FINANCE LATVIA ASSOCIATION

POLICY GUIDANCE and GUIDELINES

on Anti-Money Laundering, Countering Terrorism Financing and Enforcement of Sanctions

TABLE OF CONTENTS

1 Major Step – Industry Self-Regulation – Introduction

"In 2017 and 2018 the guidelines were an indispensable self-regulatory tool for proportional and appropriate risk assessment-based reduction of exposure to high risk levels. The guidelines, among other things, set out recommendations to avoid the servicing of high-risk shell companies and contain OFAC sanctions compliance best practices. Moreover, the guidelines also commenced the transformation of Latvia's financial sector into a more sustainable form of business, curtailing the dominance of transaction business model. The guidelines constitute a tool that is subject to continuous improvements, has not lost its topicality and everyday compliance therewith is monitored both within the framework of the Association and for the purpose of evaluating banks' internal control systems.

The Association's guidelines are supplemented and improved based on the existing circumstances, particularly considering any changes in the prevailing risks. The guidelines do not constitute a detailed document but instead, set out the main objectives and basic principles for enlivening the compliance culture. The guidelines, by no means, substitute any regulations and recommendations issued by the Financial and Capital Market Commission. The intention is to strengthen the compliance culture in everyday banking and facilitate introduction of best international practices as a settled standard in Latvia's financial sector."

SANITA BAJĀRE,
Finance Latvia Association, Chairperson of the Board

"These guidelines aim to encourage the introduction of the highest money laundering prevention standards by all members of the Association. We have consistently worked on the improvement of the set standards and have strived hard to make our involvement maximally effective for the attainment of the set goals. Therefore, we revise the guidelines on a regular basis, to introduce new standards and best practices.

The recent updates mostly concern improved information sharing between Association's members to significantly speed-up information exchange for our work to become more effective. Additionally, we have supplemented the guidelines with "the whistleblowing" principles. It will add up to our certainty that financial institutions are fully compliant with these standards. The principles introduce the possibility to freely report on any breaches of the regulatory requirements without any fear of retaliation. This will set up a system where no violations go unnoticed.

I am convinced that the introduced improvements are a step towards upgrading our financial system and for curtailing the risk of it being used for "money laundering"."

ULDIS UPENIEKS, CAMS
Co-chair of Finance Latvia Association Compliance Committee,
Chief Compliance Officer of Citadele Bank

"The financial services sector expands and transforms on a regular basis. We increasingly apply different technologies that make the use of financial services and payments quick, fast and more comfortable.

Considering that the speed and simplicity may be also misused, the financial sector must continuously ensure compliance with the highest anti-money laundering, terrorism and proliferation financing and sanctions compliance standards.

All our hard work has paid off. The policy and the guidelines are part of our high standards in combating financial crimes. At the same time, the financial sector and its participants are not isolated islands. The cooperation of law enforcement institutions, financial market participants, the Financial Intelligence Unit, regulatory and other state authorities is of relevance, as only our joint efforts will allow preventing misuse of our financial system for illegal purposes.

I am convinced that out joint commitment will facilitate further development of Latvia's financial sector, allowing all market participants, consumers and the overall national economy to profit from that ."

JURIS BOGDANOVS, CAMS
Co-chair of Finance Latvia Association Compliance Committee,
Head of Risk Management at Swedbank Latvia

2 At a Glance: AML/CFT Policy and Guidelines of the Association

2.1. The Policy Guidance on Anti-Money Laundering, Countering Terrorism Financing and Enforcement of Sanctions includes the following basic principles that are complied with by the members of the Association in the area of AML/CFT:

2.1.1. vigilance against and explicit policy of no cooperation with non-authorized and not supervised financial intermediaries to safeguard against any attempts to abuse the Latvian financial system;

2.1.2. strict requirements for cooperation with shell companies to ensure adequate level of corporate transparency among the clients;

2.1.3. zero tolerance regarding intentional violations of AML/CFT laws and regulations;

2.1.4. cooperation on a full and timely disclosure basis with all the concerned parties to facilitate effective fight against the financial crime;

2.1.5. recognition of the AML/CFT principles enshrined in the laws and regulations of other countries relevant to respective Financial institution operations, including those of the USA;

2.1.6. application of precautionary principle when deciding on the course of action on clients and transactions causing suspicions;

2.1.7. establishment of a whistle blower's channel to the Association in accordance with the Association Whistleblowing Guidelines.

2.2. The Association invites other participants of the financial services market in Latvia to adhere to this Policy Guidance.

2.3. If a Financial institution does not comply with Policy Guidance and Guidelines, the Association Council shall take actions in accordance with the procedures provided for in the Articles of Association of the Association.

2.4. **In order to efficiently implement the provisions of the Policy Guidance, the Council of the Association approved the following guidelines:**

2.4.1. **Association Guidelines on Compliance with OFAC Sanctions:**

2.4.1.1. Financial institutions comply with the OFAC sanctions for transactions and financial services in the USD and any other currency;

2.4.1.2. in accordance with "comply or explain" principle Financial institutions ensure full implementation of the OFAC sanctions and in special circumstances explain (document) the specific reasons for non-compliance with OFAC sanctions.

