FINANŠU UN KAPITĀLA TIRGUS KOMISIJA

OVERVIEW OF FINANCIAL AND CAPITAL MARKET

Quarter 4 2019

CONTENT

BANKS

Key performance indicators

	2017	2018	2019	Changes in the reporting period
Number of market participants (banks and branches of EU banks)	16+5	15+5	14+5	↓
Assets (billion euro)	28.5	22.6	22.5	↓
Non-bank deposits (billion euro)	21.1	17.0	17.5	↑
Gross non-bank loan portfolio (billion euro)	14.7	13.9	13.6	↓
Share of non-performing loans (NPL) in non-bank loan portfolio[1;2], %	8.2	6.8	5.6	↓
Share of loans past due more than 90 days in non-bank loan portfolio, %	4.2	3.4	3.5	↑
Coverage ratio of non-bank NPLs[1;2], %	36.6	33.4	30.0	↓
Share of domestic loan portfolio to deposits (household and non-financial corporations)	105.8	100.4	88.4	↓
Return on Equity[1], % (ROE)	7.6	10.3	9.6	↓
Cost-to-income ratio[1], % (CIR)	56.4	57.6	62.4	↑
Common Equity Tier 1 capital ratio[1], % (CET1)	20.2	21.8	21.3	↓
Total Capital Ratio[1], % (TCR)	22.5	24.2	22.7	↓
Liquidity Coverage Ratio[1], % (LCR)	295.2	265.5	304.6	↑

- **Year 2019 marked structural changes in the banking sector:** the merger of *DNB Bank ASA* and *Nordea Bank AB* in the Baltic States, started in the autumn of 2017, was concluded at the beginning of year, as a result the new merged bank *Luminor Bank AB* continued operations in Latvia and Lithuania as branches of Estonia's *Luminor Bank AS*. During the reporting year, a strategic decision of *Danske Bank* Group on the termination of business activities in the Baltic States was also implemented, with a view of planned termination of the activities of *Danske Bank* branch in Latvia in Q1 2020. Those two credit institutions, in line with strategic decisions taken, also gradually reduced the size of their credit portfolios during the reporting year. In Q3 2019, the activities of *AS PNB Banka*[3] were suspended although the process of withdrawing a bank licence was not yet completed by the ECB by the end of the year, and given that the bank did not actually carry out its activities, its figures were excluded from the overall market indicators of the report in order to assess the activities of active banks. In the last quarter of the year the licence for the activities of the credit institution was revoked also for *Scania Finans Aktiebolag* Latvia's branch, which continues its activities in Latvia as a leasing company.
- **During the reporting year, the total amount of assets in the Latvian banking sector did not change significantly** (decreased by 0.2%). But excluding impact from the strategic decisions implemented by two credit institutions focused on domestic customer services, consistently reducing domestic investment and liabilities to affiliated and related credit institutions (i.e. by 850 million euro or 55%), the amount of other banks' assets grew by 5.6%. Changes in the amount and structure of assets differ between banking groups. In other credit institutions focused on domestic customer service, with a steady increase in deposits, i.e. by 911 million euro or 8.5%, which was significantly affected by the pay-out of *AS PNB Banka* guaranteed deposits from Deposit Guarantee Fund, total amount of assets increased by 7.7% in the reporting year. The deposits of these banks grew at a faster pace than their credit portfolio, therefore

[1] Ratios calculated according to the EBA methodological guide (www.eba.europa.eu) including only credit institutions active at the end of 2019 (Indicators *ROE, CET1, TCR* and *LCR* – only banks active at the end of 2019)

[2] Excluding claims to the central bank and other credit institutions

[3] The European Central Bank (ECB) as the direct supervisor of AS "PNB Banka", upon establishing that the bank had failed to comply with the regulatory requirements and assessing the financial situation of the bank, on 15 August decided to declare the bank as failing or likely to fail. Following the decisions of the ECB and the European Single Resolution Board, on 15.08.2019 the FCMC suspended the provision of financial services to AS "PNB Banka" and took a decision on the unavailability of deposits, while on 12.09.2019 the Riga City Vidzeme District Court's decision to declare AS "PNB banka" as insolvent. The ECB decision on withdrawal of AS "PNB Banka" authorisation came into force on 18.02.2020

increasing the amount of funds placed in the central bank (by 13.1%) and investments in securities (by 9.4%), respectively. Although the assets of banks that had changed their business models as a whole did not change significantly in the reporting year (shrank by 1.1%), there were changes in in their asset structure. A decline in lending to foreign customers was partially offset by an increase in lending to domestic customers, with the total share of loans to their assets even increasing slightly and reaching 32.6%. Investments of those banks in securities also grew relatively significantly (by 135 million euro or 19.7%), replacing the funds previously held in other credit institutions, which decreased by 172 million euro or 40.3% during the year.

- **In the reporting year, the amount of non-bank clients' deposits of the banking sector increased overall (by 477 million euro or 2.8%).** Domestic deposits increased significantly, i.e. by 983 million euro or 7.6% (including non-financial corporations by 284 million euro or 6.3%, households – by 521 million euro or 7.4%, the general government – by 5 million euro or 0.6%, other financial institutions – by 172 million euro or 29.5%). At the same time, the deposits of foreign customers continued to shrink (by 12.6% or 505 million euro), mainly non-financial corporations' deposits, while the amount of EU households' deposits increased. The geographical structure of deposits continued to change in favour of the deposits from the EU countries and the share of non-EU customer deposits in the total deposits continued shrinking (from 9.9% to 6.8%). The risk mitigation process launched in the previous years also continued in the reporting year and banks still dutifully assessed their customer base in a more prudential approach, replacing non-EU deposits with domestic deposits and deposits of EU households through an active use of deposit platforms.
- **The total amount of loans granted to non-bank customers by the Latvian banking sector shrank by 2.0% over the year**, including for domestic customers – by 1.0%. The overall decrease in lending to non-bank customers was due to structural changes in the Latvian banking sector – both the termination of the business activities of individual credit institutions and the implementation of strategic decisions of two branches of foreign banks, consistently reducing the amount of their loan portfolio.
- **Excluding the effects of structural changes, the amount of non-bank loan portfolio grew by 4.7% in the reporting year**, and was fully determined by the growth of domestic credit portfolio (by 6.5%). Equally high lending growth rates were observed for domestic households (by 6.4%) and for domestic non-financial corporations (by 6.7%). Part of this increase could be related to the consistent reduction of loan portfolios of individual credit institutions mentioned above and accordingly to the refinancing of client liabilities by another bank. Consequently, lending developments in the reporting year were generally characterised by significant differences between market participants: if the amount of loans granted to domestic customers in certain credit institutions did not substantially change or even decrease, some banks experienced a relatively rapid increase in lending to domestic customers, including for the banks that continued to switch business models the portfolio of loans to domestic customers increased by 18.1% or 97 million euro during the year, thus confirming their involvement in the domestic customer lending market in line with business strategies' settings. However, the impact of this group's banks on the overall growth rates of the sector's credit portfolio was not significant given their relatively small market share in domestic lending (~5%). The credit portfolio of foreign clients continued to decrease during the reporting year, including loans to non-EU customers fell by 24%, while the write-offs of long-delayed and irrevocable loans implemented by individual banks contributed to a particularly sharp reduction in their credit balances in the last quarter of the year, i.e. by 14.7%. At the same time, the amount of loans granted to the EU customers even slightly increased (by 6.1%). The share of foreign customers in the total credit portfolio continued to decease, reaching 12.2% at the end of December (determined entirely by the decrease in loans to non-EU customers).
- **The quality of loans to non-bank clients continued to improve, with the share of non-performing loans (NPL) decreasing to 5.6% at the end of December.** During the reporting year, there were changes in the structure of NPL, particularly in the last quarter of the year when individual banks made write-offs of long-delayed and irrevocable loans, while some large loans migrated from the category of unlikely to pay loans[4] to the group of loans that are past due more than 90 days. Consequently, the share of past due loans (more than 1 year) decreased in the structure of NPLs, while the share of loans that are past due more than 90 days increased, reaching 2% and 0.9% at the end of December, respectively. In general, these processes had a positive impact on the quality of loan portfolio and in the last quarter of the year

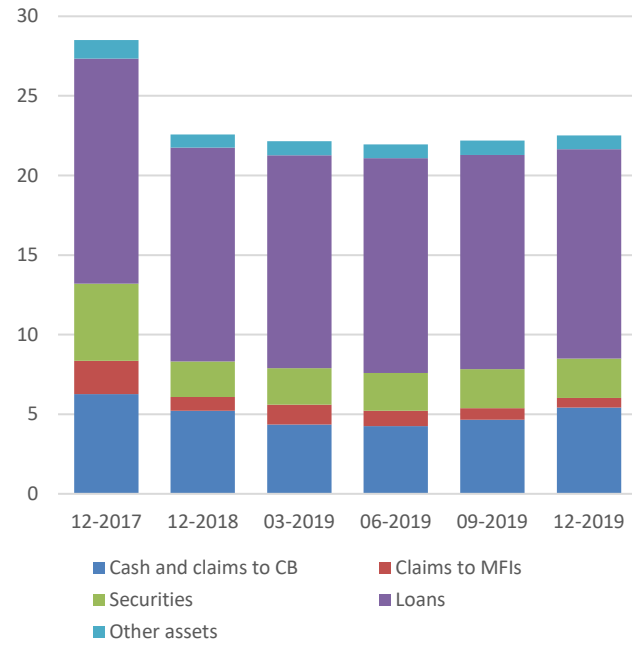
[4] Loans which have not been delayed or delayed for less than 90 days, but there is a sign of borrower's inability to fully cover their obligations

the share of NPLs considerably fell in both loans issued to domestic non-financial corporations and to foreign customers, reaching 5.5% and 14.8% at the end of December, respectively. The quality of domestic household loan portfolio also continued to show a sustainable positive trend throughout the year, with the share of NPL falling to 3.5% at the end of December (3.4% in the housing loan portfolio; 3.8% in other household loans).

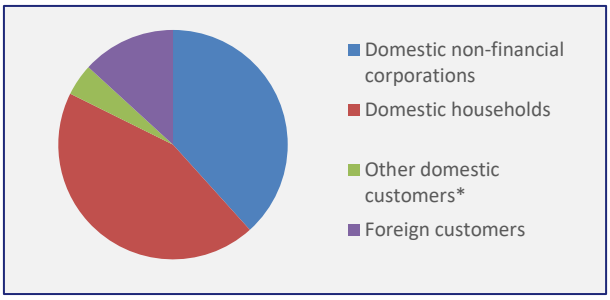
- **In the banking sector as a whole, the ratio of the provisions to NPL decreased to 30.0% at the end of December,** including a steeper reduction in the last quarter of the reporting year (from 31.6% to 30.0%), when several credit institutions implemented write-offs of long-delayed and irrevocable loans. Given that the coverage of such loans with established provisions is by tradition significantly higher, their write-offs reduced the average provisions of the sector to the NPL ratio.
- **In 2019, the Latvian banking sector operated with a profit of 228.9 million euro, which was by 20.2% less than a year earlier.** The sector's overall Return on Equity (ROE) decreased from 10.3% to 9.6%, but remained higher than the EU average (6.6%). Most of banks posted profits, and their ROE ranged from 6.0% to 22.0%, while four banks that changed their business models, as well as two branches of foreign banks ended the year with losses.
- **Overall operating income of domestic customer-focused banks generated during the reporting year remained stable** (increased by 1.4%). However, the above mentioned reorganisation of the bank, as well as the increasing costs of services received by individual banks within the group resulted in a significant increase in administrative expenses (by 10%) and respectively the CIR (cost-to-income ratio) of this banking group deteriorated, i.e. grew from 54% to 60% (EU average of 63.2%). The return on equity for this banking group remained substantially higher than the EU average, reaching 11.9% at the end of December (EU average - 6.6%).
- **Operating income of banks that changed business models diminished overall during the year (by 20%), but the rate of decline gradually decreased during the second half of the reporting year.** In the first half of the year, a sharp drop in operating income was observed in the light of base effect (in the first half of 2018, one-off income was generated by the termination of business relations with high risk clients), while the effect was reduced in the second half of the year. The trend in the profitability of this banking group in the second half of the year reflected the results of the business model change: for some banks, there was a rise in operating income for two consecutive quarters, mainly due to an increase in interest income from loans issued, which is one of the most important business lines in the revised strategies of banks within the group. However, the increase in administrative costs in the second half of the year resulted in the deterioration of the CIR reaching 73% at the end of the year, thus exceeding both the Latvian banking sector and the EU average (62.4% and 64.1%, respectively). In 2020, banks will continue to introduce revised business models, as well as the base effect would likely less influence profitability ratios, allowing an assessment of the implementation of new business models.
- **The capital and liquidity ratios of active banks remained at high levels.** The total amount of active banks' own funds at the end of the reporting year was by 117.5 million euro or 5.5% lower than a year before. This was due to a decrease in the amount of both Tier 1 and Tier 2 capital instruments (by 19.2 million euro or 1.0% and 98.4 million euro or 44.8%, respectively). This was affected by the conversion of preference shares into ordinary, i.e. Common Equity Tier 1 (CET1) instruments and the payment of dividends in the amount exceeding converted capital instruments, defining a reduction in the total capital. Excluding this impact, the total amount of equity capital in the banking sector increased by 61.3 million euro or 3.7% in the reporting year. Tier 1 capital grew by 78.7 million euro or 5.0%, and it was determined by the inclusion of annual audited profits of previous and reporting years in the calculation of the capital adequacy ratio, while the amount of Tier 2 capital instruments decreased by par 17.4 million euro or 15.9% with repayment of some subordinated deposits in several banks. In general, above changes had a positive impact on the capital structure of the banking sector: during the reporting year the share of Tier 2 capital decreased from 10% to 6%. While there were no significant changes in capital and its structure, changes in risk-weighted assets also were negligible (increased by 0.9% over the year). Although during the reporting year capital ratios decreased overall due to changes in capital and its structure (CET1 ratio from 21.8% to 21.3%, the total capital ratio from 24.6% to 22.7%), overall they remained at high levels, ensuring sufficient buffers to cover unforeseen losses and exceeding the EU average (CET1 – 14.6%, TCR – 18.9%). The average EU harmonised Liquidity Coverage Ratio (LCR) did not change significantly and remained high (304.6%), including between 157% and 753% for individual banks, (since January 2018 LCR minimum requirement has been set at 100%).

