

# 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

GDP annual growth  
in 2021

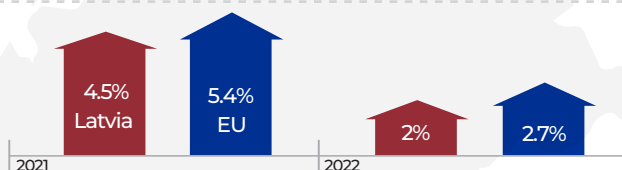
**4,5%**

GDP per capita  
in 2021

**20.581 \$**

The GDP per capita in Latvia  
is equivalent to 158 percent  
of the world's average  
in 2022. Latvia has  
significant unused  
convergence potential.

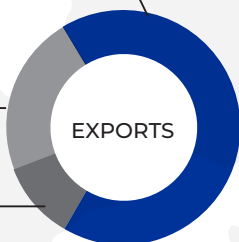
In 2021 real GDP in Latvia grew by 4.5% (in EU grew by 5.4%).  
According to the European Commission (Spring 2022) prognosis,  
in 2022 GDP in Latvia will increase by 2% (in the EU +2.7%).



**67%**  
EU

**22.2%**  
other

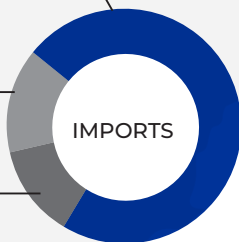
**10.8%**  
CIS



**72.8%**  
EU

**14.4%**  
other

**12.8%**  
CIS



**€ 3.78** billion

\* According to Central Statistical Bureau Republic of Latvia in 2021

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



## Key numbers of banking sector 2020



**12** banks  
**4** 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  
**23.3%**  
(EU 15.7%).

Liquidity coverage ratio  
**320.4%**  
(EU 174.7%).

Total banking sector profit

**€292** million

Return on equity

(ROE) **10.2%**  
(EU 7.7%).

Cost-to-income ratio

(CIR) **61.9%**  
(EU 62.7%).

In the first half of 2021 the share of non performing loans was 3,6%, unlikely to pay 2,1%, > 90 overdue – 1,5%.

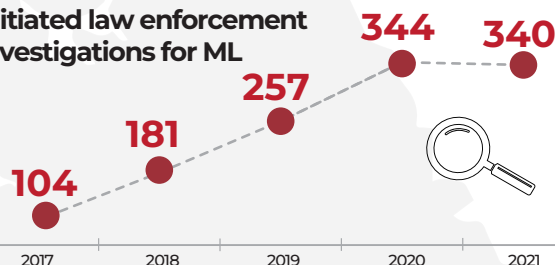
## Strong AML regulation and compliance with the highest international standards

### 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.

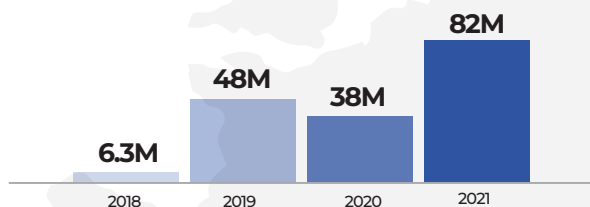
#### Initiated law enforcement investigations for ML



#### 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 (543 cooperation coordination meetings have taken place from July 2018 till December 2021)

### 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 2021. Mostly due to liquidation of ABLV Bank. From 2017 – 2021 58.9 million of funds received from abroad were confiscated in the pre-trial process.



€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.

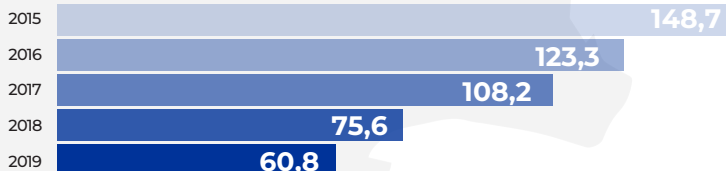
OUTGOING transactions of foreign customers in 2021 decreased by 59.2% compared to 2017.