2.4.2. **Association Guidelines on High-Risk Jurisdictions:**

2.4.2.1. Financial institutions do not render financial services to legal entities and individuals of jurisdictions who are identified as High-risk and Non-Cooperative Jurisdictions by the FATF;

2.4.2.2. Financial institutions act with necessary due diligence when rendering services to client of jurisdiction being identified as a high risk in vendor crafted internationally recognized list of high risk jurisdictions.

2.4.3. **Principles of AML/CFT Related Information Sharing among Financial institutions:**

2.4.3.1. shared Information is accurate and concise;

2.4.3.2. received information must be documented;

2.4.3.3. received information can not be used as a sole basis for off-boarding of the customer or refusing to begin cooperation with a potential customer.

2.4.4. **Anti Bribery and Corruption Policy**:

2.4.4.1. the policy calls that Financial institutions have zero tolerance against corruption and comply with strict limitations for financing of political parties;

2.4.4.2. Financial institutions set allowed gift value, do not take part in buisness entertainment events and may even opt to introduce a zero-gift policy;

2.4.4.3. Financial institutions set cautios approach for servicing of foreign politically exposed persons;

2.4.4.4. Financial institutions are aware that public procurements are particularly vulnerable to a risk of corruption.

2.4.5. **Association Guidelines on Independent External Assessment of the AML/CFT Compliance Program**:

2.4.5.1. the guidelines set forth the principles for: choosing the independent external assessor; minimum qualifications; the scope of the independent external assessment;

2.4.5.2. for more efficient planning of independent external assessment the Association recommends Financial institutions to coordinate their decisions and actions regarding the assessor and scope of the assessment with the FCMC;

2.4.5.3. the guidelines call for approval of remediation plan by the Financial institution's Executive Board and following thorough monitoring of progress and deadlines provided in the plan.

3 Policy Guidance on Anti-Money Laundering, Countering Terrorism Financing and Enforcement of Sanctions

3.1. Introduction

3.1.1. The aim of this Policy Guidance is to set forth the standards for the members of the Association on AML/CFT.

3.1.2. The Policy Guidance is of an advisory nature; it is complied with on a voluntary basis by all members of the Association. The term "Financial institution" means a member or associated member of the Association. Associated members comply with the Policy Guidance to the extent necessary for management of risks pertaining to money laundering and terrorism financing, specific to their operations. In addition to its members, the Association invites other participants of the financial services market in Latvia to adhere to this Policy Guidance.

3.1.3. Financial institutions understand and seek to strengthen their role in fighting financial crime, including global and local money laundering and terrorism financing and, therefore, through approval of this Policy Guidance certify their agreement to implement the highest AML/CFT standards and adhere to them in their daily work.

3.1.4. Financial institutions may opt to establish tighter risk management standards for their operations than those provided for in this Policy Guidance.

3.1.5. By adopting this Policy Guidance the Association underscores the importance of not only complying with the applicable regulations, but also with the ever-evolving international best practices in the field of AML/CFT with the goal of ensuring further development of the Latvian financial sector and of international financial services provided by Latvian financial institutions.

3.1.6. The Association is actively pursuing systemic improvements in the business environment pertaining to the financial services as well as in the overall investment climate in Latvia. Therefore, a significant work stream of the Association is to constantly improve AML/CFT policies and procedures at the industry level and to facilitate implementation of the appropriate AML/CFT compliance programs in the Financial institutions. This is done in close cooperation and in coordination with the Latvian and foreign authorities, especially those of the EU, the European Economic Area, and the USA and their respective financial institutions.

3.1.7. This Policy Guidance supplements the Social Charter of the Financial Industry by detailing the expected code of conduct and the standards on AML/CFT matters..

3.1.8. The Association is tasked to exercise an active role in the implementation of this Policy Guidance and the principles enshrined herewith, as well as ensuring approval and implementation of self-regulation instruments as may become necessary.

3.1.9. The Financial institutions provide the Association with regular reports on their compliance with the Policy Guidance and the related Association Guidelines (as provided for in Clause 20. hereafter), so that the Association can adequately inform all parties.

3.2. Risk Culture

3.2.1. To ensure solid foundation for successful fight against the financial crime, we commit to zero-tolerance[1] regarding intentional violations of AML/CFT laws and regulations. While not tolerating any derogation from the applicable laws and regulations, Financial institutions are conscious of the ever present risk related to interpretation of the laws and regulations and take the necessary measures to limit these risks.

[1] Zero-tolerance – in AML/CFT field, upon following the laws and other regulatory enactments regulating the operation of the Financial institutions, as well as following the standards set by self-regulating institutions and related to the operation of the former (e.g., Financial institution's Social Charter, Association Guidelines), codes of professional conduct and ethics, and other best practice standards introduced in the AML/CFT field, the Financial institutions do not apply the tolerated risk exposure limits expressed in monetary form (e.g., an amount of acceptable monetary fine).

3.2.2. Financial institutions understand that emerging industries will always be insufficiently regulated; accordingly, the Financial institutions constantly and proactively update and strengthen their compliance policies and procedures based on appropriate corporate values, code of conduct and upon assessment of all the risks, even in the areas that are not currently being subjected to regulation.

3.2.3. Financial institutions fully respect the measures taken by the government, especially the financial sector supervision and control authorities, to fight money laundering and terrorism financing and recognize the requirements set forth by them as the minimum standards to be complied with in their daily work.