Balance sheet structure

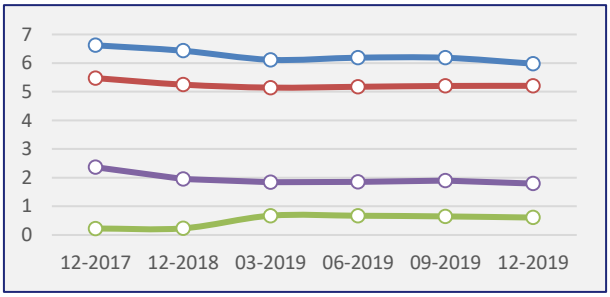
Asset structure, billion euro



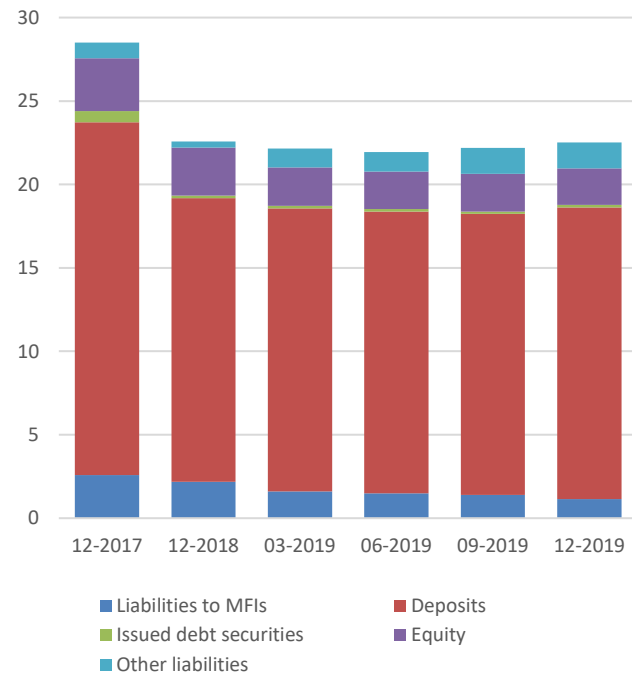
Structure of gross non-bank clients' loan portfolio at the end of reporting period, %



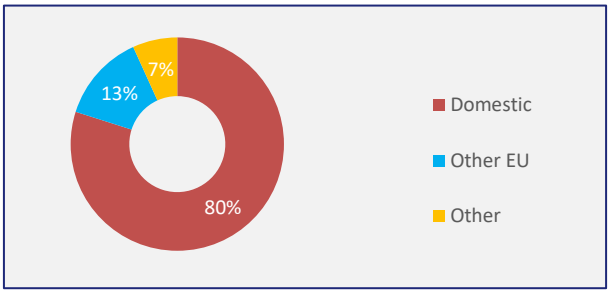
Gross non-bank loan portfolio, billion euro



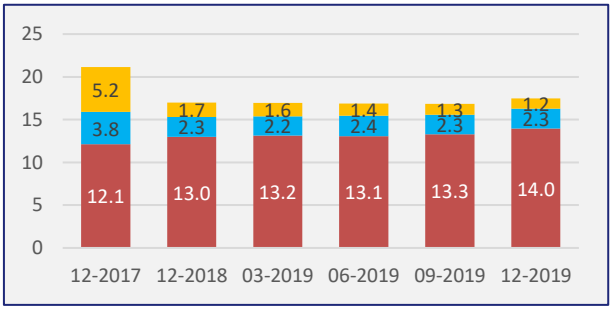
Liability structure, billion euro



Structure of non-bank clients' deposits at the end of reporting period, %



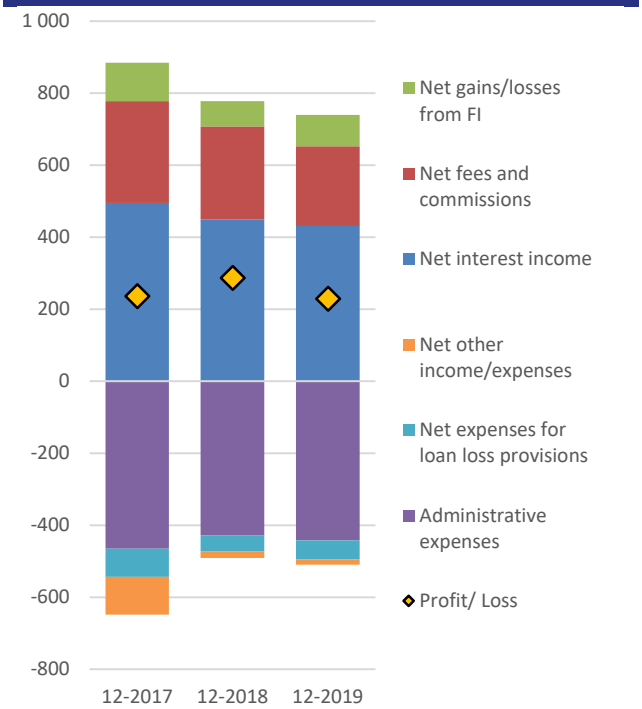
Non-bank deposits, billion euro



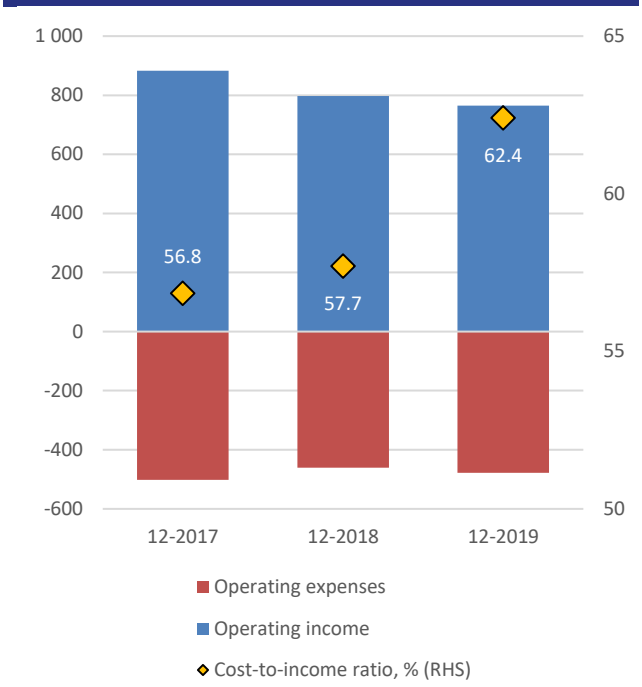
**General government and financial corporations*

