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COMMUNICATIONS DIVISION

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Latvia: Vision on Future Developments

Domestic/Foreign Deposits as a Challenge

(Slide No 2) The total number of commercial banks in Latvia – 3 domestic customer and 12 named as foreign customer banks. The presence of considerable number of foreign customers (mainly from the eastern parts of Europe) has been always an extra challenge and risk factor for the banking sector supervision in Latvia already since the 1990s. Therefore the FCMC has requested the banks to maintain increased level requirements to ensure compliance with regulatory provisions (capital, liquidity ratio etc.). Now, the Latvian banks must undertake a thorough revision of further strategies and build other business models.

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Combating Money Laundering

The level of foreign deposits reached its peak in 2015 with 54.8 % of total deposits. Following the tightened global AML standards and Latvia's joining the OECD (in 2016) the supervisory approach has changed, namely, the new FCMC management (since February 2016) now is calling the banks for essential revision of their customer base and avoidance of the money of questionable origin. Currently, as a result of mentioned efforts, there is a decrease in foreign deposits of 31%. This is the lowest level of foreign deposits in 20 years, and this decline will continue because of the required self-cleaning work to relieve the Latvian banks and the state of reputational risk burden.

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Moreover, today the global geopolitical situation has changed. It is apparent that the confrontation of ideas and values becomes severer between the West, involving also Latvia and other Baltic States, and a different view of the world coming from the East, the key source of risky financial resources in Latvia. The Government's position is to maintain 5% of foreign money in the total deposit volume of the banking sector, at the same demonstrating its ability to control the deposits. To specify the 5% threshold, – it could be also 9% in any of banks, while in other bank 1.2%, but the average ratio should not exceed 5%.

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Sanctions and Corrective Measures *(ABLV Bank)*

The bank's risk appetite must align with its internal control system ability to manage risks in accordance with the AML regulatory provisions. If there are radical changes in the national

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regulations, then – of course – the regulator ensures their implementation and the banks proactively react by changing their approach to the servicing of risky customers. The Association of Latvian Commercial Banks (ALCB) strongly supports this approach.

It should be noted that supervision over ABLV has been very tight on part of FCMC in particular over the last years; therefore we are not caught unawares. One cannot deny that Latvia is still facing the AML-related problems. However, significant remedial work has been done in the Bank by the FCMC over last two years. The fines, largest ones than ever in Latvia, have been imposed on ABLV Bank for respective breaches. Investments that we have required for improvements of the Bank's internal control systems amount to almost 20 million euro. And the first agreement with the Bank about addressing the deficiencies has been completed. There has been no such precedent for cooperation previously. Today's developments to a great extent have been affected by the past events, having a great impact on the Bank's fate at present. These are the aftermaths of historical legacy.

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Enforcement Actions

We all have a common interest in the sustainable long-term development of the financial sector without any additional threats, and this requires reducing the AML/TF risk exposure to our country. The first steps towards setting-up new arrangements in the banking sector appear promising. The high stability ratios set on the foreign banks by the FCMC have proven, and now there is a firm basis for fulfilment obligations to the customers and at the same for changing the business models.

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