3.2.4. Financial institutions cooperate on a full and timely disclosure basis with all the concerned parties to facilitate effective fight against the financial crime.

3.2.5. Latvian economy needs a well-developed and reliable financial sector. Money laundering and terrorist financing have been identified as major threats to the Latvian financial sector. Financial institutions duly account of their significant role in the economy and the AML/CFT threats they face in continuously determining and documenting their corporate values and code of conduct.

3.2.6. In their decision-making process, members of the Supervisory Council of the Financial institution, members of its Management Board, as well as heads of departments and units and other employees, always assess their decisions vis-à-vis the regulatory expectations, high ethical standards, and the interests of the entire financial industry and the society at large, in addition to the business case and profitability considerations.

3.2.7. It is of utmost importance that the high ethical standards act as a safeguard against any illegal action and preclude "willful blindness" situations[2] regardless of where such action is carried out.

3.3. Application of Laws, Regulations and Voluntary Standards

3.3.1. Financial institutions comply with the relevant legislation and voluntary standards governing compliance[3], including requirements set forth in the self-regulating industry instruments.

3.3.2. Financial institutions recognize and take into account the AML/CFT principles enshrined in the laws and regulations of other countries relevant to their operations, including those of the USA, as long as they do not contradict with the requirements of EU or Latvian legislation.

3.3.3. Financial institutions comply with the following AML/CFT international standards and best practice guidelines:

3.3.3.1. FATF Recommendations;

3.3.3.2. Guidelines of the Basel Committee on Banking Supervision;

3.3.3.3. *Wolfsberg* Group Guidelines.

3.3.4. Financial institutions comply with the following Association approved guidelines in furtherance of effective implementation of this Policy Guidance:

3.3.4.1. The Association Guidelines for Compliance with OFAC Sanctions;

3.3.4.2. The Association Guidelines on High-Risk Jurisdictions;

3.3.4.3. Principles of Information Sharing among Financial Institutions in connection with the application of AML/CFT law;

3.3.4.4. Anti Bribery and Corruption Policy;

3.3.4.5. The Association Guidelines on Independent External Assessment of AML/CFT Compliance Program.

3.3.4.6. The Association Whistleblowing Guidelines.

3.4. AML/CFT Compliance Policies and Procedures

3.4.1. Financial institutions ensure that their overall risk management policies and procedures and specifically the AML/CFT Compliance Program is appropriate and enables sound management of risks related to their operations. Financial institutions recognize that formal adherence to the regulatory requirements is not a guarantee of the Compliance Program being considered effective and sufficient.

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[2] A situation in which a person seeks to avoid civil or criminal liability for a wrongful act by intentionally keeping oneself unaware of facts that would render liability.
[3] Compliance laws, rules and standards – laws and other regulations on the operation of Financial institutions, standards set by self-regulating institutions related to the operation of Financial institutions, codes of professional conduct and ethics, and other best practice standards applicable to the operation of Financial institutions.

3.4.2. Financial institutions regularly conduct a comprehensive risk assessment to evaluate AML/CTF risks present in their operations. In addition to independent external compliance reviews, Financial institutions regularly execute and document relevant stress tests, as well as quality assurance tests of their policies and procedures.

3.4.3. Based on the results of the comprehensive risk assessment, Financial institutions design and implement an internal control system that provides for appropriate level of mitigation of the risks identified.

3.4.4. Financial institutions understand that when it comes to ensuring sound risk management and effective internal controls commensurate to the results of the comprehensive risks assessment, the laws and regulations will typically provide for the minimum requirements and may thus be insufficient to provide for appropriate level of risk mitigation.

3.4.5. Financial institutions appoint designated AML/CFT officers[4] (hereinafte – Designated Officer) to ensure integrity of operations and sound AML/CFT risk management.

3.4.6. Highly qualified experts shall be appointed as Designated Officers – those who exhibit the required experience and qualifications[5], and are able to ensure adherence to high ethical standards in their decision-making and have proven such thru their past work experience.

3.4.7. Financial institutions guard against any conflict of interest, including nepotism, situations in appointment of Designated Officers.

3.4.8. Being aware of the specific sanctions related risks and the increased global use of sanctions, Financial institutions ensure that a special category of the Designated Officer is created – Sanctions Officer).

3.4.9. If any transactions cause suspicions of possible violations of any international, national or extra-territorial sanctions as regards the transaction in question or client involved, Financial institutions perform enhanced due diligence and apply precautionary principle, i.e., transactions are not executed if it is not possible to perform sufficient due diligence to remove suspicion beyond doubt. Financial institutions do not penalize employees who, having consulted the Designated Officer, decide to refrain from clearing the transaction or rendering a financial service due to reasonable doubts about possible sanctions violations.

3.4.10. Financial institutions undertake regular independent external reviews to ensure compliance with the principles defined in this Policy Guidance. Detailed requirements on the scope of reviews and their execution are provided in the Association Guidelines on Independent External Assessment of AML/CFT Compliance Program.