Profitability

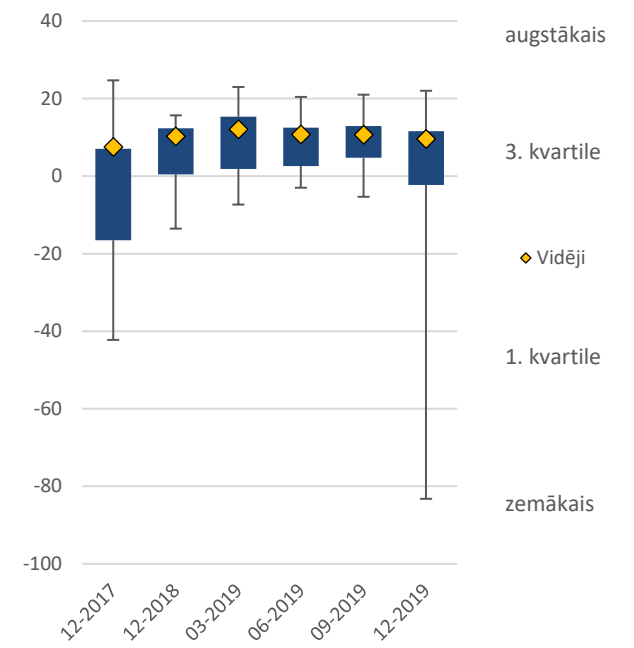
Profit structure, million euro



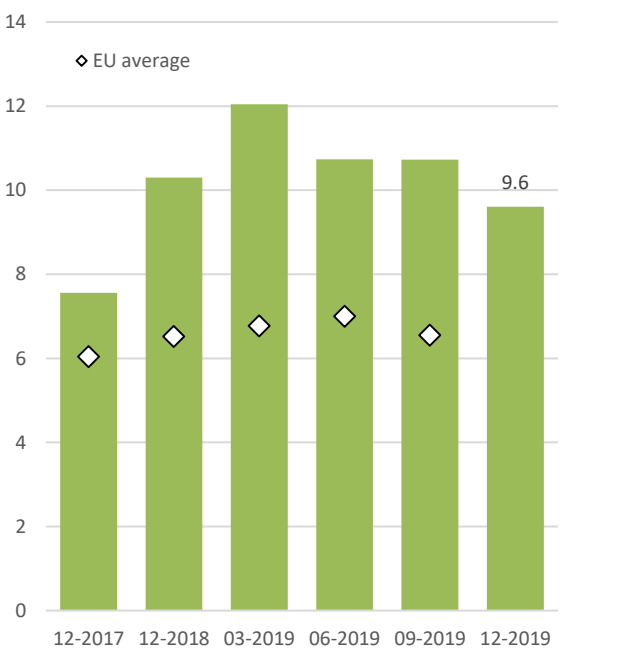
Cost-to-income ratio (CIR), %



ROE dispersion, %

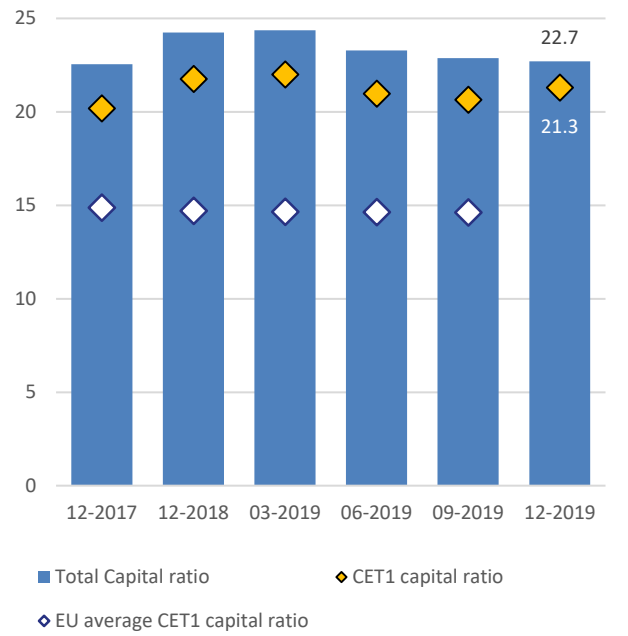


ROE, %

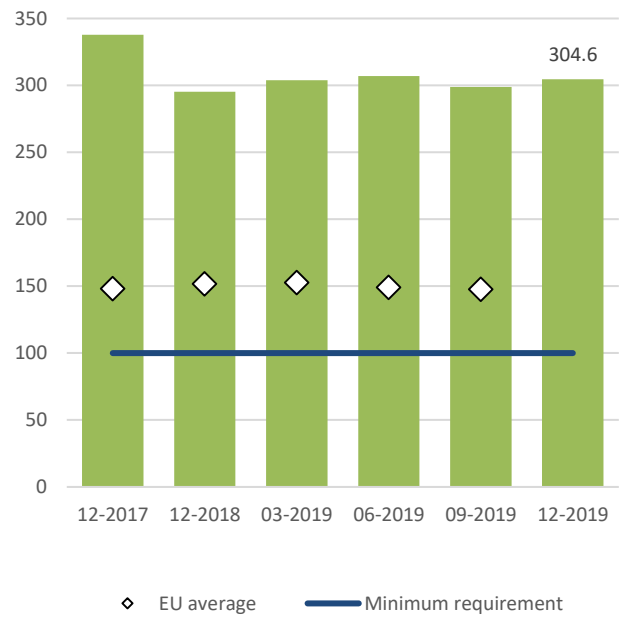


Capital adequacy and liquidity

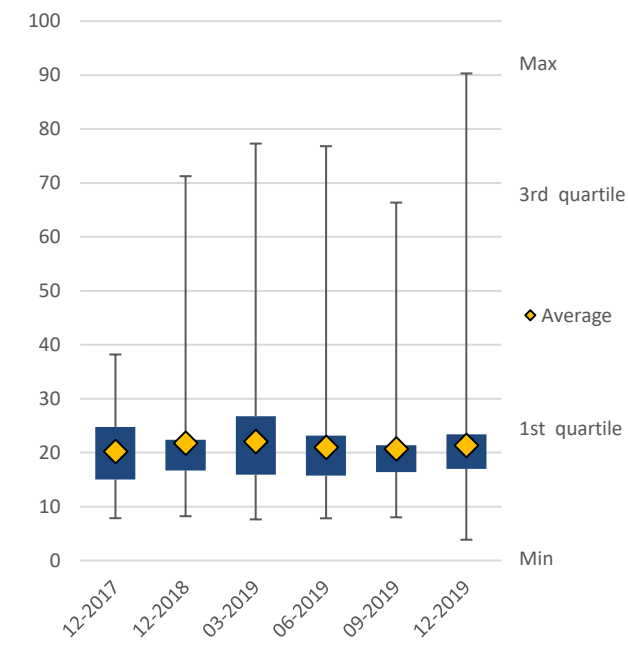
Capital ratios, %



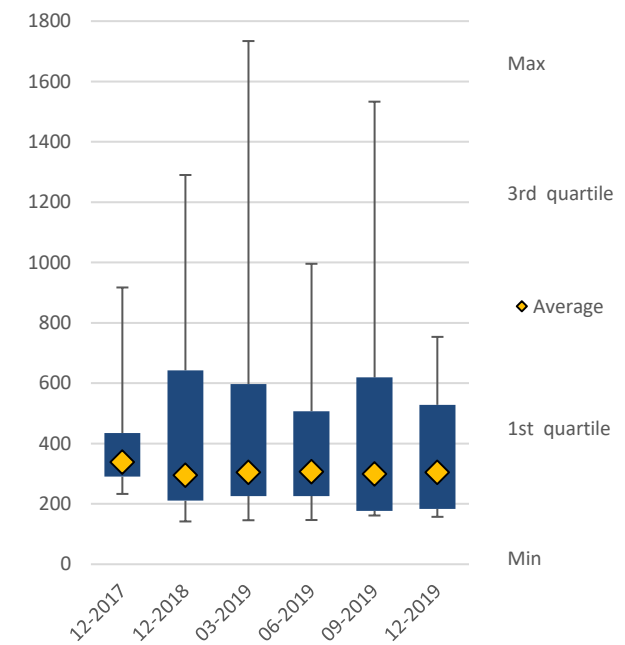
LCR, %



CET1 ratio dispersion, %

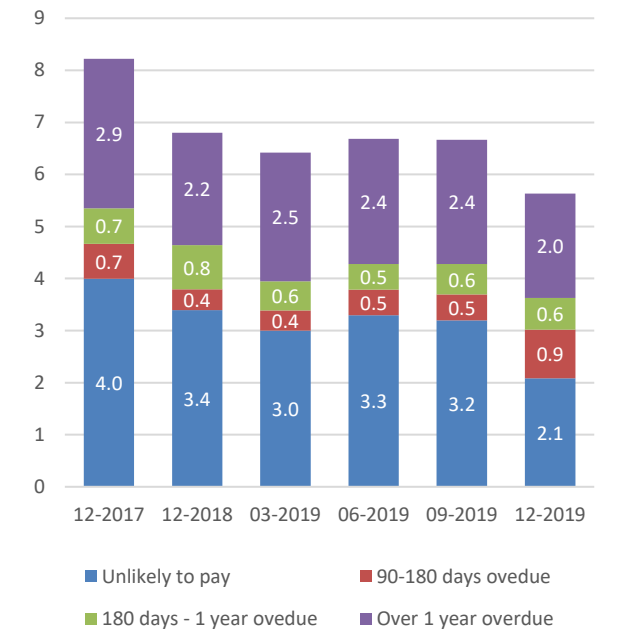


LCR ratio dispersion, %

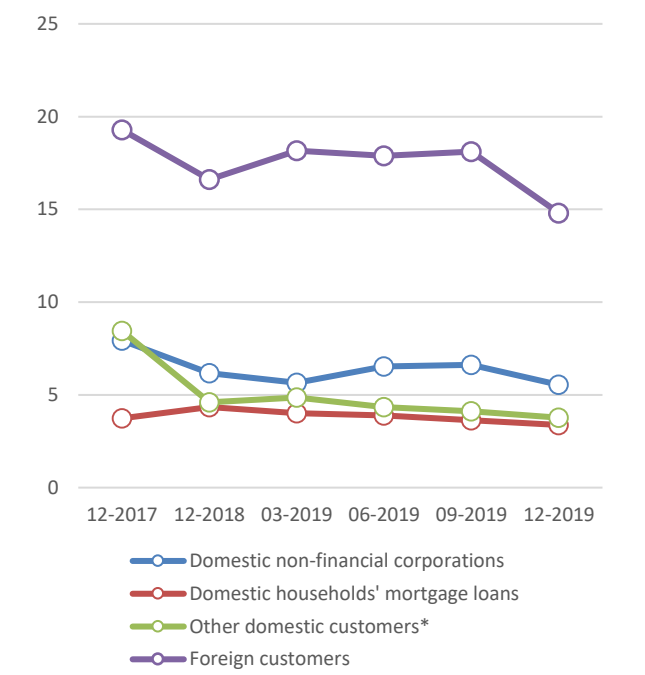


Non-bank clients' loan portfolio quality

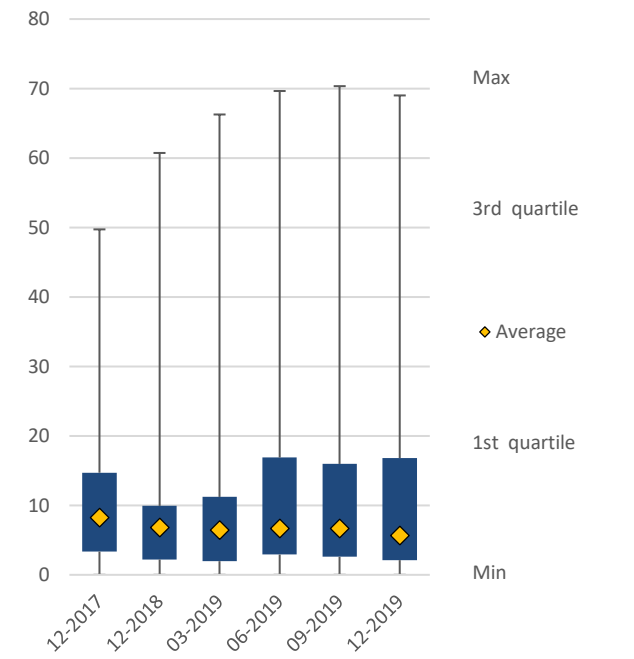
NPLs structure, %



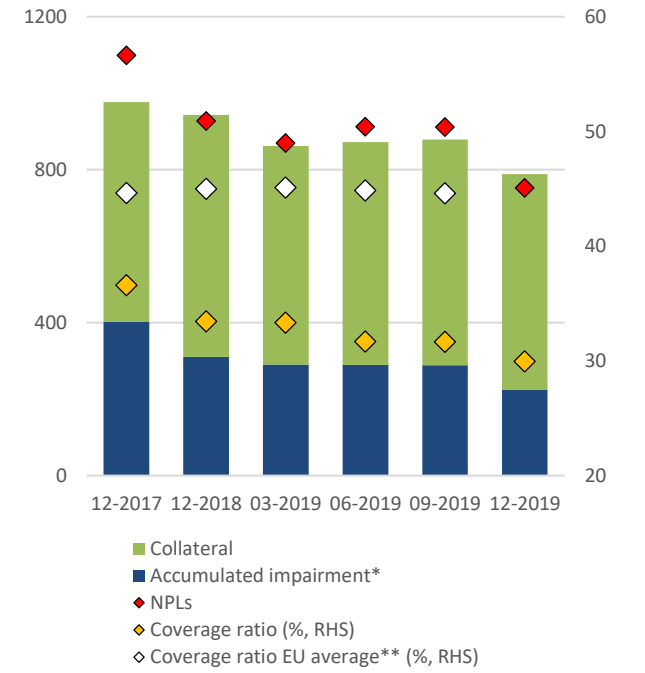
NPLs (respective segment), %



Dispersion of NPLs, %



NPLs, collateral and accumulated impairments for NPLs, million euro



** Provisions for nonperforming loans*
*** Calculated for the entire portfolio in accordance with the EBA methodological guide,including claims on the central bank and credit institutions*

COOPERATIVE CREDIT UNIONS

Key performance indicators

	2017	2018	2019	Changes in the reporting period
Number of market participants	33	34	35	↑
Market concentration[5], %	84.4	84.4	83.7	↓
Assets (million euro)	29.3	31.6	33.2	↑
Deposits (million euro)	20.9	22.3	24.2	↑
Loans (million euro)	22.3	23.6	25.1	↑
Non-performing loans (NPLs)[6]/total loans, %	4.4	13.5	14.5	↑
Provisions/total loans, %	7.2	6.3	6.8	↑
Return on Equity (ROE), %	5.8	11.7	4.8	↓
Capital Adequacy Ratio, %	22.5	22.7	20.5	↓
Profit/loss since the beginning of the year (thousand euro)	347	792	331	↓

