

# LATVIA'S BANKING SECTOR PROGRESS

Strong AML regulation and compliance with the highest international standards

Comprehensive cooperation mechanisms

Opting out of unmanageable risks and transition to better risk management

Effective internal control systems and wide use of digital solutions

Tone from the top to ensure the compliance with the highest AML/CFT compliance standards

## Latvia as a safe place for investors – overall indicators of banking sector



LATVIA is a parliamentary democracy with a Constitution adopted in 1922. NATO and European Union member state since 2004, OECD member since 2016.

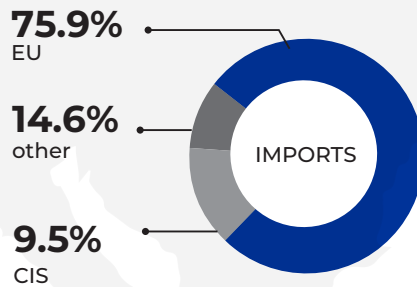
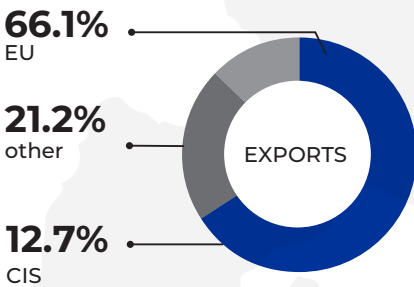
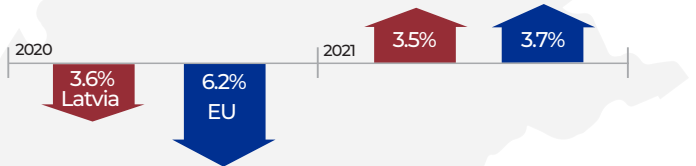
### Overall economic indicators

Average annual growth since 2000 –  
**3,8%**

Gross domestic product per capita, constant prices in 2021 – 30 495 \$ (Purchasing power parity; 2017).  
**132%**

The GDP per Capita in Latvia is equivalent to 132 percent of the world's average. Latvia has significant unused convergence potential.

In 2020 GDP in Latvia decreases by 3.6% (in EU decreased by 6.2%). According to European Commission (Winter 2021) prognosis, in 2021 GDP in Latvia will increase by 3.5% (in EU +3.7%).



€ **2.7** billion



\* According to Central Statistical Bureau Republic of Latvia in 2020

Moody's credit rating for Latvia was last set at A3

## Key numbers of banking sector 2020



**13** banks  
**3** branches of the EU banks

Bank assets are equivalent to a percentage of GDP



**90%**

4 largest banks hold 90% of the market in terms of assets and have equity only from the USA and EU investors.

CET1 capital ratio is  
**24.5%**  
(EU 15.4%).

Liquidity coverage ratio  
**370.6%**  
(EU 171.3%).

Total banking sector profit

**€154** million

Return on equity

(ROE) **5.4%**  
(EU 2.5%).

Cost-to-income ratio

(CIR) **67.8%**  
(EU 64.7%).

In the first half of 2020 the share of non performing loans was 4,7%, unlikely to pay 2,4%, > 90 overdue – 2,3%.

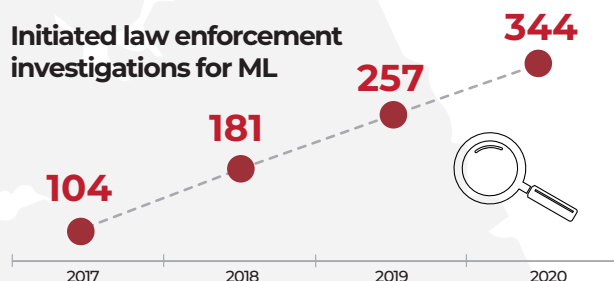
## Strong AML regulation and compliance with the highest international standards

### AML IV Directive fully implemented already since November 2017, AML V Directive since June 2019

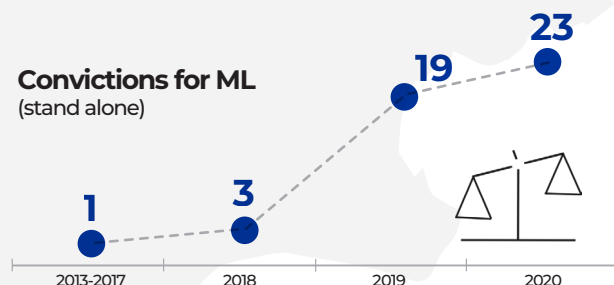


- Latvia is the only Moneyval country which complies with all FATF 40 Recommendations ("compliant" on 7; "largely compliant" on 33).
- Latvia proved positive and tangible progress in all effectiveness indicators in February 2020.

