debt securities and foreign currency positions at the end of 2014 and 2013 was negative, and it has been recognised in the profit and loss statement while the positive result on the revaluation of debt securities and foreign currency positions has been reported under the balance sheet caption "Capital and reserves" as the revaluation result of securities and foreign currency (see also Note 23).

At the end of 2014, the negative result on revaluation of debt securities amounted to 1 512 thousand euro (6 788 thousand euro at the end of 2013). At the end of 2014, the negative result on revaluation of foreign currencies was 133 thousand euro (154 thousand euro at the end of 2013).

36. PROVISIONS FOR MARKET RISK AND CREDIT RISK

Financial risks of Latvijas Banka relate primarily to its investments in financial instruments, as well as the implementation of the single monetary policy and distribution of the related income and losses stemming from Latvijas Banka's participation in the Eurosystem. Latvijas Banka carries out assessment of its financial risks and financial buffers in compliance with the ECB's common methodology for Eurosystem financial risk assessment. According to the methodology for Eurosystem financial risk assessment, the Expected Shortfall (ES) measure with confidence level of 99% (ES99%) for a risk horizon of one year is used. ES99% describes the losses determined by the average value of 1% of the most unfavourable simulated profitability scenarios.

Based on the above risk estimates, in 2014 the Council of Latvijas Banka decided to establish provisions in the amount of 14 800 thousand euro for market risk and credit risk with regard to investment management transactions of Latvijas Banka. It has been planned to continue accumulating provisions for market risk and credit risk for a longer time period, reaching the targeted amount in five years. The above policy is based on the assessment of the overall level of financial risks, as well as the projected amount of income available for

accumulating the provisions. Assessment of the necessary level of provisions takes place on a regular basis; the level of financial risks, the available financial reserves and long-term prospects of the financial market development are taken account of when setting it. Provisions for the market risk and credit risk are reduced when financial risks materialise provided they are not offset against the accumulated revaluation result and other income, as well as when financial risks moderate.

37. INCOME FROM PARTICIPATING INTEREST

Income from participating interest comprises dividends received from the participating interest in the BIS in the amount of 261 thousand euro (388 thousand euro in 2013; see also Note 14.2) and income from the ECB's interim profit distribution in the amount of 3 389 thousand euro (see also Note 2.27).

38. NET RESULT OF POOLING OF MONETARY INCOME

	(in thousands of euro)	
	2014	2013
Monetary income pooled	-8 247	-
Monetary income received	40 200	-
Net result of pooling of monetary income	31 953	-

39. OTHER OPERATING INCOME

	(in thousands of euro)	
	2014	2013
Income from disposal of demonetised lats coins	1 583	1 296
Income from sale of collector coins	1 526	1 655
Other	557	548
Total	3 666	3 499

40. REMUNERATION AND SOCIAL SECURITY COSTS

	(in thousands of euro)	
	2014	2013
Remuneration		
Remuneration of Members of the Council and the Board	-1 557	-1 259
Remuneration of other personnel	-15 282	-14 304
Total remuneration	-16 839	-15 563
Social security costs	-3 382	-3 669
Total remuneration and social security costs	-20 221	-19 232

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

The number of employees in 2014 and 2013 was as follows:

	2014	2013
Number of employees at the end of the year		
Members of the Council and the Board	13	14
Other personnel	527	559
Total at the end of the year	540	573
Average number of employees per period	569	567

41. BANKNOTE AND COIN ACQUISITION COSTS

(in thousands of euro)

	2014	2013
Acquisition of circulation coins	-1 775	-9 357
Acquisition of collector coins	-858	-1 047
Supply of banknotes	-	-377
Total	-2 633	-10 781

42. OTHER OPERATING EXPENSES

(in thousands of euro)

	2014	2013
Maintenance and operation of information systems	-2 763	-2 849
Municipal services	-944	-1 013
Disposal of material values	-837	-1
Maintenance of buildings, territory and equipment	-626	-882
Business travel	-606	-470
Information and public relations	-538	-911
Risk insurance	-299	-334
Telecommunications services and system maintenance	-235	-276
Personnel training	-228	-258
Acquisition of low value office supplies	-178	-232
Transport provision	-162	-179
Tax on real estate	-152	-139
Event services	-130	-525
Other	-548	-371
Total	-8 246	-8 440

An increase in the expenses of disposal of material values in 2014 is mostly related to the closing down of the Daugavpils Branch. Other expenses also comprise the remuneration in the amount of 34 thousand euro paid to SIA Ernst & Young Baltic for the audit of 2014 financial statements of Latvijas Banka (34 thousand euro in 2013).