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.

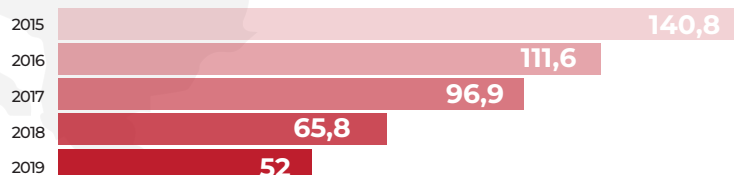
Volumes of cross-border payments sent and received by customers of payment service providers operating in Latvia, including credit institutions, electronic money institutions etc. in billion €



### Received:



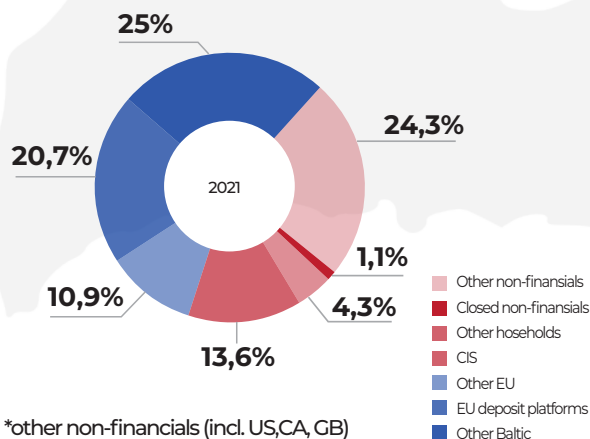
### Sent:



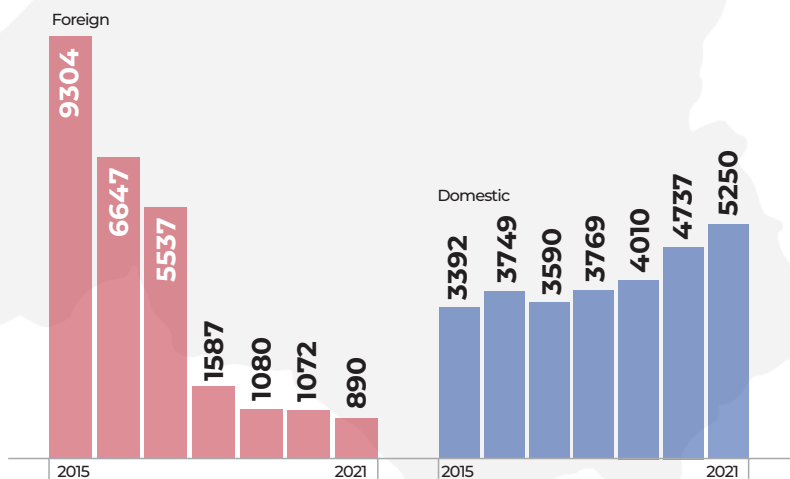
# Opting out of unmanageable risks and transition to better risk management

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

Foreign deposits share in total deposits dropped from 39.7% in 2017 to 15.1% in 2021.



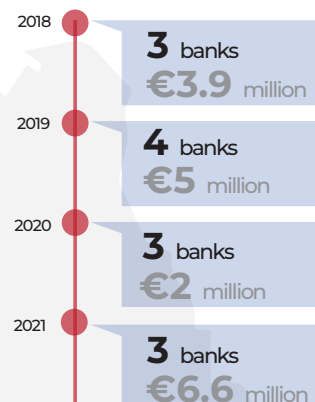
## Non-financial customer deposits, mln. €



**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.
- In 2021 3 banks have been sanctioned for a total of more than € 6.6 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

Accurate and strict enforcement of sanctions against Russia and Belarus.

With no tolerance for 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 performed specific measures to tackle de-risking phenomena. A risk-based approach, use of innovative technologies, access to information, and public-private partnership are cornerstones in this process.