



Finanšu izlūkošanas dienests

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**NATIONAL TERRORISM FINANCING AND  
PROLIFERATION FINANCING RISK ASSESSMENT  
REPORT 2017 – 2018  
(UPDATED ON JULY 2019)**

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# EXECUTIVE SUMMARY

"National Terrorism Financing and Proliferation Financing Risk Assessment Report 2017 – 2018" provides an informative summary and analysis of TF and PF threats, vulnerability and resulting risks in Latvia. The Report summarises amendments adopted in the legal framework of Latvia in 2017 – 2018, as well as actions taken in order to mitigate TF and PF risks.

It should be stressed that this is an updated version of the "National Terrorism Financing and Proliferation Financing Risk Assessment Report 2017 – 2018" initial version of which was published on April 2019.

Due to the fact that in 2019 the supervisory and control authorities under the AML/CTF Law in close cooperation with the FIU Latvia developed "Sectoral Money Laundering and Terrorist Financing Risk Assessment Report for the period 2017- 2018"<sup>1</sup>, re-evaluating TF risks of entities of 28 sectors under the supervision of 10 supervisory and control authorities, the FIU Latvia identified the necessity to update the "National Terrorism Financing and Proliferation Financing Risk Assessment Report 2017 – 2018", re-assessing the TF risks identified thereof. In the Report the national proliferation financing and circumventing targeted financial sanctions risk has been assessed as medium high. This is due to several indications identified in Latvia regarding suspicion of potential PF targeted financial sanctions evasion, and the inherent vulnerability to PF of the banking sector, and the prominence of this sector in Latvia.

The national terrorism financing risk was assessed as medium low/medium. This is based on the lack of terrorist acts, the very minimal number of cases of TF suspicion, the awareness of competent authorities of their duties to monitor any rare case of radicalization, and the relatively sound understanding of obliged entities of their TF risk allowing them to better mitigate the inherent TF threat Latvia faces with regard to the movement of funds. The risk level of "medium low/medium" indicates that the overall risk level in the sector is medium but at the same time, significant differences exist between the risk levels in the various sectors of obliged entities identified, of which some even have a low risk level.<sup>2</sup>

## Terrorism financing

Acts of terrorism have not been committed in Latvia, and persons or organisations that might be classified as terrorist have not been detected. Furthermore, indications have not been detected that persons with a tendency towards terrorism have attempted to enter the territory of Latvia, import or obtain weapons, explosives or hazardous substances necessary for the execution of a terrorist act, nor gather intelligence on potential targets for terrorism.<sup>3</sup>

Accordingly, criminal proceedings are not initiated concerning TF in Latvia. Analysis of suspicious transactions did not result in confirmed suspicions on TF; and thus far, cases where residents of Latvia are financing foreign terrorist groups, have not been detected.

Considering the execution speed of transactions in the financial sector, volume and the broad geography of transactions, it is essential to ensure that the financial institutions in Latvia are not used for TF, for example, when the customers conceals behind a formal beneficial owner or hides transactions in schemes of complex transactions by using shell companies.

It is important to note that increased attention should be drawn to any transactions potentially linked to TF, regardless of the volume of transaction because TF typologies indicate that funds for TF are often carried out in rather small amounts. FATF<sup>4</sup> guidelines<sup>5</sup> indicate that acts of terror carried out, including the Member States of the EU, are financed by transactions of small amounts.

Latvia is not assessed as a target country for TF transactions or the source country of the financial resources used for TF, rather than as an intermediate stage in a chain of several complicated transactions, which results with financial resources being transferred to persons or organisations performing activity of terrorist nature.

<sup>1</sup> Sectoral Money Laundering and Terrorist Financing Risk Assessment Report for the period 2017- 2018. Available: [http://kd.gov.lv/images/Downloads/useful/MLTF\\_Risk\\_Rep\\_2017-2018.pdf](http://kd.gov.lv/images/Downloads/useful/MLTF_Risk_Rep_2017-2018.pdf)

<sup>2</sup> For more detailed information. Please see: Sectoral Money Laundering and Terrorist Financing Risk Assessment Report (2017-2018); available in English: [http://kd.gov.lv/images/Downloads/useful/MLTF\\_Risk\\_Rep\\_2017-2018.pdf](http://kd.gov.lv/images/Downloads/useful/MLTF_Risk_Rep_2017-2018.pdf)

<sup>3</sup> SSS report, page 5 (SSS internal document)

<sup>4</sup> An international inter-governmental Financial Action Task Force. Internationally recognised global FATF standards provide a framework of comprehensive and consequent measures which the states have to implement in order to combat money laundering and TF, as well as financing of proliferation of mass destruction weapons. FATF recommendations set an international standard to be implemented by the states when applying measures that ensure achievement of the purpose in the particular circumstances.