3.5. Cooperation with Specific Client Segments

3.5.1. Financial institutions are cognizant of the companies, that:

3.5.1.1. provide intermediation services in payments and settlements and which do not belong to the same group of companies as the company conducting real economic activity (i.e., creating an economic value appropriate for the type of economic activity and submits financial reports to the relevant authorities);

3.5.1.2. are mainly using electronic money or virtual currencies in their operations;

3.5.1.3. are operating mainly using unregulated settlement systems; and which are not duly authorized and supervised credit institutions, payment services providers, or electronic money institutions, expose the Latvian financial sector to unacceptable risk. Such companies are actually creating an alternative payment services industry nesting[6] in the Financial institutions.

3.5.2. Financial institutions are cognizant that companies, which do not have any real economic activity or that are not creating an economic value appropriate for the type of economic activity, expose the Latvian financial sector to increased risk, and therefore the Financial institutions do not do business with such client – shell companies. Real economic activity is characterized by legal and economically justified transactions, which have the following features:

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[4] A member of the Management Board of the Financial institution in charge of compliance with AML/CFT requirements and employees of the Financial institution in charge of compliance with AML/CFT requirements (AML/CFT Officer, MLR Officer, Sanctions Officer, Internal Auditors), who are specialists in AML/CFT field, etc.).

[5] For example, CAMS or similar internationally recognized certificate.

[6] Nesting – providing unregistered payment services having obtained access to payment systems through financial institution's payment services.

3.5.2.1. the client has business partners, about whom there are records or publicly available information that clearly describes the purpose of their operation, for example, in transactions in goods, those are conducted with a well-known manufacturer or distributor;
3.5.2.2. documents supporting the transactions do not cause suspicions of bogus transactions, including the following, for example:
3.5.2.2.1. regarding transactions in goods – bills of lading, storage documents, certificates of origin or certificates of quality provide information on the counterparties that is publicly verifiable;
3.5.2.2.2. regarding the client's assets – there are documents certifying the property rights or excerpts from public registers.
3.5.3. Financial institutions do not render services to clients who were created and operate in order to evade taxes.
3.5.4. Financial institutions are aware that shell companies that are related to real economic activity, but have other features of a shell company, still cause high risk: therefore, business relationships with them are possible only upon executing enhanced due diligence and with additional monitoring measures. Enhanced due diligence and stricter monitoring measures are implemented by, for example:
3.5.4.1. obtaining annual financial reports on their operations;
3.5.4.2. properly documenting that the entities in question are subsidiaries or belong to a group of companies that are not shell companies, and their financial reports are included in consolidated financial reports of the parent company;
3.5.4.3. properly documenting that they are owned by natural persons and their operations are presented in the tax declarations of the natural persons;
3.5.4.4. properly documenting their real economic activity and if necessary resorting to additional measures in order to make sure that the economic activity or transactions of the client are not being performed with the aim of tax avoidance.
3.5.5. In order to ensure execution of Clauses 31 to 34 above, Financial institutions create and maintain appropriate and properly automated transaction control processes, as well as ensure regular and proper training of employees. Transaction control processes should ensure that the employees of the Financial institutions are neither providing consultations nor assisting in preparation of documents for clients for such actions that are aimed at circumventing compliance requirements or tax obligations.

3.6. Reporting About Violations and Sanctions

3.6.1. If a Financial institution does not comply with this Policy Guidance, the Association's Council shall take actions in accordance with the procedures provided for in the Articles of Association of the Association.

3.7. Closing Provision

3.7.1. The Financial institutions ensure compliance with the Policy Guidance through implementation of improvements to their internal control systems and upon necessity define transitional provisions for the implementation of this Policy Guidance, including for termination of business relations with the types of clients mentioned in the Policy Guidance.

4 Guidelines on Compliance with OFAC Sanctions

4.1. Financial institutions are actively pursuing systemic improvements in the business environment pertaining to the financial services as well as in the overall investment climate in Latvia in close coordination with the partners from public and private sector.

4.2. Being a member state of the United Nations and the EU, Latvia assumed the obligation to ensure compliance with, and implementation of, the economic sanctions set by those international organizations, and the Financial institutions play a significant role in fulfilment of the said international obligations for the sake of development of a safe and stable financial system in Latvia.

4.3. Considering Clauses 4.1 and 4.2 above, one of the Financial institutions' workflows is the permanent improvement of compliance with the international, national, and extraterritorial sanctions regime in cooperation with the state authorities and financial institutions of Latvia, the EU, and the USA, issuing the Association's guidelines and promoting the implementation of key business principles meeting the highest standards at the Financial institutions, especially 'Know Your Client' principle.

4.4. Expeditious direct cooperation between the Financial institutions and the US financial market participants and correspondent financial institutions is also important for the development of Latvian financial sector and promotion of international financial services. Compliance with the restrictions imposed on the US financial market participants by the sanctions programs set by the U.S. Department of the Treasury and OFAC, is essential for this successful and sustainable cooperation.

4.5. OFAC sanctions programs cover several categories of sanctions against, but not limited to, the following:

4.5.1. designated countries;

4.5.2. designated entities established or operating in the interests of the designated countries subject to sanctions;

4.5.3. designated persons identified to have violated the sanctions set by the US;

4.5.4. individuals and organizations identified as involved in international crime.

4.6. Compliance with the OFAC sanctions will boost the Financial institutions' credibility, reduce the probability of the Financial institutions' reputational risk occurrence, and will thus further improve the international reputation of the whole Latvian financial services sector.

