



Cabinet of Ministers
Republic of Latvia

Latvian Financial Sector Update

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Message from the FIU

It has been 21 months since we released the first issue of our Financial Sector Newsletter. Following assessment by International Expert Group MONEYVAL, Latvia made a strong commitment to turn a new page and undertake a significant overhaul of the country's AML/CTF/CPF system.

This period, which many would judge a crisis, was instead used as an opportunity to implement radical change to our anti-financial crime system.

The Latvian government and its respective authorities considered the reform a matter of national priority and security. For this reason, the measures taken were not just aimed at satisfying MONEYVAL and FATF requirements, but also to establish a sustainable and resilient financial sector that would benefit the country for decades to come. The positive changes already effected are profound and long-lasting.

I extend my sincere gratitude to all colleagues, experts, politicians and every individual who has supported us along the way towards meeting our ambitious goal. Our progress has been recognised by MONEYVAL, meaning Latvia is now the first MONEYVAL country to comply with all 40 FATF recommendations. What's more, following the positive changes, FATF removed Latvia from the ICRG process, meaning the country will not be added to FATF's 'grey-list' of countries.

"United we stand, divided we fall" – is as viable today as it was 30 years ago when we joined our hands in the Baltic Way. Latvia has changed much in a very short period of time. But to make this process permanent, we remain strongly committed to continuing our work with the private sector and international partners to combat money laundering, terrorism, and proliferation financing by creating a robust, uniform, and risk-based supervisory system that will make not only Latvia, but the entirety of Europe stronger and united, thus increasing its influence globally.

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Financial Sector Transformation

FIU calls for reporting of suspicious transactions likely to increase during COVID-19 pandemic

In light of the current state of emergency and measures announced to reduce and limit the spread of COVID-19, the Financial Intelligence Unit (FIU) will continue to monitor suspicious transactions to prevent money laundering, terrorism, and proliferation financing (AML/CFT/CPF).

Significant changes to customer service process across many financial institutions – as well as several other areas – could encourage criminals to exploit the current situation for financial gain. Under the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing, the FIU urges all financial institutions and other obliged entities to remain vigilant and to inform the FIU of all suspicious transactions relating to ML/TF/PF, or any other criminal offence.

Furthermore, the FIU has released robust guidelines and advice to the financial sector – along with designated non-financial businesses and professionals – informing them of the increasing risk of cybercrime during the COVID-19 pandemic. The materials outline red-flags to help recipients identify suspicious activity and transactions, as well as underlining the need to adjust business-wide risk assessments and internal control systems.

FCMC develops procedures for determining ML/TF/PF risk level at Latvian banks

The Financial and Capital Market Commission (FCMC) has developed and confirmed strict procedures for determining the risk level of money laundering and terrorism and proliferation financing (ML/TF/PF) at Latvian banks, which will ensure more effective monitoring of a bank's compliance with AML/CTF/CPF.

The procedures outline common criteria for calculating ML/TF/PF risks and calculates the adequacy and effectiveness of a bank's internal control system concerning AML/CTF/CPF. The process is part of a wider risk assessment-based, compliance monitoring model to prevent ML/TF/PF at Latvian banks. Its main objective is introduce a common risk evaluation approach to ensure risk management effectiveness across banking activities related to ML/TF/PF. These activities are vital to ensure more effective and targeted supervisory planning and monitoring in the field of ML/TF/PF prevention.

The FCMC is also developing a series of sectoral ML/TF/PF risk assessments to identify the main ML/T-F/PF dangers facing the wider Latvian financial sector, and to promote a more robust risk management process. The results will be discussed with local financial institutions, and will be used by the FCMC when planning further monitoring activities.

Lastly, the FCMC has developed a AML/CTF/CPF manual, which has been distributed to local financial institutions. Following feedback, the manual will be updated and directed for further approval. The purpose of the AML/CTF/CPF manual is to provide financial institutions with information regarding the application of regulatory enactments and practical examples in the enforcement of regulatory requirements. This will establish a common understanding regarding the application of regulatory requirements and the application of a risk-based approach.

FCMC enters into an administrative agreement with Joint Stock Company "Citadele banka"

The Financial and Capital Market Commission (FCMC) and Joint Stock Company "Citadele banka" (the Bank) have entered into an administrative agreement regarding the inspection of the Bank's activities by the FCMC in 2018, with both parties reaching an agreement to further improve the scope of AML/CTF/CPF.

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AML requirements are met during COVID-19 pandemic

During the current state of emergency, it's essential to ensure the stability of Latvia's financial system and the continued fulfilment of AML requirements, achieved through enhanced cooperation between customers and banks. Financial institutions must also ensure the continuous and efficient functioning of their internal control systems, and closely monitor any possible changes. Its members have informed the Finance Latvia Association that AML/CFT requirements will be met while operating remotely. Financial institutions must also take into account that the impact of the current situation may change the nature of a client's cash flow, and provide them with proportionate time-limits for the submission of information.

