



Cabinet of Ministers
Republic of Latvia

Latvian Financial Sector Update

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Message from the Ministry of Interior

2019 will be a decisive year for Latvia to restore the international community's confidence in its ability to uphold the rule of law and disrupt financial crime. Latvia has made encouraging progress. Latvian authorities have initiated 30% more proceedings on cases of financial crime in 2018 than 2017. The Prosecutor's Office has received 70% more cases of financial crime for criminal prosecution in 2018 than 2017.

The Ministry of Interior will continue to work together with other institutions to implement specific Moneyval recommendations to disrupt financial crime and ensure compliance with Latvia's international commitments. This is essential to promote public security, economic environment competitiveness and trust in Latvian jurisdiction.

In This Issue

- Latvian monetary financial institutions 2018 profit update.
- Update on controlled liquidation of ABLV Bank - customer verification methodology submitted for final approval.
- FCMC fine on BlueOrange Bank for non-compliance with money laundering regulations.
- FIU Latvia workshops on confiscation of laundered assets and money used to finance terrorism and prevention of terrorism financing.
- FCMC Bank Compass information tool.

Financial Sector Transformation

Results of Latvian monetary financial institutions in 11 months of 2018

Latvijas Banka has reported that Latvian monetary financial institutions (banking) earned EUR 278.3 million in aggregate profit in the first 11 months of 2018, up 17.8 % against the same period in 2017. In November 2018, Latvian banks made EUR 26.6 million in aggregate profit.

The total assets of Latvian banks amounted to EUR 20.981 billion on 30 November 2018, which is 23.1% or 6.309 billion euros less than at the end of November 2017, when the assets of banks amounted to 27.29 billion euros.

At the end of November, deposits from residents amounted to EUR 11.535 billion, up 3% from previous year. Deposits in euros amounted to EUR 10.515 billion and in foreign currencies EUR 1.02 billion. The volume of euro-denominated deposits has increased by 6.2% compared to the end of November 2017, while the amount of deposits in foreign currency has decreased by 21.7%.

Comment from the FCMC:

- In 2018, the Latvian banking sector deliberately reduced its exposure to high-risk foreign clients. As a result, the amount of deposits and consequently the total volume of assets of the banking sector decreased substantially. This was also affected by termination of ABLV Bank's license.

- Meanwhile, lending to certain segments of domestic customers grew and profit indicators improved, within a strengthening domestic economy. Deposits by domestic customers, notably, continued to rise.
- The profitability of domestic client-oriented banks improved in 2018, reflecting positive economic development trends. Foreign client-oriented banks managed to keep the high profitability levels by significant cost optimization, as well as one-off commission income from discontinuing cooperation with high-risk clients. At the same time, income from interest and financial instrument transactions continued to decrease, marking a shift to a new business model.

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AML Risk Management & Compliance

Controlled liquidation of ABLV Bank

The controlled liquidation of ABLV Bank, overseen by the FCMC, has ensured the protection of ABLV Bank's creditors' interests, the payment of their funds, and the independent inspection of the bank's deposits to identify and report suspicious transactions to the Latvian Financial Intelligence Unit (FIU Latvia).

A team from EY has developed a customer verification methodology, which has been submitted to the FCMC and FIU Latvia for final approval. The methodology provides for the verification of all creditors who are not covered by state guaranteed compensation. The verification includes three main stages of the creditors' research:

- Determining and checking creditor and beneficial owner (verification);
- Checking historical transactions of the creditor and related parties;
- Checking creditor and related parties in relation to international sanctions.

EY will also carry out the creditor verification process under the supervision of the FCMC. Based on the results of the review, the Bank's Liquidators will create a list of payments to be made, and submit it to the FCMC which will monitor future developments.

After the FCMC board approves the methodology, it will take about two months to set up a payment mechanism according to the methodology. After that, the process of covering creditors' claims will commence, starting with depositors whose guaranteed compensation did not cover entire amount of their deposit (over EUR 100,000). This is expected to happen in the first half of 2019.

The whole process of creditors' inspections and payments of funds is expected to last for several years, as ABLV Bank currently has more than 3,300 creditors in total.

