



Cabinet of Ministers
Republic of Latvia

Latvian Financial Sector Update

No. 8 17 December 2018



Ēriks Kalnmeiers

Prosecutor General of Latvia

Message from the Prosecutor General

All law enforcement agencies have a duty to concentrate on achieving the objectives set by the Latvian Government for the reform of the financial sector. To do this, law enforcement agencies need highly qualified and motivated specialists, to detect, investigate, and prosecute money laundering and terrorism financing crimes. I have instructed prosecutors to supervise actively all cases in these categories, and my office has been given additional powers to make sure this happens. We will also challenge sentences imposed by the courts, if we feel they do not reflect the overall principles we apply.

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- Ministry of Foreign Affairs workshops on sanctions for entrepreneurs, media and legal specialists.
- Heads of Enforcement Institutions Agree on Threshold of Evidence for AML Cases.
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- The development of a European Union (EU) support instrument for attracting financing to small and medium-sized enterprises (SMEs) in capital markets.

Financial Sector Transformation

Operating results of Latvian banks: Q3 2018

Commercial banks form the largest segment of the Latvian financial sector, representing 79% of all assets.

After the European Central Bank terminated ABLV's licence in July, the total volume of deposits in the Latvian banking sector in Q3 2018 decreased by about 10%. Excluding this one-off effect, there has been a slowdown in the deposit outflow from the Latvian banking sector, with overall reduction in deposits by approximately 3% in Q3. Domestic deposits in Latvia, meanwhile, have continued to grow in recent years.

The volume of liquid assets in Latvian banks is steadily high, almost three times the 100% binding harmonized liquidity coverage ratio required by the European Union. At the end of Q3, the average liquidity coverage ratio of the Latvian banking sector was 269%, well above the EU average of 148.2% (source: EBA Risk Dashboard 2018 Q2). All Latvian banks had above a 100% coverage ratio. In the first nine months of 2018, Latvian banks' overall profitability improved, and most banks turned a profit. Profits in the sector totalled EUR 232.3 million. The average weighted return on equity (ROE) stood at ~11% at the end of September, exceeding the EU average of 7.2% (source: EBA Risk Dashboard 2018 Q2).

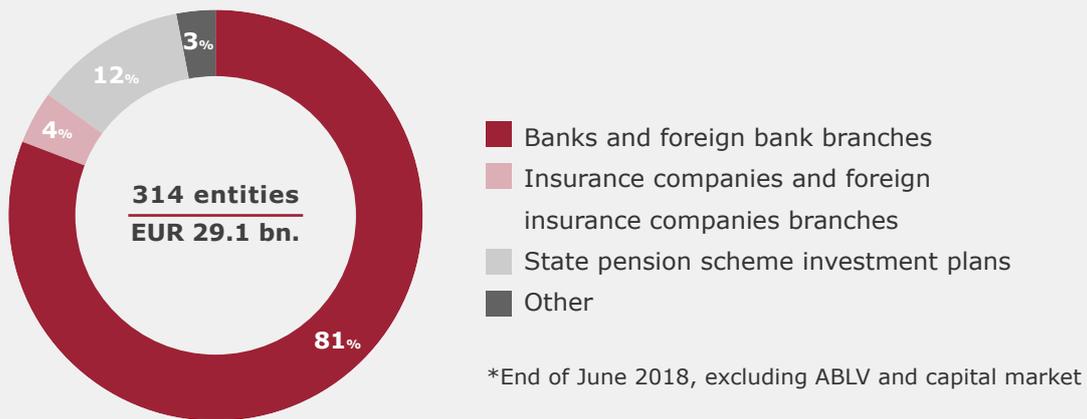
In Q3, there was an insignificant decrease in capital ratios. Common Equity Tier 1 ratio (CET1) declined from 20.1% to 19.9%, while capital adequacy ratio (CAR) decreased from 22.4% to 22.0%. Both ratios remain

above EU averages (source: EBA Risk Dashboard 2018 Q2), ensuring a greater ability to withstand shocks.

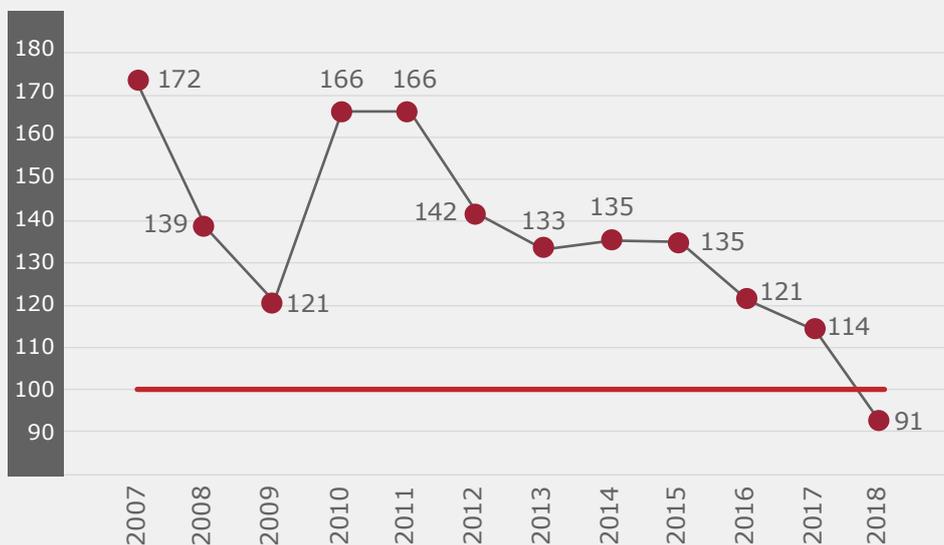
The FCMC is currently working on defining specific capital and liquidity requirements for some individual banks, as part of the approval process for their new business strategies. However, the ECB sets capital and liquidity requirements for three Latvian banks under its direct supervision.