At a time when there is limited mobility, the security of off-site customer services is paramount. A number of financial institutions offer remote identification facilities to individuals, according to the level of risk in each case in meeting all AML/CFT requirements. Regarding remote identification of legal persons, financial institutions will assess the possibility of determining the relevant risk management policies and procedures, in accordance with the FCMC's instructions.

FCMC to individually supervise financial market participants due to COVID-19 outbreak

The spread of COVID-19 affects every Latvian citizen, and is having an increasing impact on the country's financial sector. In light of the position expressed by the European Central Bank (ECB), the European Banking Authority (EBA), and the European Securities and Markets Authority (ESMA), the Financial and Capital Market Commission (FCMC) will implement an individual and flexible approach to financial sector supervision, based on bespoke assessments of the individual effects of COVID-19, while making use of options provided by the regulatory framework.

"The impact of the COVID-19 pandemic on business is already considerable – but, at this stage, it's very difficult to predict to full impact on each country's financial sector. However, the approach taken by Europe and Latvia in applying regulatory requirements has provided banks with adequate capital and liquidity reserves, which will serve as a safety cushion during these difficult times. In addition, the FCMC will ensure a personalised and flexible supervisory approach for financial and capital market participants, in order to mitigate the adverse effects of COVID-19 on the financial sector," explains FCMC Chairwoman Santa Purgaile.

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RE approves guidelines on reporting possibly false information regarding true beneficial owners

Following consultation with law enforcement authorities and other entities of the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing (AML/CFT/CPF Law), the Register of Enterprises (RE) has approved guidelines for reporting possibly false information regarding true beneficial owners in an operational and timely manner. This approval implements the Action Plan for the Prevention of Money Laundering, Terrorism and Proliferation Financing for the period 2020-2022; and takes into account the amendments to the AML/CFT/CPF Law, which will enter into force on July 1, 2020.

According to the action plan, it's necessary to ensure a common approach in cases where false information on the true beneficial owners may be provided in registers carried by the RE. The plan will also introduce a cooperation mechanism between the RE and the Control and Monitoring authorities in order to ensure adequate and effective identification of the beneficial owners. Moreover, according to the Law On the Enterprise Register of the Republic of Latvia, RE must ensure the public credibility of any information specified in regulatory enactments (regarding registered legal entities and legal facts).

The guidelines will ensure a common approach to the conduct of all entities subject to AML/CFT/CPF Law, as well as supervisory and control authorities in cases where the information recorded in the registers of RE is likely to be false.

Government to provide support to businesses during state of emergency

On March 16, a task force meeting arranged by Prime Minister Krišjānis Kariņš and led by Minister for Finance Jānis Reirs was held to determine how the Latvian Government could provide support to businesses and employees during the COVID-19 pandemic. The meeting outlined how the country can minimise further spread of COVID-19, as well as introduce the necessary support measures to limit the economic impact and reduce any long-term effects on the economy at large.

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On March 19, the Cabinet of Ministers ratified a special, fixed-term draft Law prepared by the Ministry of Finance to prevent and overcome the national threat and consequences related to the spread of COVID-19. The draft law aims to provide special support mechanisms, as well as crisis expenditure directly related to financing the containment of the spread of COVID-19.

Minister for Finance Jānis Reirs emphasises: "We have prepared significant measures for mitigating the consequences of COVID-19 crisis by providing immediate support to the sectors, enterprises, and employees most affected by the crisis."

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On March 21, President of Latvia Egils Levits fast-tracked promulgation of laws adopted by the Saeima on March 20 to better manage the state of emergency declared by Latvia in response to outbreak of COVID-19, as well as mitigating the impact of the virus. The regulation took effect on March 12, when the state of emergency was declared in Latvia.

Some banks to not pay dividends for 2019; prepared to offer greater support to clients

In response to the current state of emergency in Latvia – as well as requests and recommendations made by the Financial and Capital Market Commission (FCMC), the European Banking Federation, and the European Central Bank – many Latvian banks (specifically members and associate members of the Finance Latvia Association who made a profit last year) have made the decision to not pay dividends from their 2019 results.

According to information made available to the Finance Latvia Association, 10 of its members – Swedbank, SEB banka, Luminor, Citadele, LPB Bank, Signet Bank, BlueOrange Bank, OP Financial Group, Reģionālā Investīciju Banka and Rigensis Bank, and one associate member, Inbank – have made the decision not to divide their profits and pay out dividends, placing them in a better position to offer greater support to their clients and the economy in general.