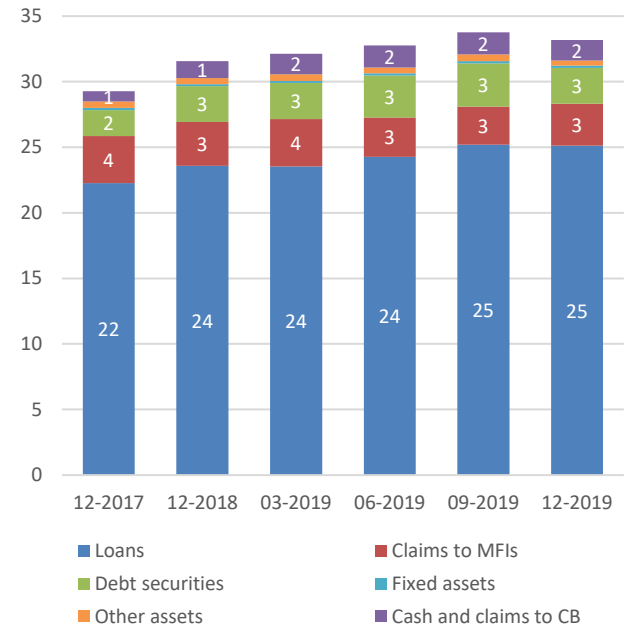
- **At the beginning of 2019, a credit union operating licence was issued** to the cooperative credit union "Ziemeļvidzeme", which was founded according to the territorial principle and commenced its activity in the second half of the year.
- **Total growth in assets remained stable:** during the year, the total amount of assets of credit unions increased by 5% or 1.6 million euro, reaching 33.2 million euro at the end of December. The increase in assets was mainly due to the participants' deposits, which grew by 8.4% during the second half of year and reached 24.2 million euro at the end of December, with the majority of 89% of household deposits. Participants' deposits were the major source of funds raised by credit unions (99%).
- **The amount of loans to the participants continued to increase** growing 1.5 million euro or 6.5% during the reporting year, reaching 25.1 million euro at the end of December. The increase in the loan portfolio was driven by consumer lending and lending for house purchase, i.e. the main types of loans in loan portfolio (40.8% and 47.9%, respectively). Approximately 99% of loans were granted to households.
- **The quality of loan portfolio did not show any positive trends during the reporting period.** An increase in the share of standard loans was backed by newly issued loans, while part of the close-watched loans was transferred to the sub-standard loan category (provided by one market participant's activity), i.e. NPLs, the share of such loans in the total loan portfolio reached 14.5% at the end of December. In line with the growing amount of NPLs, the amount of loan loss provisions for cooperative credit unions increased overall, reaching 6.8% of total credit union loan portfolio (or 47.7% of NPLs) at the end of December.
- **The profitability of cooperative credit unions declined.** The amount of income generated from provisions before shrank significantly (by 65.4%), while an increasing share of NPLs in the loan portfolio resulted in a lower income from core business (by 14.2%), therefore profits generated by credit unions during the reporting year, i.e. 331 thousand euro were significantly lower than in the previous year. With shrinking profit return on equity (ROE) also declined, reaching 4.8% at the end of December. Out of total 35, 21 credit unions operated with profits, earning a total of 364 thousand euro (their share in total sector assets reached 96%).
- **All operating cooperative credit unions had capital adequacy ratio above the required minimum capital adequacy requirement (10%)** and the cooperative credit unions' total own funds ratio to the total assets and off-balance sheet items, i.e. capital adequacy ratio at the end of December was 20.6%.

[5] Three largest cooperative credit unions in terms of assets

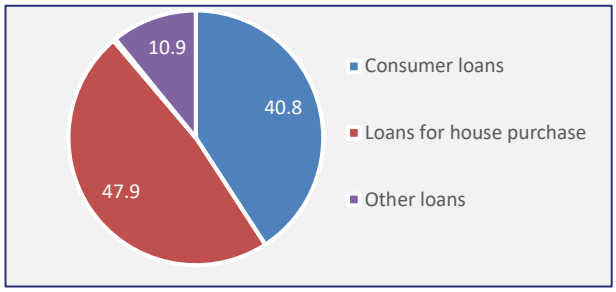
[6] Total substandard, doubtful and lost credits

Balance sheet structure

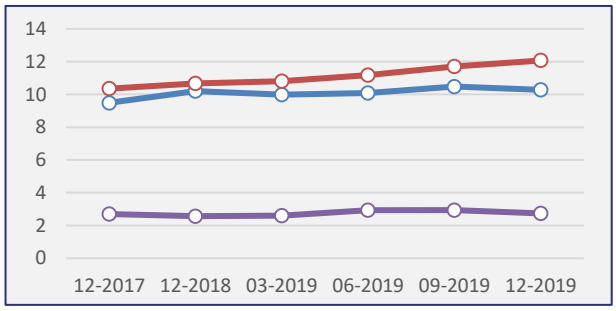
Asset structure, million euro



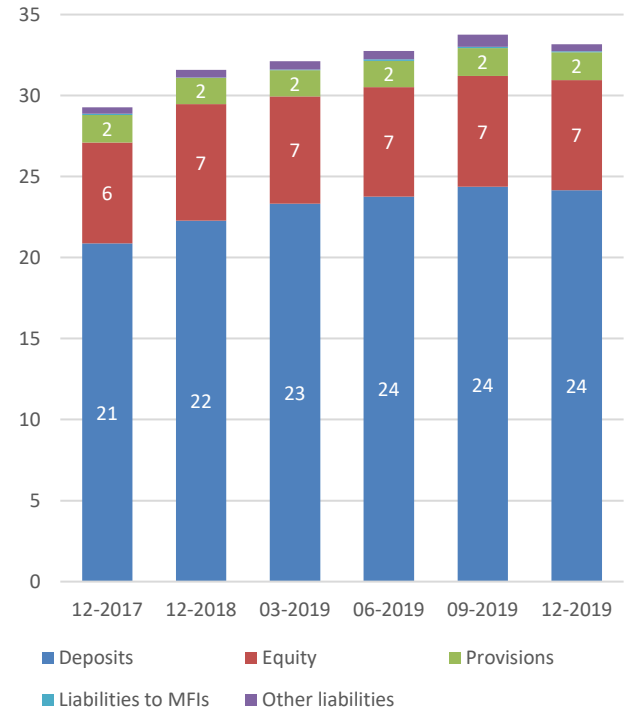
Structure of loan portfolio at the end of reporting period, %



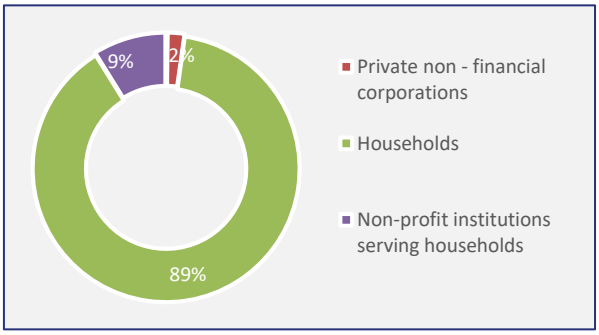
Loan portfolio, million euro



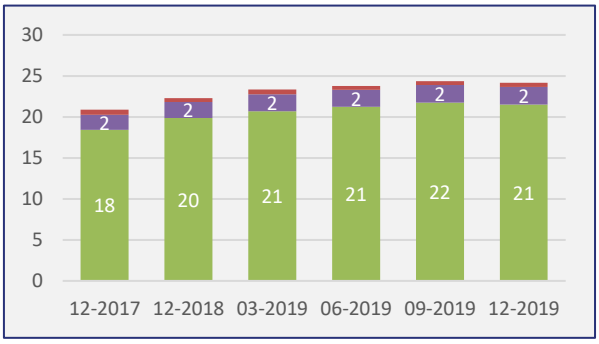
Liability structure, million euro



Deposit structure at the end of reporting period, %

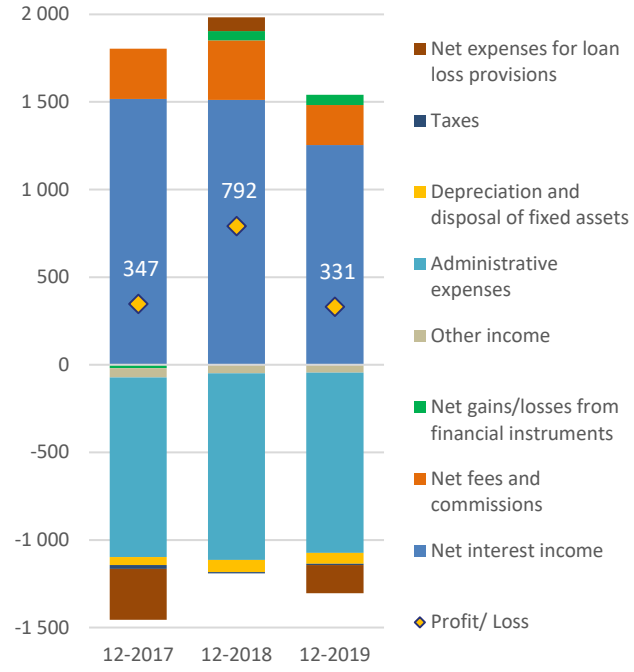


Deposits, million euro

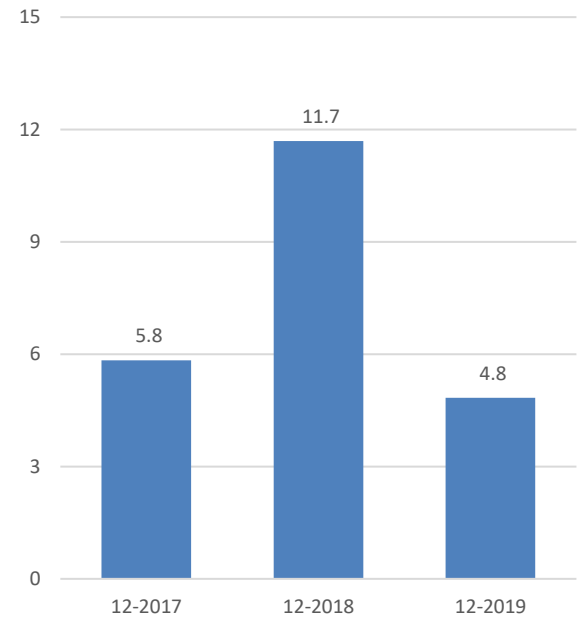


Profitability

Profit structure, thousand euro

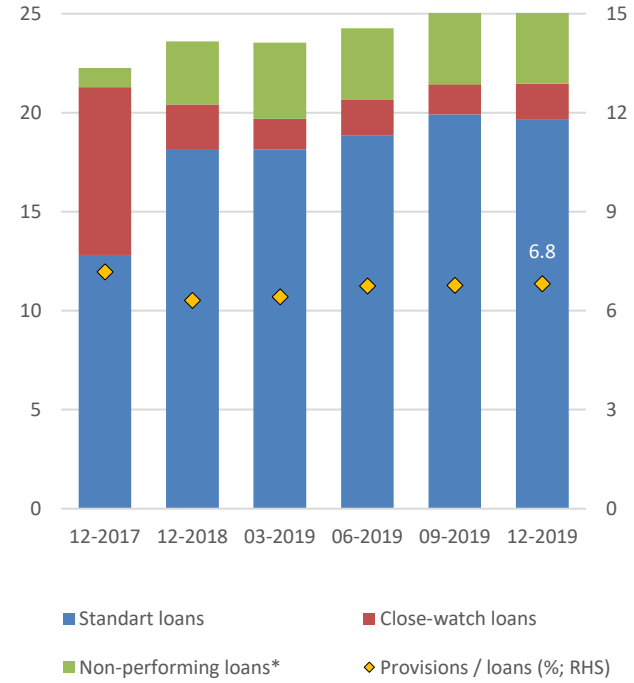


Return on Equity (ROE), %

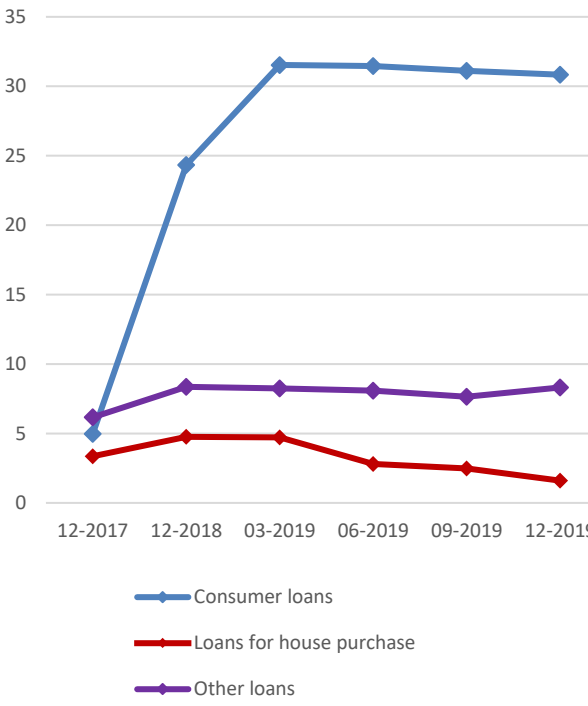


Loan portfolio quality

Credit quality, million euro



Loans past due more than 90 days (in respective segment),** %



**total substandard, doubtful and lost loans*

***Data source: Credit Register of the Bank of Latvia*

INSURERS

Key performance indicators

	2017	2018	2019	Changes in the reporting period
Number of market participants (companies and EU insurers branches)	6+11	6+11	6+12	↑
Gross premiums written (million euro)	646.0	755.8	856.7	↑
Gross claims paid (million euro)	361.6	405.8	549.4	↑
Profit/loss (million euro)	16.1	12.4	33.6	↑
Loss ratio, %	63.6	66.2	65.3	↓
Expenses ratio, %	32.1	30.4	30.1	↓
Combined ratio, %	95.7	96.7	95.3	↓
Return on investment, %	1.6	0.4	5.6	↑
Solvency ratio, %	132	129	160	↑