[See steps of ABLV Bank's controlled liquidation](#)

FCMC sanctions BlueOrange Bank

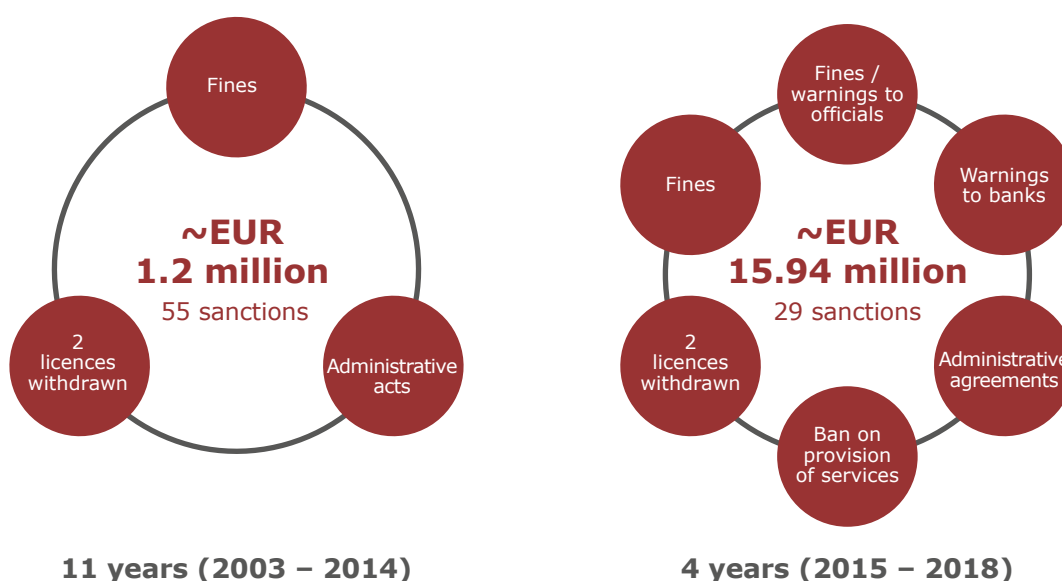
On 21 December, 2018, the Financial and Capital Market Commission (FCMC) imposed a fine of EUR 1 246 798 to BlueOrange Bank, a joint stock company. The FCMC's inspections into 2016 and 2017 found that the Bank had failed to comply with the provisions of the AML law and FCMC regulatory requirements. The bank had not paid sufficient and special attention to inter-related transactions with no apparent economic purpose, and had not ensured timely and high-quality customer due diligence and the documentation of results thereof. The FCMC had also concluded that BlueOrange Bank had failed to provide for suspicious transaction detection and timely reporting of such transactions to the FIU Latvia.

Currently, both parties have entered into an administrative agreement to set legal obligations under the scope of the Law on the Prevention of Money Laundering and Terrorism Financing (AML law) in order to improve the functioning of the Bank's internal control system.

Pursuant to the agreement, the parties have agreed to the follow-up measures for enhancing the AML/CFT internal control system that the bank undertakes to meet fully within the set time-limits under supervision of the FCMC.

The FCMC has applied **EUR 16 million in fines** for violations of anti-money laundering standards by financial sector entities over the last four years, almost 8 times the amount applied in the previous 11 years.

FCMC sanctions applied in AML/CFT field 2013 – 2018



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Source: FCMC

FIU organized workshops confiscation and prevention of terrorism financing

On 14 and 15 January, the Latvian Financial Intelligence Unit (FIU) organized workshops on confiscation of laundered assets and money used to finance terrorism, focusing on its importance, FATF standards, knowhow of USA, Italy and Israel, confiscation case analysis.

On 16 January, FIU Latvia together with the Finance Latvia Association ran a workshop on prevention of terrorism financing for industry professionals who are responsible for identifying suspicious activity in their own companies.

The aim of the workshop was for those professionals to gain a more thorough understanding of the recommendations of Moneyval's report on Latvia and to offer official expertise in identifying alerting mechanisms that financial institutions can use to discover and pinpoint risks of terrorist financing. The workshop was also intended to help participants analyze vulnerabilities of financial institutions and other entities regarding financing of terrorism.

Guest lecturers included **Mr. Yehuda Shaffer**, former head of Israel's FIU and head of Israel's MONEYVAL delegation until 2018, currently expert on AML/CFT issues, and **Mr. Stefan Cassella**, self-employed consultant with extensive experience with providing training and legal advice on asset recovery and anti-money laundering matters.

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