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Santa Purgaile: year 2019 marks a final phase of changes to the Latvian banking sector

The Financial and Capital Market Commission (FCMC) has published an [infographic on the Latvian banking sector for 2019](#), reflecting performance indicators such as total assets, credit portfolio, compliance with regulatory provisions, deposits, profits, and earning capacity.

FCMC Chairwoman Santa Purgaile, says: “The banking sector’s overall performance in 2019 demonstrates stability. Because of this, the series of changes to the banking sector planned last year have been successfully completed, including transforming the structure of deposits and bank customers. Furthermore, banks that had previously focused on foreign customer service have since developed and started to introduce new business models. Overall, Latvian banks are well capitalised and liquidity ratios are high. This is a good safety cushion for the economic challenges we are facing at the moment – during the spread of COVID-19.”

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Principles developed for the implementation of a crisis-time mortgage debt waiver proposal

Latvijas Banka and the Finance Latvia Association have agreed on the basic principles for the implementation of a crisis-time mortgage debt waiver proposal.

President of Latvijas Banka Mārtiņš Kazāks tabled the idea of extinguishing debts taken during the economic downturn that would be. This includes a mechanism whereby credit institutions could delete mortgage loans issued by the end of 2008, which are hopeless and have already been written off, but cannot be unilaterally deleted.

According to estimates made by Latvijas Banka and the Finance Latvia Association, the total number of debtors affected is approximately 13,000, with the proposal referring to liabilities of up to EUR 600 million. This, generally, goes well beyond the amount of liabilities previously cleared in the past 10 years, both in insolvency and in the form of agreements.

The solution will continue the reconciliation programmes already implemented by individual credit institutions, through agreements with customers, and by deleting up to 90% of debt balance. At present, a bilateral written agreement is mandatory so the debtor does not have a tax obligation. The solution proposed by Latvijas Banka and the Finance Latvia Association no longer provides for a mandatory agreement between the creditor and the debtor, which is considered to be a significant lingering factor for the full or partial settlement of liabilities.

The Saeima has conceptually supported the principles of the solution and will continue reviewing them during second and third readings.

AML Risk Management & Compliance

Potential criminal proceeds frozen by the FIU increases 4x at beginning of 2020

During the first three months of 2020, potential criminal proceeds of EUR 159,8 million – four times more than at the beginning of 2019 – have been frozen by the Financial Intelligence Unit (FIU).

Within the first months of 2020, the FIU has received 1248 reports of suspicious transactions, which is similar to the same period in 2019, when 1286 reports were received; indicating that vigilance or reporting entities is not decreasing.

Also, compared to last year, in the first quarter of 2020, more meetings of the Cooperation-Coordination Group have been held – a total of 52 meetings, 17 of which have discussed operational.

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Call for severe prison sentences in Latvian Railway bribery criminal case

During the current state of emergency, the prosecutor's office continues to effectively maintain state prosecution in a number of "loud" corruption cases, such as the so-called criminal case of Aivars Lembergs, as well as in the bribery case of former Latvian Railway Head Uģis Magonis.

During proceeding, the prosecutor of Latvia Railway's bribery criminal case asked the court to declare two persons guilty of criminal offences incited to them and to punish each with deprivation of liberty for a period of four years. The prosecutor requested Uģis Magonis be found guilty of bribery and punished by imprisonment for four years, confiscating property, depriving the right to take the positions of a member of the board in state and local government capital companies for a period of five years. The prosecutor also asked Ojēgs Osinovskis to be found guilty of bribery and sentenced to four years imprisonment.

The prosecutor asked the court to recognise EUR 499 500 as criminally-derived property and to confiscate it for the benefit of the State.

According to the indictment made in summer 2015, Ojēgs Osinovskis paid a bribe to Uģis Magonis in connection with multimillion procurement of "LDz Rolling Stock Service" – the purchase of four diesel locomotives from a company owned by Ojēgs Osinovskis. The proceedings are still ongoing.

Criminal money laundering cases transferred to the Court significantly increases in 2019

The number of criminal money laundering (ML) cases transferred to the Court increased significantly in 2019, along with the number of persons prosecuted under Article 195 of the Criminal Law.

Some 59 criminal cases were brought before the Court in 2019 related to the indictment of 102 persons on the basis of Article 195 of the Criminal Law. To compare; in 2017, 10 criminal cases were handed over to the Court with 33 persons indicted; and in 2018, there were 23 criminal cases and 54 persons indicted. Overall, these indicators have doubled in recent years.