<sup>5</sup> FATF Terrorist Financing Disruption Strategies 2018 page 12

## Proliferation financing

During the reporting period, 5 reports were received on suspicious transactions in relation to PF, which were mainly linked to suspicion of attempts to circumvent sanctions. Infringements have also been detected during the reporting period, namely credit institutions in Latvia have not conducted sufficient customer due diligence and supervision of transactions in certain cases; as a result possibility occurred that credit institutions in Latvia may be used in circumvention of sanctions imposed against North Korea. FCMC imposed sanctions to 5 credit institutions for the mentioned infringements. In accordance with the Action Plan approved by 11.10.2018 CoM Order No. 512, it is necessary to improve the system for enforcement of imposed financial sanctions by shaping uniform understanding and knowledge of the system and the principles of its operation.

Within the last years amendments have been introduced to the legal framework of Latvia in accordance with international requirements in order to prevent PF, including amendments to the legal framework of freezing financial means, procedure for imposing of sanctions and responsibility of competent institutions.

Additionally, in order to improve mutual information exchange at national level and understanding of proliferation risks, FIU Latvia and FCMC as of 2018 are included in the Committee for Control of GSS<sup>6</sup>. Committee for Control of GSS examines licensing requests regarding export, import and transit of GSS, as well as export of goods linked to increased risk.

In the area of PF, special attention should be paid to attempts to circumvent international and national Latvian sanctions. Both the financial system and Latvia as a transit country for transportation of GSS may be used for circumvention of sanctions. It is indicated by analyses of cases provided in the Report and volumes of funds frozen by FIU Latvia in relation to possible cases of circumvention of sanctions.

Similarly to TF, it is important to ensure that financial institutions in Latvia are not used for PF, for example, when the customers conceals behind a formal beneficial owner or hides transactions in schemes of complex transactions. Typologies for proliferation of WMD indicate that customer due diligence and check of transactions against the lists of sanctions is insufficient to prevent concealment of PF behind complex schemes of transactions.

During reporting period number of foreign customers and turnover of their transactions in Latvian credit institutions has been significantly reduced in comparison with previous periods (see Figure No. 4 in the annex). FCMC and other supervisory authorities under the AML/CTF Law must pay special attention on providing services to customers that may conceal PF under complex transaction schemes or complex structures of owners. Increased attention should be paid to the factor of geographical reach, as well as export, import and transport services of goods transactions, where dual-use item distribution for individuals or high-risk countries that may be dealing with PF should be assessed.

# RISK ASSESSMENT

## TERRORISM FINANCING

**National terrorism financing threat was assessed as MEDIUM, terrorism financing vulnerability was assessed as MEDIUM LOW.**

**In general, terrorism financing risk was assessed as MEDIUM LOW/MEDIUM<sup>7</sup>.**

### The factor creating the most significant threat:

1. Possible joining to terrorist groups of Latvian residents or their radicalisation. Radicalised persons may become involved in various types of terrorism support activities, including financing and therefore use financial system to finance terrorism.
2. The execution speed of transactions in the financial sector, volume and the broad geography of transactions, provide the possibility that Latvia can be used for TF, for example, when the customers conceals behind a formal beneficial owner or hides transactions in schemes of complex transactions by using shell companies.

### Factors causing the most significant national vulnerability:

<sup>6</sup> Committee for Control of GSS is composed of: the Ministry of Foreign Affairs, the Ministry of Economics, the Ministry of Finance, the Ministry of Health, the Ministry of Defence, the State Environmental Service, the State Police, the State Security Service, the Constitution Protection Bureau, the State Revenue Service, the Radiation Safety Centre.