OTHER NOTES

43. TRANSACTIONS WITH THE LATVIAN GOVERNMENT

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

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

Pursuant to Guideline of the ECB of 20 February 2014 on domestic asset and liability management operations by the national central banks (ECB/2014/9) (2014/304/EU) and Guideline of the ECB of 5 June 2014 amending Guideline ECB/2014/9 on domestic asset and liability management operations by the national central banks (ECB/2014/22) (2014/339/EU), Latvijas Banka pays remuneration on the Treasury's deposits in euro in the amount of up to 200 million euro as per the euro overnight index average (EONIA) rate standing at 0.144% at the end of 2014. Latvijas Banka pays no remuneration to the Treasury on the total outstanding amount on its settlement accounts in euro and foreign currencies exceeding 200 million euro but applies the deposit facility rate set by the ECB which was -0.2% at the end of 2014.

At the end of 2014 and 2013, the breakdown of Latvijas Banka's liabilities to the Latvian government were as follows:

	Amount (in thousands of euro)	
	2014	2013
Liabilities		
Demand deposits in lats	–	177 867
Demand deposits in euro	50 900	24 396
Demand deposits in foreign currencies	144 579	138 070
Tax liabilities	175	211
Total net liabilities	195 654	340 544

In 2014 and 2013, the breakdown of Latvijas Banka's income and expense related to the Latvian government, as well as Latvijas Banka's profit of the previous reporting year appropriated to the state budget was as follows (see also Notes 22.2 and 23):

	(in thousands of euro)	
	2014	2013
Expense and Latvijas Banka's profit appropriated to the state budget		
Interest on government deposits	504	1 737
Taxes	9 200	9 121
Profit appropriated to the state budget	38 349	31 410
Total expense and Latvijas Banka's profit appropriated to the state budget	48 053	42 268

44. PLEDGED ASSETS

Securities and other financial instruments with the market value of 25 142 thousand euro, as at the end of 2014 (14 022 thousand euro at the end of 2013), have been pledged to provide collateral for forward exchange contracts and interest rate and currency future contracts.

45. SECURITIES LENDING

On behalf of Latvijas Banka its agents conclude securities lending transactions, as part of an automatic securities lending programme, where securities held by Latvijas Banka are lent against cash or other securities collateral. Securities lending transactions provide additional income without any material impact on investment liquidity as the securities lent are readily available to Latvijas Banka. The agent administers the securities lending programme and monitors the eligibility of the securities lending and related collateral.

At the end of 2014, the fair value of the securities lent was 305 181 thousand euro (185 864 thousand euro at the end of 2013).

At the end of 2014 and 2013, the fair value of collateral provided in securities lending transactions was as follows:

	(in thousands of euro)	
	2014	2013
Foreign currency cash	284 876	155 364
Debt securities of foreign governments, financial institutions and non-financial corporations	26 196	34 946
Total	311 072	190 310

Foreign currency cash or securities received in the agent account of Latvijas Banka's automatic securities lending programme as collateral for securities lending transactions is not recognised in Latvijas Banka's balance sheet (see also Note 2.13).

46. CONTINGENT LIABILITIES AND COMMITMENTS

The uncalled portion of the BIS shares held by Latvijas Banka is 75% of their nominal value. These shares are callable following a respective decision of the BIS Board. At the end of 2014 the uncalled portion of the BIS share holding was 4 013 thousand SDR (4 785 thousand euro; 4 013 thousand SDR (4 522 thousand euro) at the end of 2013; see also Note 14.2).

At the end of 2014, Latvijas Banka had issued euro collector coins, lats collector coins and precious metal circulation coins in the nominal value of 5 627 thousand euro (5 442 thousand euro at the end of 2013). These coins may be represented to Latvijas Banka at a nominal value. In the opinion of management of Latvijas Banka, the probability that Latvijas Banka will be required to repurchase these coins from their holders is considered low and no provisions have been made.

47. LAYOUT CHANGES OF FINANCIAL STATEMENTS

Beginning with 2014, Latvijas Banka changed the layout of its balance sheet in line with the one used by the central banks of the Eurosystem. This Note presents the comparison of the previous layout of the published balance sheet as at 31 December 2013 with the changed one, i.e. if the layout used by the central banks of the Eurosystem and applied in drafting the consolidated financial accounts of the Eurosystem had already been applied when drafting the financial statements for 2013.