During the period from 2017 to 2019, the Prosecutor's Office has engaged in a total of 103 criminal proceedings against 195 persons under Article 195 of the Criminal Law. During a period in 2017 where 16 criminal cases against 40 persons were prosecuted, during the same timeframe in 2019, there were already 65 cases against 118 persons.

Financial Sector Development

Fitch forecasts growth for Latvia`s economic as early as 2021

On April 10 2020 international credit rating agency Fitch affirmed Latvia's long-term foreign currency sovereign credit ratings at 'A-' level, but the outlook was revised to negative (previously - stable). The revision is based on the deterioration of Latvia's fiscal outlook for 2020-2021, which is a result of the temporary contraction of economic output and rising expenditures as a result of the spread of the COVID-19 pandemic.

The affirmation of Latvia's 'A-' rating reflects the moderate level of government debt compared to peer countries, as well as institutional strength. Fitch noted that Latvia's track record of fiscal discipline demonstrates, with some confidence, that the debt ratio will decline further over the medium term.

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Ministry of Finance prepares draft of Latvia's Stability Programme for 2020-2023

The Ministry of Finance has prepared a draft of Latvia's Stability Programme for 2020-2023. This year, the Stability Programme has been prepared under high uncertainty, assuming that the pandemic of the virus is limited to the first half of 2020 and that economic activity is gradually recovering. The Stability Programme includes measures adopted by the Saeima during the middle of April to limit the COVID-19 pandemic and to support citizens and businesses. At the same time, it should be noted that the Stability Programme does not foresee additional policy changes.

In 2020, a 7% drop in gross domestic product (GDP) is forecasted. It is predicted economic growth will gradually recover in the upcoming years, with GDP growth of 1% in 2021 and 3.5% in 2022.

Council of Latvijas Banka appoints Māris Kālis and Zita Zariņa

In March 2020, the Saeima of the Republic of Latvia supported the proposal of Mārtiņš Kazāks, Governor of Latvijas Banka, and appointed Māris Kālis and Zita Zariņa to the Council of Latvijas Banka. Kālis was appointed Deputy Governor of Latvijas Banka, and Zariņa was appointed member of the Council of Latvijas Banka.

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Saeima approves the nomination of Ģirts Rūda as Member of the FCMC Board

On March 16 2020, Saeima approved Ģirts Rūda as member of the Board of the Financial and Capital Market Commission (FCMC), as proposed by FCMC Chairwoman Santa Purgaile. Rūda took office at the FCMC on 30 March 2020, taking the total number on the Board of the FCMC to three members. The candidacy of Rūda was agreed by the Finance Minister and the Council of Latvijas Banka, and his nomination for appointment was supported by the Saeima Budget and Finance (Taxation) Committee.

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Latvijas Banka posts EUR 27.2 million in 2019 profit

The Board of Latvijas Banka has approved Latvijas Banka's financial statements for 2019. According to the statements, Latvijas Banka's profit for the year 2019 totalled EUR 27.2 million, representing an 86% increase in comparison with 2018.

Pursuant to the Law on Latvijas Banka, Latvijas Banka's annual financial statements are audited by independent external auditors recommended by the Governing Council of the European Central Bank and approved by the Council of the European Union. Latvijas Banka has received a positive auditor

opinion on its financial statements for 2019 from the auditing company KPMG Baltics AS (formerly, KPMG Baltics SIA).

Pursuant to the Law on Latvijas Banka, 70% or EUR 19 million of Latvijas Banka's profit for 2019 will be appropriated to the central government budget; the rest of the profit will be transferred to the reserve capital of Latvijas Banka.

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"Payment Radar" of Latvijas Banka: instant payments affect people's habits

The most recent "Payment Radar" from Latvijas Banka suggests that the use of instant payments is growing at a relatively high rate, and the popularity of non-cash settlement supported by an increase in its user-friendliness continues to strengthen. Cash, however, holds its position.

The present overview contains the latest information on money usage habits of Latvia's households, businesses and the public at large. The "Payment Radar" is published semi-annually and is available on [Latvijas Banka's website](#). Development of the proportion and interaction between non-cash and cash payments (as at February 2020) is the central measurement of the overview supplemented by more detailed numerical information and experts' commentaries.

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530.6 million non-cash payments totalling EUR 203 billion were executed in Latvia in 2019

530.6 million non-cash payments made by customers and totalling EUR 203 billion were executed by the Latvian payment service providers (credit institutions, electronic money institutions, payment institutions, Latvijas Banka and the Treasury) in 2019. This averages 1.5 million payments worth EUR 556.3 million a day.

The total volume of non-cash payments made by customers increased by 11%, but the total value of payments decreased by 10.2% in comparison with 2018.

The most popular customer non-cash payments were card payments and customer credit transfers, constituting 66.4% and 33.5% of the total volume of non-cash payments respectively.

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