<sup>7</sup> The risk level of "medium/medium low" indicates that the overall risk level in the sector is medium but at the same time, significant differences between the risk levels of different obliged entities of the sector are identified, of which individual representatives have even low risk level. For more detailed information. Please see: Sectoral Money Laundering and Terrorist Financing Risk Assessment Report (2017-2018); available in English: [http://kd.gov.lv/images/Downloads/useful/MLTF\\_Risk\\_Rep\\_2017-2018.pdf](http://kd.gov.lv/images/Downloads/useful/MLTF_Risk_Rep_2017-2018.pdf)

1. Providers of financial services in Latvia may be used for transfers of financial means – by using complex transaction schemes or ownership structures, thereby hiding TF, by conducting transactions both in large and small volumes in order to finance terrorism in other countries (as detailed in the annexes, no evidence so far to support this potential threat).
2. The non-banking sector does not always use adequate technological solutions for identification of terrorists, including checking customers against the lists of sanctions.
3. Financial services that may be received remotely create the risk of anonymity and fraud, which may result in money being transferred to any third party. Such services can be easily and quickly accessible and the purpose of using acquired funds is unclear.
4. Non-banking sector does not always practice a full check of persons against the international and Latvian national lists of sanctions, and the knowledge of persons employed by the non-banking sector is incomplete in the area of terrorism financing.
5. Associations may freely receive donations from sources that are not listed; moreover, difficulty to control the use of targeted donations has been identified.

#### **Risks:**

1. In case of possible radicalisation of Latvian residents, TF may be carried out as self-financing or obtaining funds from the family members or relatives.
2. Possible use of financial services provided by credit institutions and payment institutions for TF, where the acquired financial resources may be used for TF or for support to terrorist organisations, or for self-financing in case of radicalisation.
3. Possible use of funds of non-governmental institutions for TF. Redirection of donations to terrorist organisations or their members obtained for seemingly legal purposes.
4. Use of Latvian financial system for suspicious transactions as a stage of complex transaction chains for terrorism financing abroad.

### **PROLIFERATION AND TARGETED FINANCIAL SANCTIONS TO COMBAT PROLIFERATION**

**National proliferation financing and threat of circumventing targeted financial sanctions and vulnerability was assessed as MEDIUM HIGH.**

**In general, proliferation financing risk can be assessed as MEDIUM HIGH.**

#### **The factors creating the most significant threat:**

1. Latvia is located on the transit road from east to west and is the external border of the EU. There is a possibility that GSS may be transported in transit through Latvia to countries at risk of terrorism or to countries that have been sanctioned.
2. Proliferation financing might be carried out by persons or organisations that are not included in the lists of sanctions when conducting transactions on behalf of another person which is included in a list of sanctions.

#### **Factors causing the most significant national vulnerability:**

1. Insufficient knowledge of financial sector and poor knowledge of the private sector in the area of PF and enforcement of targeted financial sanctions.
2. Insufficient customer due diligence and supervision of transactions creates a possibility that PF may be concealed under complex transaction schemes and complex structures of owners.
3. Opening of accounts of Latvian legal entities abroad without registering these with the State Revenue Service create precedents when Latvian legal entities might be used for conducting fictitious transactions, including their use in activities of PF and circumvention of sanctions.

#### **Risks:**

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1. Latvia may be used as a transit country for delivery of GSS to countries that have been sanctioned, countries with terrorism risk or terrorist groups.
  2. Use of financial system in Latvia for making suspicious transactions as a stage of complex transaction chains for circumvention of the international sanctions.
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# THE NECESSITY FOR RISK ASSESSMENT

Identification, assessment and understanding of TF risks has a significant role for disruption of terrorist networks and termination of their activity. Identification of TF risks aids in setting priorities for effective implementation of TF prevention measures, as well as prevention of future terrorist activities.<sup>8</sup> TF risk is a possibility that services available in the financial sector might be used for financing and supporting of terrorist acts and terrorists.<sup>9</sup>

Identification of PF risks improves the national ability to prevent involvement of persons and organised groups in movement, trade or financing of WMD, thus effectively exercising targeted financial sanctions<sup>10</sup> for combating PF.<sup>11</sup>

In accordance with international standards – FATF 40 Recommendations<sup>12</sup> including TF and PF combating assessment, as well as enforcement of financial sanctions, the states should recognize and assess their TF and PF risks. The state should apply risk based approach in order to ensure prevention of TF and PF.

On 23<sup>rd</sup> of August, 2018, Moneyval has published its Fifth Round Mutual Evaluation Report on Latvia which details and assesses analysis of the situation based on regulations and performance in Latvia during the visit of Moneyval expert committee on 8<sup>th</sup> of November, 2017.