[Learn more](#)

FCMC supervised entities* in terms of assets, %



Banking sector assets to GDP, %



Source: FCMC

AML Risk Management & Compliance

Ministry of Foreign Affairs organizes more workshops on sanctions

On 27 November, the Ministry of Foreign Affairs organized a public information workshop for Latvian financial institutions and other Latvian entrepreneurs entitled "What businesses need to know about sanctions: what

they are and where to find information on them". The event was designed to introduce the latest amendments to the Law on International Sanctions and National Sanctions of the Republic of Latvia and current issues concerning sanctions in Latvia. Experts from the International Law Department and the Export Control Office for Strategic Goods of the Ministry of Foreign Affairs, led the workshop and explained the nature of the sanctions, and provided information about the existing sanctions regimes being enforced globally and in Latvia. More than 80 representatives of Latvian companies and financial sector participated in the workshop.

The Ministry of Foreign Affairs continues to organize workshops on sanctions: on 11 December, there was an explanatory workshop for journalists and media representatives about sanctions, and on 13 December, there was a specialized workshop for Attorneys at Law, sworn notaries and prosecutors on the regulatory framework of sanctions and liability for non-compliance.

Heads of Enforcement Institutions Agree on Threshold of Evidence for AML Cases

At the end of November, Latvia's Financial Intelligence Unit, in conjunction with the Latvian School of Public Administration* organized a four-day workshop with participation of international experts and Latvian pre-trial investigation institutions, security institutions, Prosecutor's Office, courts, Ministry of Interior, Ministry of Justice, Financial and Capital Market Commission, State Revenue Service, Financial Intelligence Unit.

Prosecutor General Ēriks Kalnmeiers, the Chairman of the Department of Criminal Cases of Supreme Court Pēteris Dzalbe, the Chief of State Police Ints Ķuzis, Deputy Director General of State Revenue Service Dace Pelēkā, Chief of Tax and Customs Police Board Kaspars Podiņš, Deputy Director of The Corruption Prevention and Combating Bureau Jānis Roze, and FIU head Ilze Znotiņa agreed on a common understanding of the required threshold of evidence for AML cases and accepted FIU guidelines on how to prioritise information agencies have received to ensure more effective investigation of financial crime.

FIU initiated the workshop to set up a collaborative platform between the various authorities involved in disrupting financial crime. The Latvian Government's Action Plan, following the MONEYVAL report, has identified improved investigative and enforcement measures as a critical priority in disrupting financial crime.

* The workshop was organized within the framework of the ESF project No.3.4.2.0 / 15 / I / 002 "Improvement of Human Resources in Public Administration in the Field of Corruption Prevention and Shadow Economy" implemented by Latvian School of Public Administration.

FIU participates in MONEYVAL plenary meeting

Latvia's Financial Intelligence Unit participated in the MONEYVAL plenary session in Strasbourg, France from 3 to 7 December. Experts from Latvian delegation, in cooperation with Bulgarian delegation, made an assessment of Serbia's progress. MONEYVAL approved Lithuania's and the Czech Republic's 5th round assessment reports, and reviewed and approved the follow-up reports of Andorra, Hungary, Serbia and Slovenia.

Finance Latvia Association has approved new self-regulation guidelines

Finance Latvia Association has approved new additional self-regulation guidelines – the Anti-Bribery and Corruption Policy and Guidelines, and Guidelines for Implementing the Sharing of Information amongst Financial Institutions in Connection with the AML/CFT Law as well.

Together with partners from governmental and non-governmental bodies and business entities, the Association is fully committed to fight all kinds of financial crime and prevent the abuse of the Latvian financial system.

[Read Guidelines](#)

Financial Sector Development

OECD projects Latvia to show the fastest economic growth among the Baltic States

The Organization for Economic Cooperation and Development (OECD) has projected that Latvia will grow the fastest of all the Baltic States in 2018 and 2019. According to the OECD's latest economic outlook, Latvia's GDP will grow 4.7 % this year and 3.9 % next year. Latvia's GDP growth forecast has been raised by 0.6 percentage points for this year and by 0.3 percentage points for next year, against the organization's previous forecasts, released in May 2018. framework of sanctions and liability for non-compliance.

[Learn more](#)

Support measures to attract financing to SMEs in capital markets will be created

On 4 December, the Cabinet of Ministers reviewed a report by the Ministry of Finance on the development of a European Union (EU) support instrument for attracting financing to small and medium-sized enterprises (SMEs) in capital markets. A financial instrument has been developed that eliminates the barriers to the listing of companies on the stock exchange, in order to further develop the capital market ecosystem in Latvia.

The proposal provides for the possibility of supporting the issue of shares for at least five companies and the issue of at least five corporate bonds and subsequent quotation on the stock exchange. This plan is in line with the indicative assessment of the interest of entrepreneurs in attracting financing on the stock exchange and using the aid measure. Similar support measures are currently in place and work well in other EU member states, such as Austria, Hungary and Poland.

[Learn more](#)

Contributing Institutions



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Republic of Latvia



State Chancellery
Republic of Latvia



Ministry of Finance
Republic of Latvia



Ministry of
Foreign Affairs
Republic of Latvia



Financial and Capital
Market Commission



LATVIJAS BANKA
EIROSISTĒMA

Office for Prevention
of Laundering of Proceeds
Derived from Criminal Activity



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