- **In 2019, the insurance sector experienced structural changes.** At the beginning of the year, a licence was issued to the branch of non-life insurance of the EU member states (*Telia Forsakring AB* Latvia branch), while the consolidation of life insurance operating in the Baltic by *SEB* Group was concluded in one company, *SEB Life* and *Pension Baltic SE*, resulting in the new company with its head office in Latvia and branches in Estonia and Lithuania. This transaction had a positive impact on the overall performance of the insurance sector in the reporting year.
- **Activities of insurers maintained significant growth and total gross premiums written increased by 13.4% during the reporting year,** reaching 856.7 million euro. With the reorganisation of above mentioned life insurance companies, rapid growth of insurers activities was observed in other European Economic Area (EEA) member states where the amounts of premiums written increased by 26% (mainly in Lithuania, Poland and Estonia). Meanwhile the increase in premiums written in Latvia was more moderate (by 7.5%) and their share in the total portfolio of written premiums amounted to 65%, with premiums written of 291 euro per capita in Latvia.
- **In the overall portfolio of premiums written, the largest share (43.2%) was still for transport insurance**[7] reaching 370.3 million euro, where almost all civil liability insurance premiums for land vehicle owners were signed in other EEA member states. In Latvia, the most important classes of insurance were life insurance (23%), motor vehicle liability compulsory insurance (19%), health insurance (17%) and land vehicle insurance (16%).
- **The profitability of insurance companies improved** – during the reporting year they earned a total of 33.6 million euro, i.e. nearly three times more than in the previous year. In particular, the profits of life insurance companies (7.9 million euro) were driven by successful investment activity, while the profits of non-life insurance companies (25.8 million euro) were mainly provided by income from the core business of insurance.
- **The combined ratio**[8] **improved slightly during the reporting year, reaching 95.3% at the end of December being** below 100% for all non-life insurance companies (except one company with a rate of 106% and operating in other EEA countries).The slight improvement in the combined ratio was mainly due to the reduction in the costs of incurred claims.
- **Favourable trends in financial markets significantly improved return on investments and it was positive for all insurance companies**, (i.e. between 0.5% and 13.8%). Higher yields (12.6%) were secured by riskier investment policy pursued by life insurance companies (two-thirds of investments were made in investment funds, including mostly in stock and alternative funds), while the conservative investment policy of non-life insurance companies (more than half of investments in debt securities) determined a lower yield (2.0%).
- **The solvency ratio**[9] **of insurance companies remained stable and was above the minimum requirements and reached 160% at the end of December** (the lowest allowable rate is 100%), including for life insurance companies 214.8% and for non-life insurance companies 136.8%.

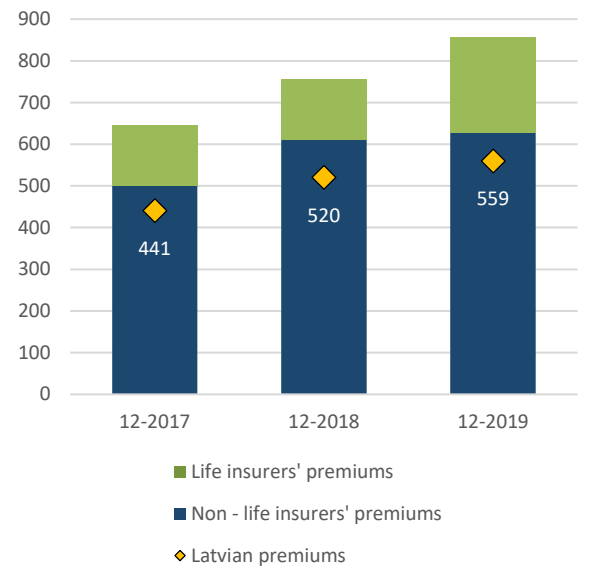
[7] Land vehicle insurance, civil liability insurance for land vehicle owners and motor vehicle liability compulsory insurance

[8] A combined ratio above 100% indicates losses from the non-life insurance activities (excluding investment income)

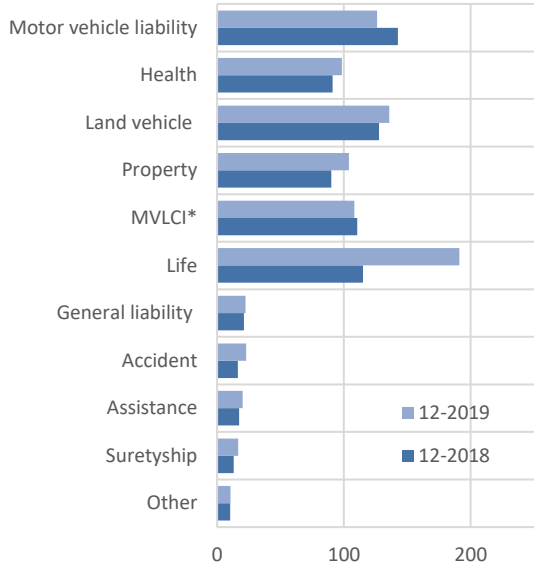
[9] Describes compliance of own funds with the risk assessment-based capital requirement

Premiums written

Gross premiums written by insurers, million euro



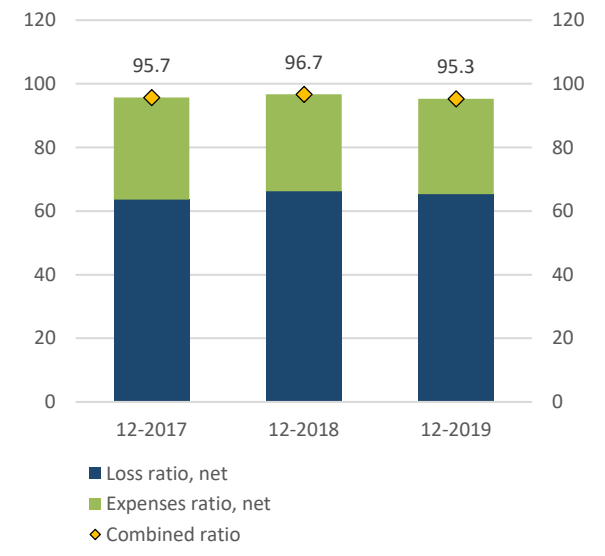
Gross premiums written by insurers by type of insurance, million euro



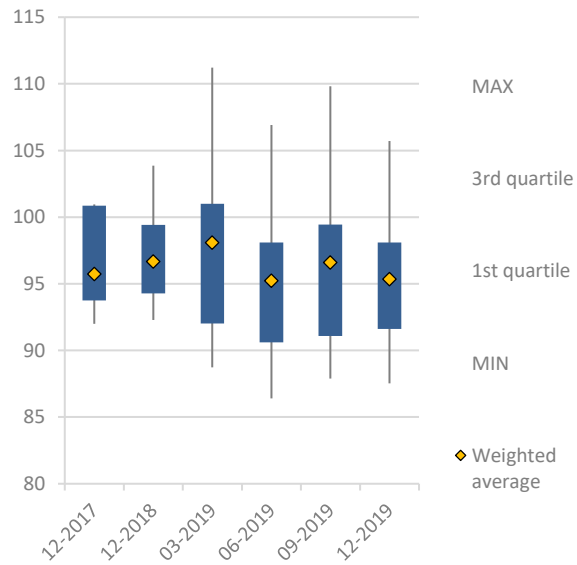
** Civil liability insurance for land vehicle owners and motor vehicle liability compulsory insurance*

Profitability and solvency

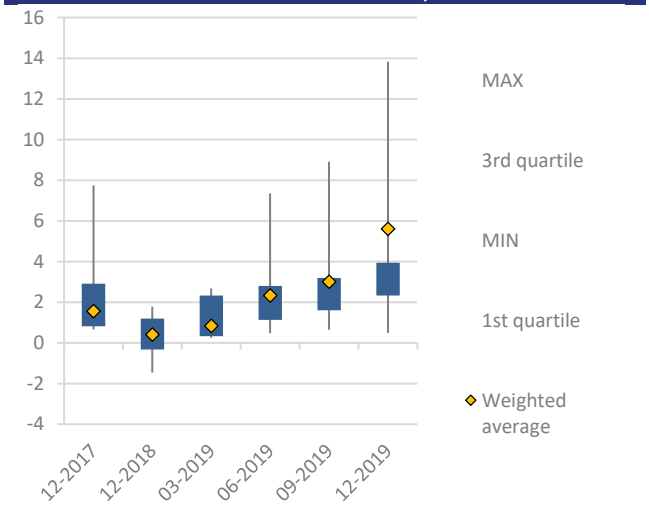
Combined ratio of non-life insurance companies, %



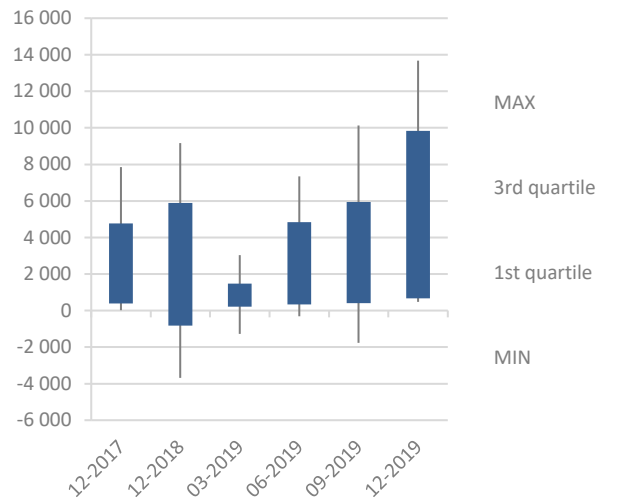
Dispersion of combined ratio of non-life insurance companies, %



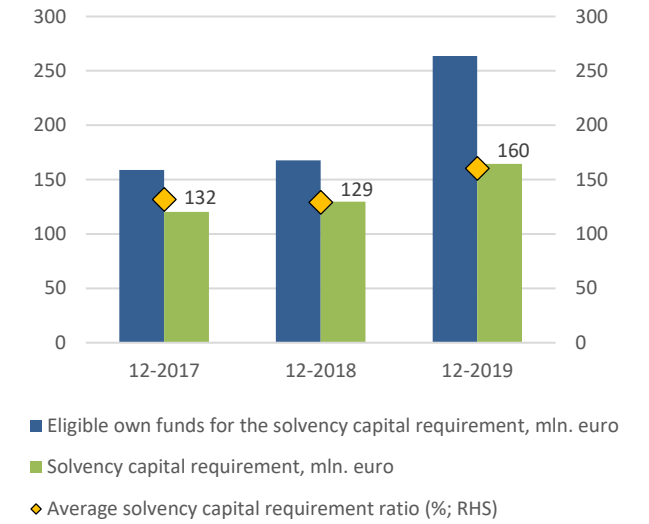
Insurance companies – Return on investments, %