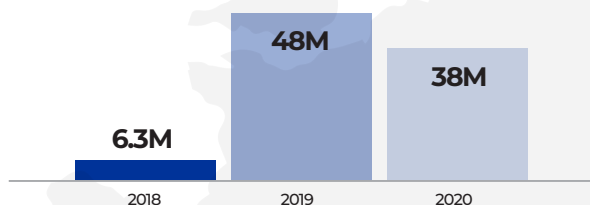
#### Initiated law enforcement investigations for ML



#### Convictions for ML (stand alone)



#### Proceeds confiscated or returned to the owner (€)



The burden of proof lies with the accused in regard to confiscation of illicit funds.

Stand-alone ML is criminalised.

#### SANCTIONS

Compliance with international and national sanctions is mandatory for everyone in accordance with the law. Regulatory enactments impose an obligation on financial institutions to comply with US OFAC sanctions and Latvian banks comply with them even in EUR and domestic payment screening.

#### ULTIMATE BENEFICIAL OWNER

UBO register:

- available on-line (also in OpenData format)
- free of charge to anyone
- accurate, adequate, updated in a timely manner
- verification and reporting mechanism about discrepancies is in place
- all persons in chain of control must be disclosed
- compliant with the standards of FATF and EU
- positively assessed also from international NPOs which advocates transparency issues, for example, Global Witness
- criminal liability is applied for disclosure of false information

## Comprehensive cooperation mechanisms

AML/CFT is pursued as country's top strategic priority. From 2017 Latvia's capacity to fight ML has been significantly increased in terms of, inter alia, human, and technical resources, developed strategies, policies, procedures and provided trainings ensure that investigations focus on risks identified in the National Risk Assessment and on particularly complex multi-jurisdictional ML offenses.

### PUBLIC – PRIVATE PARTNERSHIP

Financial Intelligence Unit is actively using public-private partnership model according to the Joint Money Laundering Intelligence Taskforce (JMLIT) model for both operational and strategic issues (125 cooperation coordination meetings have taken place from July 2018 till January 2020)

### PRIVATE – PRIVATE INFORMATION SHARING

Private – private information sharing between banks is allowed and is actively used.

Freezing of funds and confiscation can be and is applied. The amount of funds frozen by the FIU and the number of orders issued increased by 504% in assets from 2017 to 2019. Mostly due to liquidation of ABLV Bank. From 2017– 2019 € 58.9 million of funds received from abroad were confiscated in the pre-trial process.



## Opting out of unmanageable risks and transition to better risk management

Understanding of ML/FT/FP risks has prompted to take measures – effective actions have ensured a decrease in concentration of foreign customer-base in credit institutions.

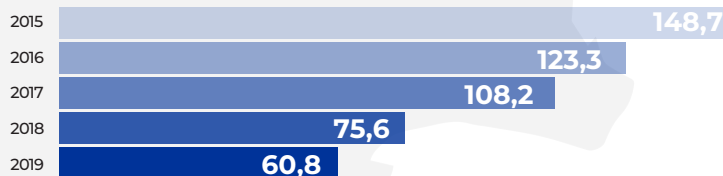
OUTGOING transactions of foreign customers in 2020 decreased by 66.7% compared to 2017.

Latvia is usually ranked alongside Estonia, Lithuania and Poland in respect of financial centres. The current New Financial Global Financial Centres Index ranks Latvia just below those three countries but higher than Italy and Portugal. Its ranking in the Z/Yen Index has recently declined for no apparent reason.

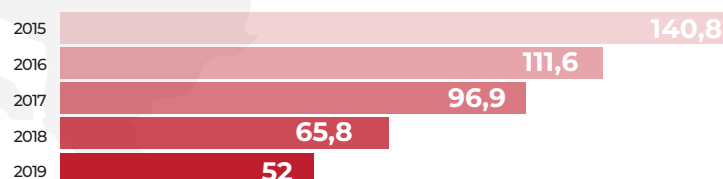
Volumes of cross-border payments sent and received by customers of payment service providers operating in Latvia, including credit institutions, electronic money institutions etc. in billion €