4.7. Under their operations, the Financial institutions comply with the prohibitions stipulated in the OFAC sanctions and preclude execution of the transactions contravening those prohibitions, unless the same contradicts the normative acts binding upon Latvia or the Financial institutions[7].

4.8. Under compliance with the OFAC sanctions, Financial institutions follow 'comply or explain' principle, namely, Financial institutions either ensure full implementation of the OFAC sanctions or explain (document) the specific circumstances and the reasons for non-compliance with those.

4.9. Following the principle stated in Clause 4.8 of the Guidelines, the Financial institutions comply with the OFAC sanctions under transactions and financial services in both the USD and any other currency.

4.10. The Financial institutions make all necessary investments to timely eliminate the obstacles hindering the compliance with the OFAC sanctions.

4.11. The Financial institutions ensure that their internal control systems are sufficient and adequate for compliance with the OFAC sanctions.

[7] For example: the Law on Payment Services and Electronic Money and Council Regulation (EC) No 2271/96 of 22 November 1996 protecting against the effects of the extra-territorial application of legislation adopted by a third country, and actions based thereon or resulting therefrom, prohibiting the legal entities established in the European Union from compliance with the particular sanctions programmes against Cuba, Iran, and Libya adopted by the US.

4.12. The Association carries out regular trainings on implementation of the OFAC sanctions for the Financial institutions' employees and arranges the events intended for informing the public about the Financial institutions' duties under the Guidelines.

4.13. Complying with the principle mentioned in Clause 8 of the Guidelines, deviations from application of the OFAC sanctions are possible pursuant to Council Regulation (EC) No 2271/96 of 22 November 1996 protecting against the effects of the extra-territorial application of legislation adopted by a third country, and actions based thereon or resulting therefrom, as well as where the same is based on the exceptions effective in the US from the scope of the sanctions program.

4.14. The deviations are not applicable where the transaction concerns the US territorial jurisdiction or the transaction is in the USD.

5 Guidelines on High-Risk Jurisdictions

5.1. Financial institutions shall comply with restrictions set forth on cooperation with jurisdictions identified as presenting high-risk of AML/CTF in Association's Guidelines on High-Risk Jurisdictions (hereinafter – the Guidelines).

5.2. Financial institutions are fully aware of all current laws and regulations applicable in Latvia, including, but not limited to, the Law on Payment Services and Electronic Money, and Council Regulation (EC) No. 2271/96 of 22 November 1996 protecting against the effects of the extra-territorial application of legislation adopted by a third country, and actions based thereon or resulting therefrom[8] that prohibit legal entities incorporated in the EU to execute certain sanctions programs adopted by the USA against Cuba, Iran and Libya.

5.3. Association makes every effort to ensure that fulfilment of the Guidelines does not result in violations of the Competition Law, or EU competition legislation. The Association's Guidelines initiative is coordinated with the Latvian Competition Council.

5.4. Cooperation with high-risk jurisdictions having strategical deficiencies in the AML/CFT field, or jurisdictions on which international, national, or extra-territorial sanctions are imposed, causes increased compliance risks to the Financial institutions. The Financial institutions are aware that on-going transaction monitoring, being the most recognized tool for effective management of this risk, is not effective in all cases[9].

5.5. Being aware of this deficiency, the Financial institutions do not render financial services to legal entities and individuals of jurisdictions who are identified as High-risk and Non-Cooperative Jurisdictions by the FATF.

5.6. Upon comprehensive risk assessment of jurisdictions, and making decisions on on-boarding and cooperation with a client, the Financial institution acts with necessary due diligence when rendering services to client from countries and jurisdictions not stipulated in Clause 5.5, yet having material AML/CFT deficiencies, and being identified as a high risk jurisdictions in vendor crafted internationally recognized lists of high risk jurisdictions.

5.7. Restrictions on service provision do not apply to the basic payment account services as per applicable EU legislation, for example, to a legal refugee or asylum seeker in EU or individual legally residing in the EU.

5.8. Financial institutions set reasonable timeframe for termination of already established relationships with clients from high-risk jurisdictions.

[8] Official Journal, L 309, 29/11/1996 pp. 0001 – 0006.
[9] High-risk and non-cooperative jurisdictions. Available: http://www.fatf-gafi.org/countries/#high-risk.

6. Principles of Information Sharing Among Financial Institutions on the Course of Application of AML/CFT Law Provisions

6.1. Financial institutions that fall within the definition of a credit institution referred in the AML/CFT Law undertake to consistently and on a regular basis sharing information on customers who have been off-boarded or on-boarding refused due to AML/CFT risks (private – private information sharing) in accordance with Article 44 Paragraphs 2 and 4 of the AML/CFT Law.

6.2. Financial institutions persuade the following main principles and good practice in information sharing:

6.2.1. provide accurate and concise information and ensure that it is up-to-date;

6.2.2. sharing only information that is related to AML/CFT risks;

6.2.3. use the received information only for needs of recipient's internal control systems in accordance with approved procedures;

6.2.4. restrict the use of information only for the due diligence of the customer concerned;

6.2.5. exclude automatic use of the received information as a sole basis for off-boarding of the customer or refusing to begin cooperation with a potential customer.