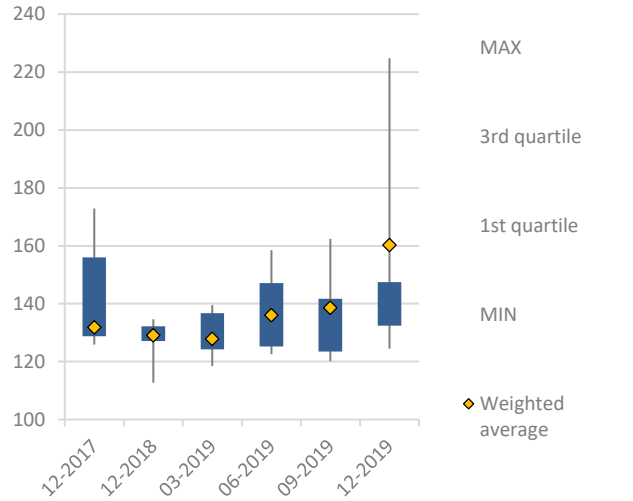
Insurance companies – Profit/loss, thousand euro



Solvency ratio of insurance companies, %



Dispersion of solvency ratio of insurance companies, %



PAYMENT INSTITUTIONS AND ELECTRONIC MONEY INSTITUTIONS

Key performance indicators

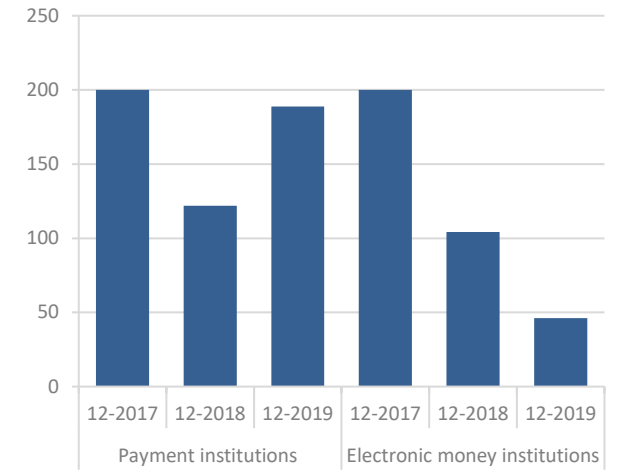
	2017	2018	2019	Changes in the reporting period
Number of market participants				
Payment institutions	22	15	10	↓
Electronic money institutions	13	13	8	↓
Amount of payments, million euro:				
Payment institutions	107	122	189	↑
Electronic money institutions	216	104	46	↓
Amount of electronic money repurchased, million euro	64.1	29.3	22.7	↓

- **In 2019, the payment institutions and electronic money institutions sector continued to narrow.** Changes to the regulatory framework for the licensing of payment institutions and electronic money institutions defined in the previous year[10] still had an impact on the operation of the sector. After assessing their business models and new requirements for the regulation of existing market participants, 11 market participants decided to cease their registration in the register of PI and EMI maintained by the Commission. However, the state joint-stock company VAS Latvijas pasts continued to provide payment services as an authorised payment institution after receiving a licence. At the end of reporting year, 10 payment institutions were operating in Latvia (including 6 registered and 4 licensed) and 8 electronic money institutions (including 7 registered and 1 licensed).
- **For payment institutions and electronic money institutions, the provision of payment and electronic money services in the reporting year generated total gross revenues in amount of 10.4 million euro** (i.e. twice less than in the previous year), with 51% of total were revenues generated by electronic money institutions.
- **The reduction in the number of electronic money institutions resulted in a decrease in the total amount of electronic money repurchased** (i.e. exchange of electronic money issued) during the reporting year of 22.5%, reaching 22.7 million euro at the end of December.
- **The total amount of payments made by payment institutions and electronic money institutions increased by 4% and reached 235 million euro. Liquid assets also increased,** reaching 56.8 million euro at the end of December (including claims against banks for payment services – 51.5 million euro), and ensuring the coverage for liabilities to customers (55.3 million euro), including obligations towards payment service users (51.6 million euro).

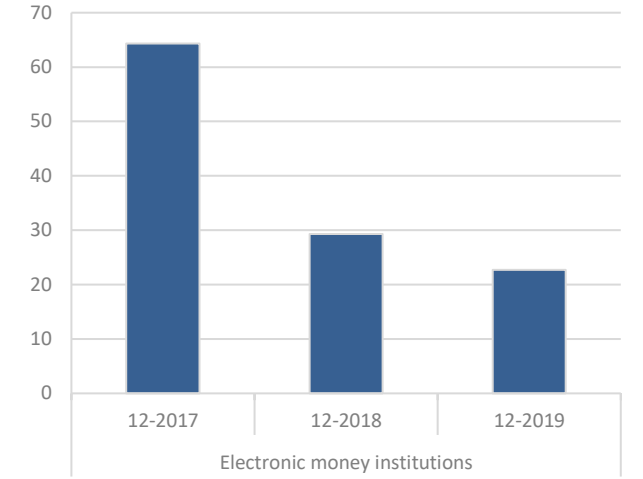
[10]Increased standards for monitoring and supervision of transactions, as well as amendments to the Law on Payment Services and Electronic Money (in accordance with the Directive of the European Parliament and of the Council regarding payment services in the internal market).

Activities of payment institutions and electronic money institutions

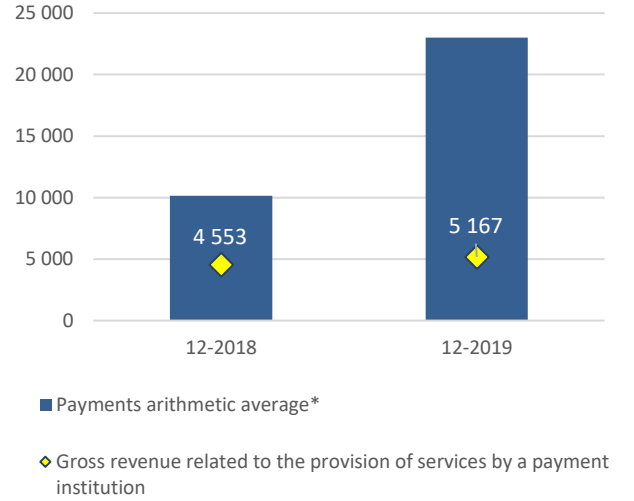
Amount of payments, million euro



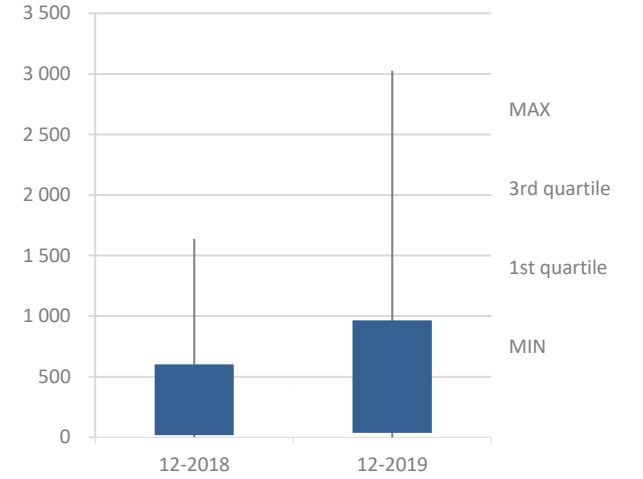
Amount of electronic money repurchased, million euro



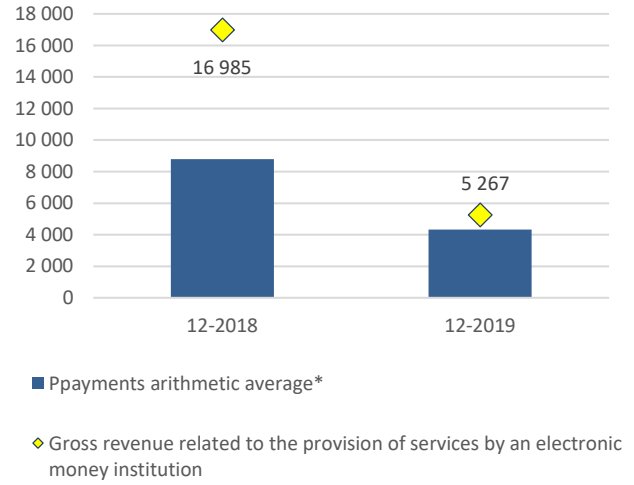
Provision of payment institution services, thousand euro



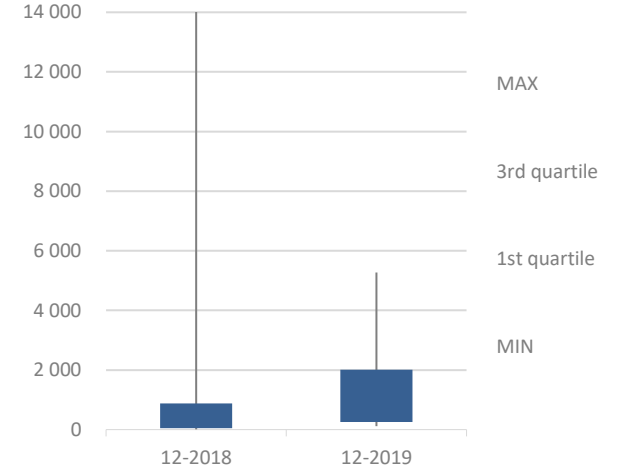
Gross revenues of payment institutions dispersion, %



Provision of of electronic money institution services, thousand euro



Gross revenues of electronic money institutions dispersion, %



** the value calculated by dividing the value of payments made during the previous 12 calendar months by 12**

STATE FUNDED PENSION SCHEME

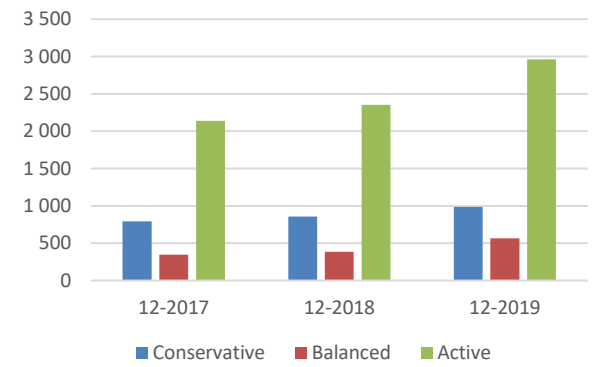
Key performance indicators

	2017	2018	2019	Changes in the reporting period
Number of assets managers	9	8	8	-
Number of investment plans	23	29	31	↑
Number of participants	1 278 135	1 288 992	1 300 135	↑
Net assets (billion euro)	3.28	3.59	4.51	↑
Returns since the beginning of the year, %	3.2	-4.1	10.8	↑
Management expenses, %	1.4	0.6	0.5	↓

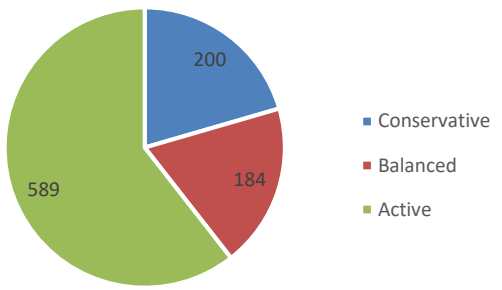
- **In the reporting year, several managers announced the application of the principles of sustainability in their investment policy**, with a further focus on the environmental, social and corporate governance aspects of investment management. Two new investment plans with a lifecycle strategy also were launched.
- **With a sharp rise in financial markets and an increase in the number of participants accumulated pension capital continued to grow rapidly.** In 2019, the pension capital accumulated in investment plans increased by 25.5% or 915.4 million euro, reaching 4.5 billion euro at the end of December. Of all contributions made during the year, 61% were made in active plans and 21% – in conservative plans.
- **All investment plans posted positive returns in the reporting year and their results demonstrated the financial market trends that were favourable to both stock and bond markets.** Financial markets reacted positively to progress in the US-China trade negotiations and in particular to the agreement reached at the end of the year between the US and China on the phase out of trade tariffs, as well as to central banks' statements on economic stimulus measures. European, US and global stock indexes closed the year with a significant rise (above 20%). In the reporting year, the returns of conservative plans ranged between 2.5% and 9.2%, of balanced plans – between 9.4% and 11.8%, while of active plans – from 10.1% to 25.6%.
- **Investment plan management expenses slightly declined** and for all types of investment plans, i.e. conservative, balanced and active, the ratio of management expenses to net assets was at 0.5% at the end of the year.
- **Investment policy of investment plans generally remained conservative, but the sharp rise in share prices in the reporting year led to an increase in the share of potentially higher-yielding financial instruments in the investment portfolio.** The share of debt securities decreased in the total investment plan portfolio during the year (from 42% to 36%), while the share of investment fund shares increased (from 48.5% to 54%). At the end of the year, 52% of investment fund shares focused on equity securities and 42% – on fixed income instruments. On the other hand, the majority of debt securities (64%) were securities issued or guaranteed by the State and their share in the total debt securities structure tended to fall as the share of debt securities issued by commercial companies increased. At the same time, there was also an improvement in the quality of debt securities - at the end of the year 82.2% of debt securities had an investment-grade credit rating (in 2018 – 77.6%).
- **Although the share of investments made in Latvia grew in the reporting year, with rapidly increasing investments in other EEA member states, the share of investments made in Latvia continued to decrease.** At the end of the year, the amount of investments made in Latvia amounted to 729.6 million euro or 16.2% of total investments (including 271.3 million euro were invested in securities issued or guaranteed by the State, 90 million euro – in corporate debt securities, 3.5 million euro – in shares, 52.9 million euro – in investment funds, 18.5 million euro in venture capital market in Latvia, while 291.6 million euro were placed in credit institutions). Of total foreign investments, 92.4% were placed in the EEA member states, with the largest share in Ireland, Luxembourg and Lithuania.