(in thousands of euro)

	Foreign assets	Domestic assets	Foreign liabilities	Lats in circulation	Domestic liabilities	Capital and reserves	Total
Gold and gold receivables	217 923	–	–	–	–	–	217 923
Claims on non-euro area residents denominated in foreign currency	2 370 157	–	–	–	–	–	2 370 157
Claims on euro area residents denominated in foreign currency	472 800	–	–	–	–	–	472 800
Claims on non-euro area residents denominated in euro	441 866	–	–	–	–	–	441 866
Lending to euro area credit institutions related to monetary policy operations denominated in euro	–	14 229	–	–	–	–	14 229
Other claims on euro area credit institutions denominated in euro	1 295	–	–	–	–	–	1 295
Securities of euro area residents denominated in euro	1 094 153	–	–	–	–	–	1 094 153
Intra-Eurosystem claims	1 167 262	–	–	–	–	–	1 167 262
Other assets	66 103	44 016	–	–	–	–	110 119
Total assets	5 831 559	58 245	–	–	–	–	5 889 804
Banknotes in circulation	–	–	–	801 869	–	–	801 869
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	–	–	–	–	4 127 804	–	4 127 804
Liabilities to other euro area residents denominated in euro	–	–	9 900	–	216 472	–	226 372
Liabilities to non-euro area residents denominated in euro	–	–	12 685	–	–	–	12 685
Liabilities to euro area residents denominated in foreign currency	–	–	–	–	138 070	–	138 070
Liabilities to non-euro area residents denominated in foreign currency	–	–	983	–	–	–	983
Intra-Eurosystem liabilities	–	–	–	–	–	–	–
Other liabilities	–	–	11 553	95 615	4 860	–	112 028
Capital and reserves	–	–	–	–	–	469 993	469 993
Total liabilities	–	–	35 121	897 484	4 487 206	469 993	5 889 804

47.1 Comparison of the layout of foreign assets

(in thousands of euro)

	Gold	Special drawing rights	Convertible foreign currencies	Participating interest in the ECB	Participating interest in the BIS	Other foreign assets	Foreign assets
Gold and gold receivables	217 923	–	–	–	–	–	217 923
Claims on non-euro area residents denominated in foreign currency	–	136 157	2 234 000	–	–	–	2 370 157
Claims on euro area residents denominated in foreign currency	–	–	472 800	–	–	–	472 800
Claims on non-euro area residents denominated in euro	–	–	441 866	–	–	–	441 866
Other claims on euro area credit institutions denominated in euro	–	–	1 295	–	–	–	1 295
Securities of euro area residents denominated in euro	–	–	1 094 153	–	–	–	1 094 153
Intra-Eurosystem claims	–	–	1 166 224	1 038	–	–	1 167 262
Other assets	–	–	18 685	–	28 447	18 971	66 103
Total	217 923	136 157	5 429 023	1 038	28 447	18 971	5 831 559

47.2 Comparison of the layout of domestic assets

(in thousands of euro)

	Loans to credit institutions	Fixed assets	Other domestic assets	Domestic assets
Lending to euro area credit institutions related to monetary policy operations denominated in euro	14 229	–	–	14 229
Other assets	–	42 971	1 045	44 016
Total	14 229	42 971	1 045	58 245

47.3 Comparison of the layout of foreign liabilities

(in thousands of euro)

	Convertible foreign currencies	International Monetary Fund	Other international institution deposits in lats	Foreign bank deposits in lats	Other foreign liabilities	Foreign liabilities
Liabilities to other euro area residents denominated in euro	4 131	–	–	5 769	–	9 900
Liabilities to non-euro area residents denominated in euro	7 601	420	4 664	–	–	12 685
Liabilities to non-euro area residents denominated in foreign currency	983	–	–	–	–	983
Other liabilities	–	–	–	–	11 553	11 553
Total	12 715	420	4 664	5 769	11 553	35 121

47.4 Comparison of the layout of domestic liabilities

(in thousands of euro)

	Credit institution deposits	Government deposits	Deposits of other financial institutions	Other domestic liabilities	Domestic liabilities
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	4 127 804	–	–	–	4 127 804
Liabilities to other euro area residents denominated in euro	–	202 263	14 209	–	216 472
Liabilities to euro area residents denominated in foreign currency	–	138 070	–	–	138 070
Other liabilities	–	–	–	4 860	4 860
Total	4 127 804	340 333	14 209	4 860	4 487 206



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INDEPENDENT AUDITORS' REPORT

To the Council of the Bank of Latvia

We have audited the accompanying financial statements of the Bank of Latvia ("the Bank") set out on pages 3 to 48, which comprise the balance sheet as at 31 December 2014, and the related statements of profit and loss and total recognised gains and losses for the year then ended, and a summary of principal accounting policies and other explanatory notes.

Board's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of the Bank, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements of the Bank give a true and fair view of the financial position of the Bank as at 31 December 2014, and of its financial performance for the year then ended in accordance with the with the Guideline of the European Central Bank of 11 November 2010 on the Legal Framework for Accounting and Financial reporting in the European System of Central Banks (recast) (ECB/2010/20), and "Financial Accounting Policy of the Bank of Latvia" approved by the Council of the Bank, and the requirements of the law "On the Bank of Latvia" governing financial reporting.

Ernst and Young Baltic SIA
Licence No. 17



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

Riga, Latvia
10 March 2015