6.3. In case the customer refuses to fill out or to submit any documents that are required to comply with AML/CFT requirements, or the legislation requires or the Financial institution has taken the decision not to assume certain risks (customers), Financial institution does not share information on the respective customers under the AML/CFT Law Article 44 Paragraph 2 and 4, in case there are no other concerns (suspicion) on any potential ML/TF risks pertinent to the respective customer.

6.4. The information provided by the Financial institution should allow unambiguous identification of the person that is subject to the information sharing in accordance with the AML/CTF Law and to provide argumentation and a short substantiation of ML/TF risks that constituted basis for refusing or terminating cooperation in the case concerned.

6.5. The Financial institution also indicates the persons associated with the customer UBO, authorized representatives and other persons associated with the customer, in case they have aggravated ML/TF risks in the specific case (to be properly disclosed).

6.6. The information must be clearly structured. The information sharing is executed electronically, using encrypted safety solutions that ensure compliance with the requirements of the FCMC. The Financial institutions can also use automated solutions for information sharing.

6.7. Information sharing is carried out on a regular basis, but not less often than once in a month, in accordance with the guidelines Paragraph 2 (in undiscrementory manner). The financial institution may request additional information (Paragraph 6). The response to an individual information request must be submitted within a possibly shorter period.

6.8. The information sharing address list and, if necessary, the form of information sharing among financial institutions is maintained by the Association. In this capacity, the Association is not allowed to process personal data processing.

6.9. The Financial institution undertakes to appoint one or several employees who are authorized to execute the information sharing and ensures that appointed employees have sufficient level of competences and are duly authorized, inter alia on personal data protection matters.

6.10. The received information is used for managing ML/TF risks only. The received information likewise information on the fact of sending the same is retained for so long while the financial institution maintains a business relationship with the customer regarding whom the information falling under AML/CTF Law Article 44 Paragraph 2 and 3 has been received. In case the business relationship has been terminated or the transaction involving the customer has been a one-off deal, the information is retained for the term set in the AML/CTF Law for keeping customer due diligence information after termination of the business relationship or a one-off transaction.

6.11. The Financial institution shall take a careful approach to lengthy of record keeping on private individuals that has been received from other financial institutions under the AML/CTF Law Article 44, Paragraphs 2 and 4 and contains personal data of persons that are not customers of the Financial institution on the date on which such information has been received or any persons associated with them. In case of retaining of such data, the Financial institution must have a suitable legal substantiation and no such data can be transferred outside Latvia.

6.12. In case a Financial institution that has provided any information regarding a specific customer under the AML/CTF Law Article 44 Paragraphs 2 and 4 to other financial institutions acquires other information that leaves room for the conclusion that the provided information has been erroneous, it shall forthwith recall the information provided to such other Financial institutions in the respective part.

7 Anti-Bribery and Corruption Policy

7.1. In consideration of the fact that the National Money Laundering and Terrorist Financing Risk Assessment Report lists corruption and bribery among the most significant threats, Financial institutions commit to ensure zero tolerance against corruption, i.e. Financial institutions undertake not to tolerate corruption in their own operations and will not involve in any financial transactions that are associated with corruption, including commercial corruption.

7.2. For the purpose of these guidelines, the term "corruption" stands for the offer, acceptance, promise or transfer of anything of value in any form either directly or indirectly, to affect the actions or the decisions of the Financial Institution or the employee representing it (e.g. commercial bribery), to take a decision favourable to the Financial institution or any of the actions listed previously that are taken by the customer him/herself by making direct/indirect use of the services or possibilities offered by the financial sector (e.g. for receiving or transferring any unpermitted advantages). Within the meaning of these guidelines, the term "corruption" also covers illegal financing of political parties.

7.3. These guidelines are attributable to the operations of financial institutions in the territory of the Republic of Latvia and outside (branches, representative offices etc.) and regulate three areas of operation:

7.3.1. The principles applicable to a financial institution as an economic operator (Clauses 7.5. – 7.7);

7.3.2. The principles applicable to the employees of a financial institution (Clauses 7.8. – 7.12);

7.3.3. The principles applicable to a financial institution for performing customer due diligence and control (Clauses 7.13. – 7.16.).

7.4. The policy and the procedures referred in Clauses 7.5, 7.6, 7.8, 7.9 and 7.11 of these guidelines should be approved by the Council of the respective financial institution. If the Financial institution's Council also approves the code of professional conduct (code of ethics) than the respective policies and procedures can be incorporated therein. The Council of the financial institution should receive regular reports on the compliance with these procedures and it should ensure that whistle-blowers can submit information directly to the Council.

7.5. Financial institutions identify corruption risks and take them into consideration for developing internal procedures, monitor the probability of such risks, train employees to prevent their engagement into corruptive behavior during performance of their professional duties and to identify the potential cases of corruption in the operations of their customers. Financial institutions organize their everyday commercial operations in accordance with the best corporate standards for preventing corruption.

7.6. Financial institutions undertake to maintain political neutrality. Irrespective of whether the laws of the relevant country allow or prohibit corporate donations to political parties, Financial institutions do not make any donations and do not provide any direct/indirect financial support to political parties. The senior management of the Financial institution (bord of directors, council or any other supreme body within the meaning of the Credit Institutions Law) does not make any donations to political parties to obtain advantages, affect political or decision-taking processes.