Management of state funded pension scheme funds

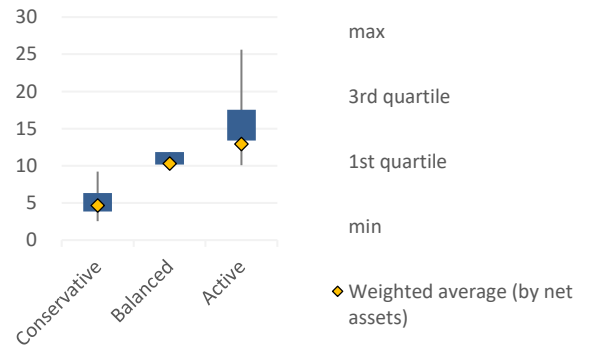
Net assets, million euro



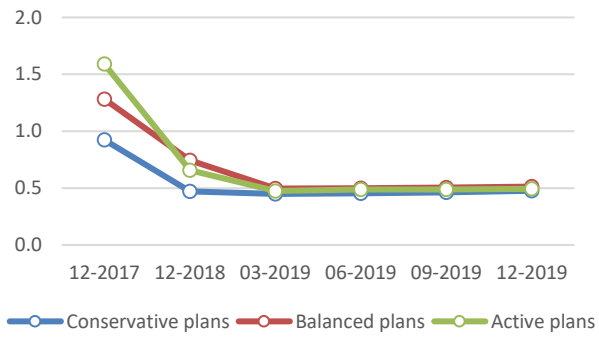
Contributions to investment plans since the beginning of the year, million euro



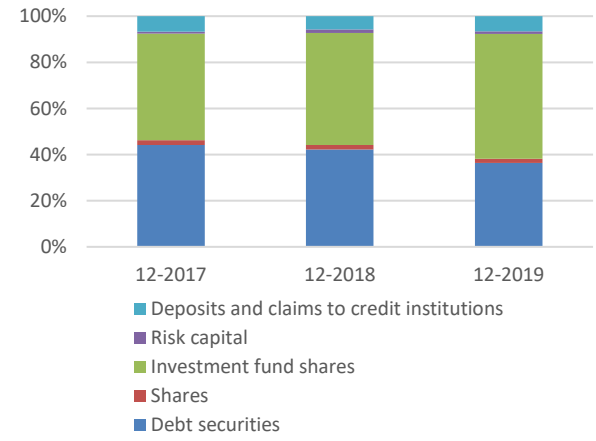
Returns of investment plans since the beginning of the year, %

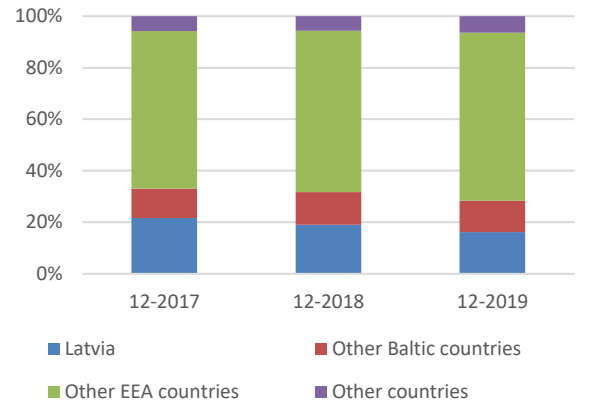


Management expenses (annualized,% of net assets)

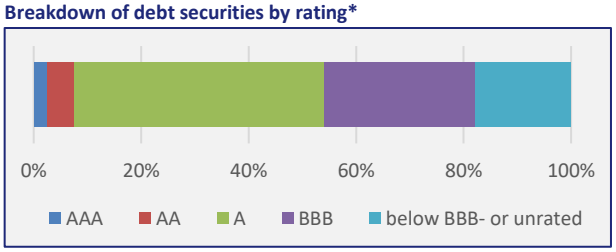


Structure of investment portfolio by financial instruments and groups of countries (%)**

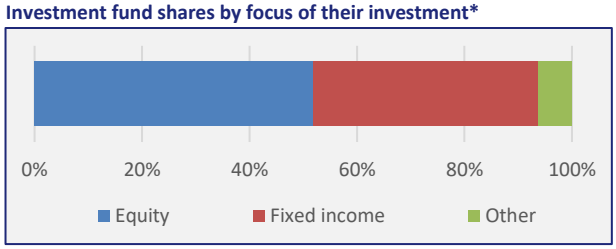




Breakdown of debt securities by rating*



Investment fund shares by focus of their investment*



**31.12.2019., data source: Bloomberg **by the country of issuer's registration*

PRIVATE PENSION FUNDS

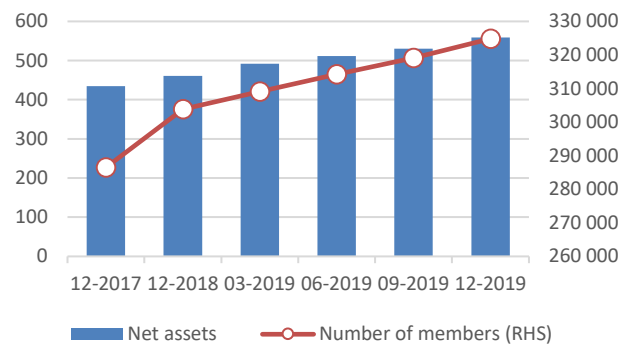
Key performance indicators

	2017	2018	2019	Changes in the reporting period
Number of pension funds	6	6	6	-
Number of pension plans	18	18	16	↓
Number of participants	286 507	303 849	324 829	↑
Net assets (million euro)	434.5	461.3	559.0	↑
Returns since the beginning of the year, %	3.1	-5.1	10.1	↑
Administrative and management expenses, %	1.8	1.4	1.2	↓

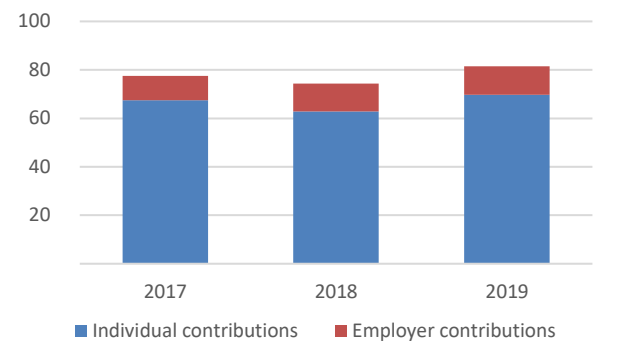
- **The development of private pension funds in the reporting year was characterised by a number of positive trends: both the number of participants in the 3rd pillar of the pension system and the amount of contributions to pension plans, as well as returns of pension plans were positive (including for most pension plans it was expressed in double-digit figures).**
- **The number of individual participants increased (by 20.6 thousand), as well as the number of participants whose contributions were made by employers (by 347).** The number of individual participants reached 273 883 at the end of the year, while employers made contributions for 50 946 participants in the 3rd pension pillar. The number of foreign clients gradually increased reaching 648 or 0.2% of all pension plan participants. At the end of the year, the total number of participants (residents) reached 33.4% of Latvia's economically active population.
- **Contributions to the pension plans increased from both individual residents and employers.** In the reporting year, overall 85.7 million euro were contributed to the pension plans or by 11.3% more than in the previous year. Participants' contributions increased by 10.9%, while employers' contributions - by 2%, and a significant increase in total contributions was due to the inclusion of solidarity tax share for 2018 in the 3rd pension pillar. Total capital accumulated in pension plans in the reporting year grew by 21.2%, reaching 559 million euro at the end of December.
- **Positive trends in financial markets were also reflected in the performance of pension plans,** the average returns of pension plans reached 10.1% (for individual plans ranging from 5.4% to 21.8%).
- **For private pension plans, the level of management expenses continued declining:** the ratio of administrative expenses and investment management expenses to net assets at the end of the year was 1.2%.
- **The investment structure of private pension plans did not change significantly during the year** and the share of debt securities reached 36%, while the share of investment fund shares was 54%, including the majority or 53.5% focused on equity investment and 43.2% on investment in fixed-income instruments. The debt securities structure of private pension plans also followed a similar trend as those of 2nd pension pillar, still weaker evident with the increasing share of debt securities issued by commercial companies from 41% to 43% in the reporting year, while the share of debt securities with an investment-grade credit rating from 79% to 81%.
- **Although the amount of funds invested in securities issued by Latvia's issuers increased during the year, their share continued to decline.** At the end of reporting year, 97 million euro were invested in Latvia, and the share of these investments in the total portfolio made up 17.3% (compared to 19% at the end of the previous year). Investments in other EEA member states constituted 79% of total investments, remaining at the same level as at the end of previous year. As pension plans diversified their investments, the share of investments in non-EEA countries increased slightly, reaching 3.6% of total investments at the end of December.

Performance of private pension funds

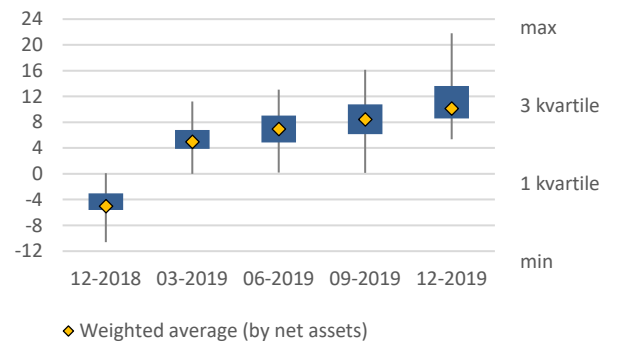
Net assets, million euro



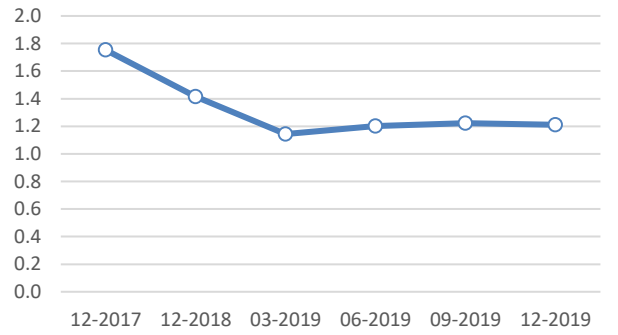
Contributions to pension plans, million euro



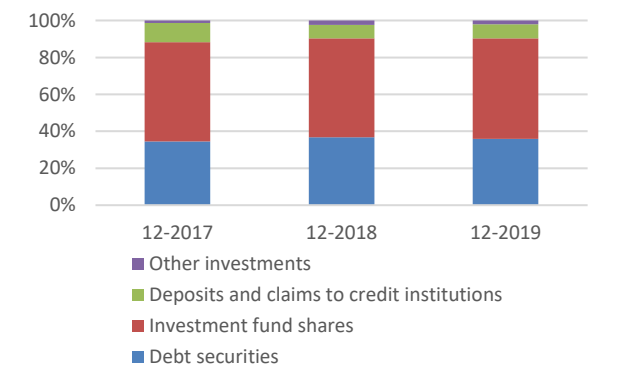
Returns of pension plans since the beginning of the year, %