### Received:



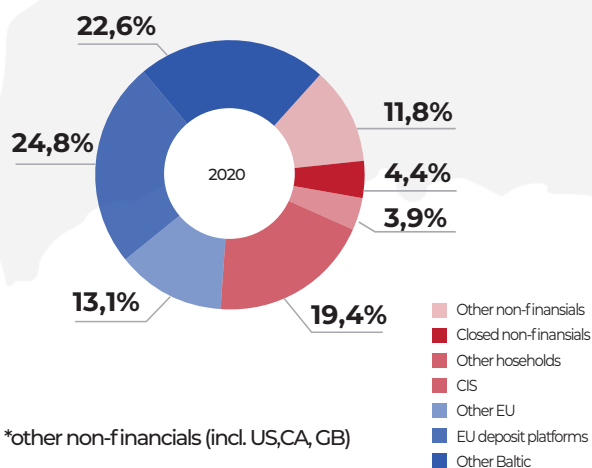
### Sent:



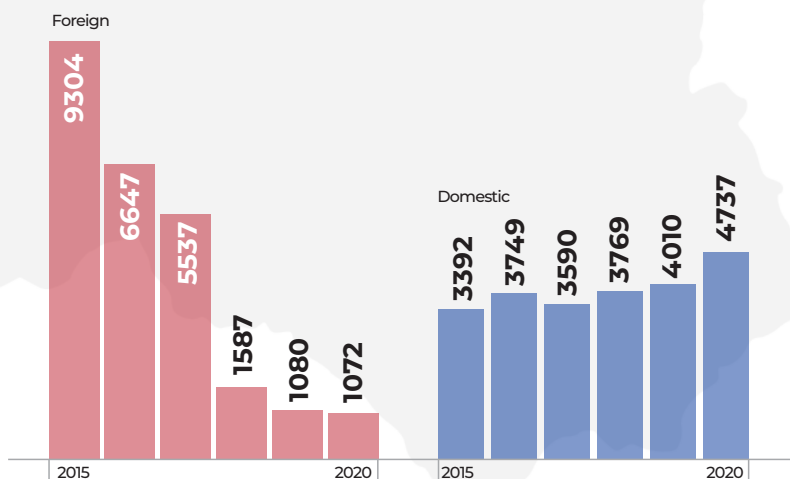
# Opting out of unmanageable risks and transition to better risk management

## Distribution of foreign customer deposits, mln. €, %

Foreign deposits dropped from 39.7% in 2017 to 17.4% in 2020.



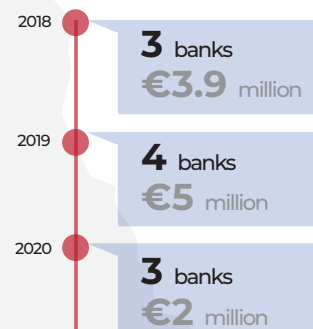
## Non-financial customer deposits, mln. €



**Prohibition for the credit institutions and payment institutions to cooperate with high risk shell companies is in force. Therefore, since 7th July of 2018 all accounts in credit institutions of prohibited shell arrangements is either blocked or arrested, or closed.**

### Full range of sanctions has been applied:

- In 2018 the Financial Services Authority sanctioned three banks for a total of € 3.9 million, with administrative requirements imposed to improve the internal control systems of banks. The licence of one bank was revoked.
- In 2019 4 banks have been sanctioned for a total of more than € 5 million along with administrative requirements.
- In 2020 3 banks have been sanctioned for a total of more than € 2 million along with administrative requirements.



## Effective internal control systems and wide use of digital solutions

**ABC Policies**, internal control systems based on risk assessments as well as effective customer due diligence procedures is in place.

In accordance with AML/CFT Law it is mandatory to ensure and prove the **training in AML/CFT** and enforcement of sanctions to all responsible employees.

It is required by regulatory enactments for credit institutions to ensure the automation and efficiency of processes, to provide **appropriate information technology solutions** for AML and Sanctions risk management.

For better CDD various **information sources** are actively used, for example adverse media, interconnection with state registers (population, land, vehicle etc.) which are available free of charge.

**Whistleblowing** Law is in force and is particularly respected by credit institutions – additional to legal requirements – Finance Latvia Association has approved its own guidelines which aim to encourage the introduction of the highest standards regarding whistle-blower protection and creation of reporting channels.

Also, **industry guidelines** regarding AML which states no tolerance to financial crime is approved by Finance Latvia Association. Regular training, workshops on implementation of the guidelines are provided.

## On-going issues

With no-tolerance to financial crimes and no stepping back from compliance with international standards banking industry in close cooperation with the Ministry of Finance and Financial Services Authority assessed and proposed specific measures to tackle de-risking phenomena. Risk-based approach, use of innovative technologies, access to information and public-private partnership are seen as cornerstones in this process.