7.7. Financial institutions undertake not to sponsor any events that could harm the financial sector's reputation.

7.8. Financial institution, when detecting any corrupt behavior of its employees, undergoes a enhanced examination, reviews such cases at the senior management's level and reports to the responsible governmental institutions without undue delay in accordance with the provisions of the Criminal Law, by accordingly documenting one's actions.

7.9. Knowing that incommensurable and with the existing circumstances – inconsistent gifts are considered a form or corruption, financial institutions undertake to enact respective policies for the acceptance of minor non-financial benefits which comprise the procedure and the regulations for giving and receiving gifts and other benefits. Financial institutions undertake to ensure that no cases of giving or receiving any gifts affect the impartiality of decision-taking or cause conflicts of interest.

7.10. Financial institutions recognize that the participation in any marketing and training activities of its customers or business partners, the costs of which are covered by the customer or the business partner, and such events are not organized by the Association, might be detrimental for the impartiality and reputation of the financial institution. The principles for commensurable participation in such events must be set in the internal policies and procedures of the Financial institution. According to the set principles, the participation in such events is permissible, in case it is related to the business of the Financial institution and does not constitute solely a business entertainment and has no impact on the impartiality of decision-taking and cause no conflict of interests otherwise.

7.11. When elaborating and implementing these policies, Financial institutions must set the maximum threshold for giving or receiving gifts and entertainment, provided that giving or receipt of cash is strictly prohibited. Financial institutions may opt to implement Zero-Gift-Policy.

7.12. Financial institutions undertake not to give any gifts to governmental, municipal and state-owned enterprises officials and employees and shall act according to the definition of the term gift and items that do not qualify as gifts as provided for in the law “On Prevention of Conflict of Interest in Activities of Public Officials”.

7.13. If the information at the disposal of the Financial institution speaks for corrupt acts of a customer (inter alia in the absence of obvious evidence) for the purpose of deciding whether and what financial services are accessible to the customer, the Financial institution must apply the precautionary principle.

7.14. Financial institutions undertake not to limit themselves to the definition of politically exposed persons but consider also other risks for establishing whether a person which formally does not fall under the definition of a politically exposed person, however, in consideration of his/her official duties, is susceptible to the risk of corruption and should be made subject to enhanced control according to the internal procedures of the financial institution.

7.15. The Financial institution undertakes not to commence or maintain a business relationship with foreign politically exposed persons, their family members or other persons closely affiliated to them, irrespective of whether the persons have registered their permanent residence in the European Union, in case the Financial institution has even the slightest suspicion of corruption or the legal origin of the person’s funds.

7.16. Should the Financial institution have the slightest concerns regarding the transparency of the customer’s transactions, it may limit the availability of financial services, inter alia, terminate the business relationship with the customer and report according to the procedures set by the applicable laws, in case the customer’s transactions speak for his/her involvement in corrupt transactions (e.g. large, unexplained cash transactions or customers who participate in public procurements or stated owned enterprises who make payments to shell companies or to persons affiliated to the officials of the contracting authority).

8 Guidelines on Independent External Assessment of AML/CFT Program

8.1. Guidelines set forth the principles for choosing the independent external assessor, its qualifications, and the scope of the assessment.

8.2. The Purpose of the Guidelines is to promote a unified and mutually comparable approach applied by the Financial with regard to the application of regulations No. 154 of the FCMC of 23 September 2016 "Money Laundering and Terrorist Financing Risk Management Regulations" by ensuring the independent external assessment of the system of AML/CFT, meanwhile achieving high integrity standards.

8.3. Guidelines spell out further principles set forth in the Association's Policy Guidance on Anti-Money Laundering, Countering Terrorism Financing and Enforcement of Sanctions (hereinafter – Policy Guidance) clarifying the Financial institutions' stance on independent external assessments of AML/CFT Compliance Program.

8.4. Assessor – a legal entity meeting the criteria set in these Guidelines.

8.5. **Selection of Independent External Assessor**

8.5.1. Independence criterion – when choosing the external assessor the Financial institution shall be confident that there are no conflicts of interest.

8.5.2. In evaluating the assessor – legal entity, every effort should be made to identify and rule out any possible conflicts of interest with regard to individuals (experts) who will actually perform the assessment, issue the opinion, and forge the conclusions.

8.5.3. In case the following conflict of interest situations (for example) are identified the independence criteria cannot be fulfilled:

8.5.3.1. the assessor is a person associated with the Financial institution;

8.5.3.2. the remuneration is conditional with the assessment results;

8.5.3.3. over the past 36 months, the assessor participated in the implementation of the Financial institution's AML/CFT internal control system, development of the Financial institution's procedures and policies, development, calibration and testing of the Financial institution's automated IT systems, etc.

8.5.4. The process of evaluating the conflict of interest risk shall be documented, including the Financial institution's request for the potential assessor to deliver written statement on absence of facts that might give rise to the conflict of interest. The Financial institutions shall take precautionary measures to ascertain the veracity of the assessor's written statement.

8.5.5. When evaluating the risk of the conflict of interest, the Financial institution shall refrain from the situations that might have different interpretations and cause concerns about impartiality and independence of the assessors.