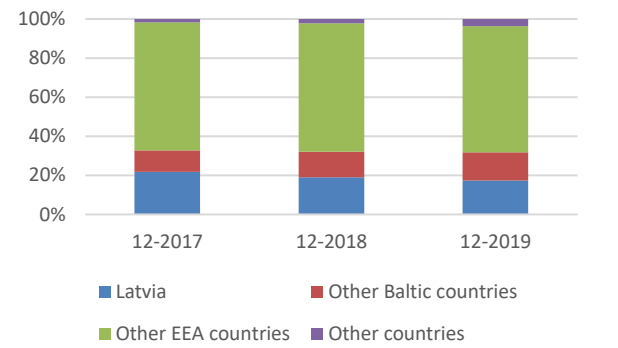


Administration and management expenses (annualised, % of net assets

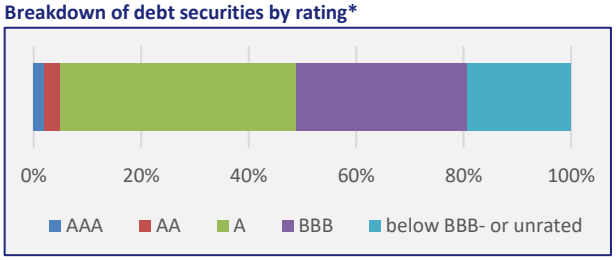


Structure of investment portfolio by financial instruments and groups of countries,** %

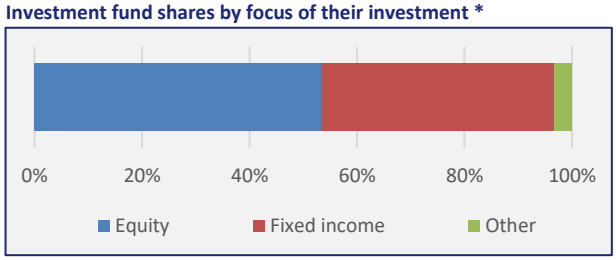




Breakdown of debt securities by rating*



Investment fund shares by focus of their investment *



**31.12.2019, data source: Bloomberg **by the country of issuer's registration*

INVESTMENT FUNDS

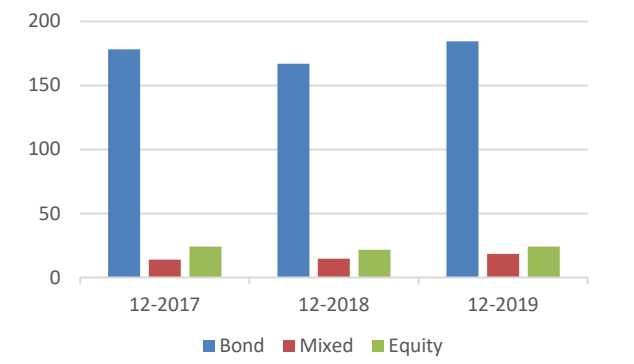
Key performance indicators

	2017	2018	2019	Changes in the reporting period
Number of investment management companies	12	11	11	-
Number of investment funds	27	23	24	↑
Investment fund assets (million euro)	216.1	203.1	226.9	↑
Returns since the beginning of the year, %				
bond funds	-2.7	-0.06	12.7	↑
mixed funds	-0.2	-3.6	14.7	↑
equity funds	3.0	-9.0	24.8	↑
Management expenses, %				
bond funds	1.3	1.3	1.3	-
mixed funds	1.6	1.5	1.4	↓
equity funds	2.0	1.9	1.9	-

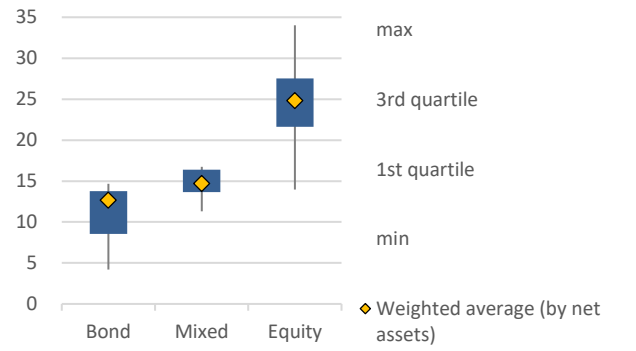
- **In the reporting year (in particular at the end of the year), following an agreement between the US and China to phase out trade tariffs, financial markets saw big rises having a positive impact on the performance of investment funds.**
- **All investment funds posted positive returns.** The bond funds' annual return ranged from 4.2% to 14.7%, mixed funds from 11.3% to 16.7%, while equity funds from 14% to 34%. Funds with a base currency for investments in the US dollars reported better performance, as their value to the euro increased during the year.
- **In the reporting year, investment fund assets increased by 11.7%**, reaching 226.9 million euro at the end of December. The rate of asset growth reached 10.5% for bond funds, 25.6% for mixed funds and 11.6% for equity funds, respectively.
- **Investment policy of investment funds was focused on corporate debt securities in the high-yield/high-risk segment.** In the investment fund sector, the largest market share was covered by bond funds, thus debt securities (84.3%) of which 69% were rated below investment-grade level (i.e. below BBB-) or unrated, also dominated in the total securities portfolio. Investment fund shares (most of which focused on equity securities), as well as shares and other variable-yield securities represented 13% and 2.8%, respectively, in the total portfolio.
- **There were no major changes to the geographical allocation of the portfolio of investment funds in the reporting year.** The share of investments in the EEA and CIS countries declined slightly, reaching 45% and 6.9% of total investments, respectively, at the end of December, and the share of investments in other countries slightly climbed, reaching 47.9%.

Performance of investment funds

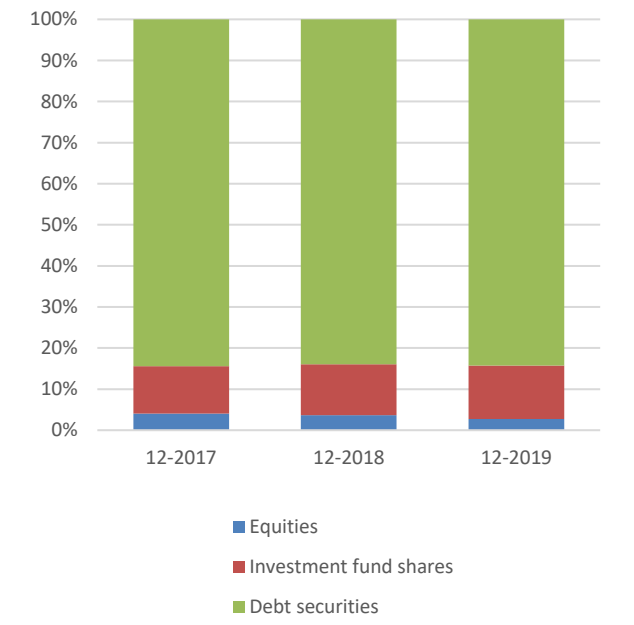
Assets, million euro

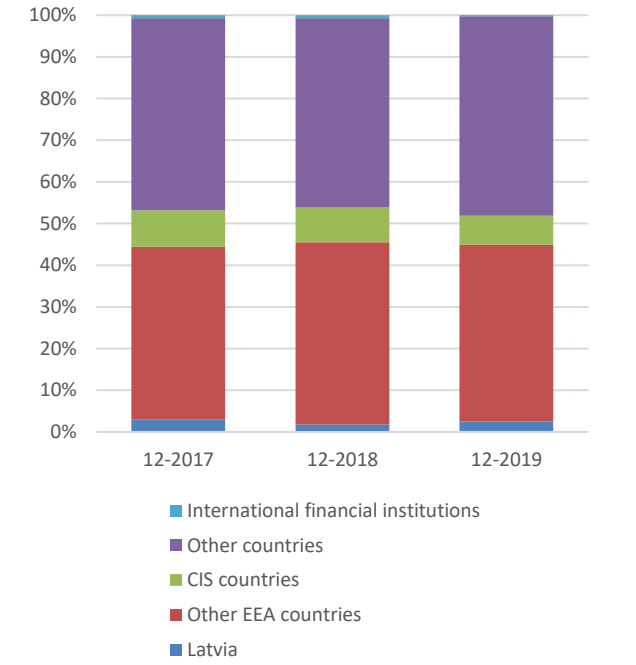


Returns by type of fund since the beginning of the year, %

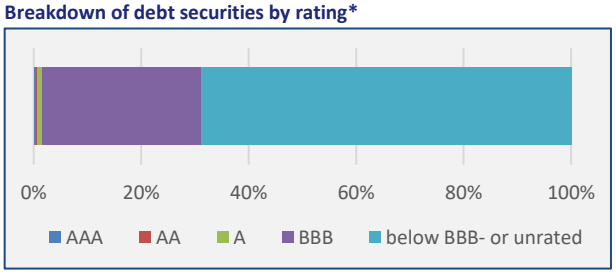


Structure of investment portfolio by financial instruments and groups of countries,** %

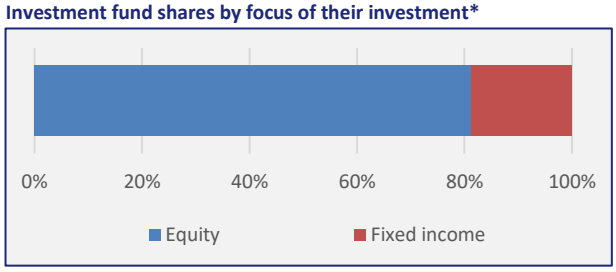




Breakdown of debt securities by rating*



Investment fund shares by focus of their investment*



**31.12.2019., data source: Bloomberg **by the country of issuer's registration*

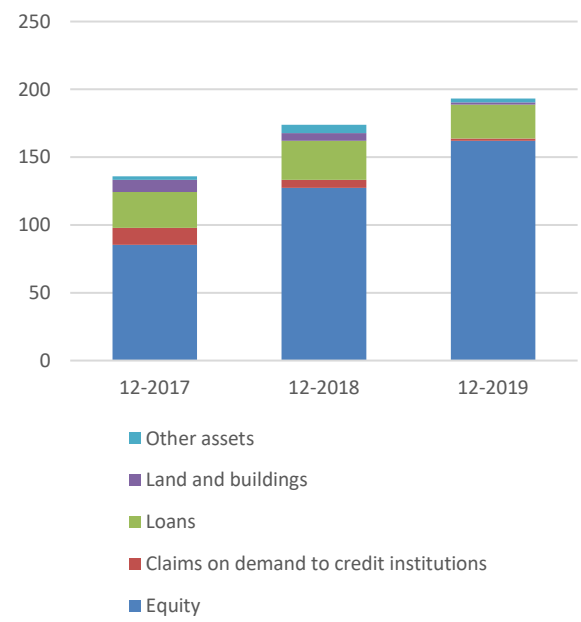
ALTERNATIVE INVESTMENT FUNDS

Key performance indicators

	2017	2018	2019	Changes in the reporting period
Number of fund managers	16	20	20	-
Number of funds	20	30	28	↓
Fund assets (million euro)	135.9	173.8	193.3	↑
Fund returns since the beginning of the year, %	-2.0	1.0	6.3	↑

- **In the reporting year, the assets of alternative investment funds continued to grow, reaching 193.3 million euro at the end of the year.** With new investments in companies, the assets of the private equity investment strategy funds increased by 29%, reaching 152.6 million euro at the end of December. Meanwhile, following two fund managers had fully realised their investments and made repayments to investors, the assets of real estate investment strategy funds overall shrank by 27%, reaching 40.7 million euro at the end of the period.
- **Alternative investment funds invested mainly in equity.** The majority of the total assets of alternative funds consisted of equity (162 million euro) and loans (25.2 million euro).
- **Alternative investment funds focused on domestic market investment, but its share tended to shrink in the reporting year,** mainly due to the fact that a number of real estate investment strategy funds were liquidated and the fund managers fully realised all investments and made repayments to investors. New investments were also made mainly outside Latvia, i.e. in Estonia. At the end of the year, 59% of alternative fund assets were invested in Latvia, 30% in Estonia and 12% in Lithuania (compared to 72%, 14% and 14%, respectively, at the end of 2018).

Assets, million euro



Assets by country at the end of the reporting period, %