8.5.6. In case of ambiguous situations, the Financial institutions shall ask for the opinion of the FCMC.

8.6. **Qualifications of Assessor**

8.6.1. Criteria of qualifications in the AML/CFT area may be evaluated both individually and collectively. For example, regarding the collective knowledge of a team consisting of two or more assessors, one of them may be a sworn auditor and the other one – a certified AML/CFT expert.

8.6.2. The assessor being, e.g., a sworn auditor or a company of sworn auditors focusing on audit of financial statements shall not be sufficient for ascertaining the auditor's qualifications for performing the AML/CFT Compliance Program assessment. The assessor shall possess provable experience in AML/CFT area. As far as assessment of automated AML/CFT IT systems is concerned, besides competence in AML/CFT matters the assessors shall possess sufficient and provable collective competence in performing the assessment of automated IT AML/CFT risk management systems.

8.6.3. If the Financial institution has a substantial portion of transactions in USD[10], concerning the AML/CFT certification, the assessors or group of assessors shall be individually or collectively qualified in the US. This means the assessor shall have provable knowledge, evidencing the experience and competence in both international AML/CFT issues and those directly arising out of the requirements of the US AML/CFT regulations and standards.

8.7. Scope of Assessment

8.7.1. Within an 18-month period, the scope of assessment shall cover at least the following:
8.7.1.1. Financial institution's money laundering and terrorist financing risk assessment;
8.7.1.2. elements of internal control system in AML/CFT area[11], including special testing of AML/CFT automated systems;
8.7.1.3. distribution of functions between the employees in charge of AML/CFT;
8.7.1.4. AML/CFT training;
8.7.1.5. internal and independent external AML/CFT Compliance Program assessments, assessment of business compliance control function, etc.;
8.7.1.6. results of prior independent external assessments and progress in implementation of recommendations issued upon assessment.
8.7.2. The scope of assessment may cover all or some of the said areas, however the Financial institutions shall ensure that assessment of all areas is performed during the same 18-month period.
8.7.3. The assessment term shall be deemed to begin on the date of the report on the results of the last comprehensive assessment.
8.7.4. In the assessment of money laundering and terrorist financing risks, particular attention shall be paid to risk mitigation measures and the control adequacy to the risk level pertaining to the clients, products and services, their delivery channels, and location of operations.
8.7.5. The assessments shall cover the compliance of the said areas with the current legal requirements and international standards, including FATF recommendations, the Association's Policy Guidance and respective guidelines, as well as other standards applicable to the sector.
8.7.6. If the Financial institution has a substantial portion of transactions in USD, the assessment shall also cover the compliance with the USA regulations and standards, as long as those do not contradict the requirements of the EU and Latvian legislation.

8.8. Informing the Financial and Capital Market Commission

8.8.1. To reduce the risk of the unsuitability or insufficiency of the selected assessor or the scope of the assessment, the Association recommends the Financial institution to coordinate its decisions and actions with the FCMC.
8.8.2. The Association recommends the coordination with the FCMC to be performed prior to commencing the process of verifying the suitability of the assessor.
8.8.3. If a comprehensive AML/CFT Compliance Program inspection has been executed by the FCMC during previous 18-monthterm, repeated external independent assessment might not be compulsory, subject to written approval of the FCMC.
8.8.4. If the scope of the FCMC inspection is limited (targeted assessment), the provisions of Clause 8.8.3. may not be applicable. The same is true for the FCMC off-site inspections.

8.9. Assessment Outcome and Remediation of Deficiencies

8.9.1. The report to the Financial institutions' management on the deficiencies detected in independent external assessment shall contain the opinion of the respective process holder of the Financial institution as well. The assessor shall explain its recommendations, and the meaning of the recommendations shall be clear to the process holder.

[10] Or the share of clients [and/or actual beneficiaries of the clients] from the CIS states, since there is a substantial share of USD transactions in the CIS states.
[11] The set of elements of AML/CFT internal control system may be different for each Financial institution, and the same may be determined according to the business model and AML/CFT risk assessment. The minimum set of elements of AML/CFT internal control system is determined in the normative acts.

8.9.2. Upon completion of the independent external assessment, the remediation plan shall be prepared, and the remediation plan shall be reviewed and approved by the Financial institution's Executive Board, as well as the Financial institution's Supervisory Council shall be duly informed on assessment results and remediation plan, assigning the respective financing for proper remediation of deficiencies, if necessary.

8.9.3. Upon approval of the remediation plan, the Financial institution's Executive Board shall monitor the progress and deadlines set in remediation plan.

9 Acronyms

AML	Anti-Money Laundering
AML/CFT	Anti-Money Laundering, Countering Terrorism Financing, as well as on Enforcement of International, National and Extra-Territorial Sanctions
ASSOCIATION	Finance Latvia Association
CAMS	Certified Anti-Money Laundering Specialist
CFT	Combating the Financing of Terrorism
CIS	Commonwealth of Independent States
EU	European Union
FATF	Financial Action Task Force
FCMC	Financial and Capital Market Commission
FINANCIAL INSTITUTION	a Member or Associated Member of the Association
IT	Information Technology
MLRO	Money Laundering Reporting Officer
OFAC	Office of Foreign Assets Control
UBO	Ultimate Beneficial Owner
USA	United States of America

Adopted: October 2017. Updated: October 2018, June 2020.