Following the Moneyval report, “Plan of Anti-Money Laundering and Counter-Terrorism Financing Measures for the Period of Time till 31 December 2019” was approved on 11<sup>th</sup> of October, 2018 with the CoM Order No 512 which includes requirement to draft a Report, and improvement of system of targeted financial sanctions was set as one of the main priorities therefore creating uniform understanding of cooperation partners on this system and the necessity of its operation.

Significant measures for implementation and provision of a sustainable legal and institutional framework corresponding to the international obligations and standards have been made in Latvia. The Report summarises information on the current situation and progress in the area of combating TF and PF in Latvia.

The risk assessment of the national level provided in the Report promotes, both, the understanding of the responsible governmental institutions and their responsibility for the current TF risks, as well as the understanding of the private sector in relation to its participation in mitigation of TF and PF risks and control measures.

## RISK ASSESSMENT METHODOLOGY

This Report was prepared in accordance with the World Bank’s methodology.

Report was prepared for the period of 2017 -2018.

FIU Latvia is the responsible authority for the preparation of this Report. The information included in this Report was summarized and analyzed by the FIU Latvia, in collaboration with the State Revenue Service, the Ministry of Foreign Affairs of the Republic of Latvia and FCMC.

This Report was prepared based on the laws and regulations of the Republic of Latvia, annual reports, guidelines and opinions, as well as international documents, prepared by local, as well as EU and international level authorities.

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<sup>8</sup> FATF Terrorist Financing Risk Assessment Guidance 2018, page 8

<sup>9</sup> FCMC Recommendations No. 268 “Recommendations to Payment Institutions and Electronic Money Institutions in the Area of Prevention of Money Laundering and Terrorism Financing”, Paragraph 25

<sup>10</sup> Targeted financial sanctions include freezing of funds, preventing the funds from being made available to persons and organisations included in the lists of sanctions.

<sup>11</sup> FATF Guidance on Proliferation Financing 2018, page 8

<sup>12</sup> FATF 40 Recommendations – Internationally recognised global standard for implementation of effective ML and TF prevention measures to ensure transparency of the operation of financial system and provide the states with support for successful counteractivity against the persons who are engaged in money laundering and terrorist financing.

## DEFINITIONS

### Terrorism financing

International agreement on a common definition of terrorism has not yet been achieved. Since 2000, the UN continues discussions on development of a unified comprehensive counter-terrorism convention. The strategies have been developed at the level of international organisations and national level for combating terrorism providing measures for terrorism prevention and combating.

TERRORISM is the use of explosives, use of fire, use of nuclear chemical, chemical, biological, bacteriological, toxic or other WMD, mass poisoning, spreading of epidemics or epizootic diseases, kidnapping of persons, taking of hostages, hijacking of air, land or sea means of transport or other activities if they have been committed for the purpose of intimidating inhabitants or for the purpose of inciting the state, its institutions or international organisations to take any action or refrain therefrom, or for the purpose of harming the interests of the state or its inhabitants, or international organisations.<sup>13</sup>

TERRORISM FINANCING is the direct or indirect collection or transfer of financial resources or other property acquired by any form with a view to use them or by knowing that they will be fully or partly used to carry out terrorist activities.<sup>14</sup>

### Proliferation financing

Currently an internationally recognised "proliferation" or "proliferation financing" definition does not exist, thereby definitions developed by FATF shall be used for the purposes of the Report.

PROLIFERATION is transfer and export of nuclear weapons, chemical or biological weapons, their means of delivery and related materials.<sup>15</sup>

PROLIFERATION FINANCING refers to the act of providing funds or financial services which are used, in whole or in part, for the manufacture, acquisition, possession, development, export, trans-shipment, brokering, transport, transfer, stockpiling or use of nuclear, chemical or biological weapons and their means of delivery and related materials (including both technologies and dual use goods used for non-legitimate purposes), in contravention of national laws or, where applicable, international obligations.<sup>16</sup>

Terms "proliferation" or "production, storage, transportation, use or distribution of weapons of mass destruction", or "financing of distribution of WMD" are used in laws and regulations of the Republic of Latvia as well as in documents binding to Latvia.

### Definitions of threat, vulnerabilities and risk

The Report provides analysis of threats, vulnerabilities and resulting risks.

Definitions of threat, vulnerabilities and risk used in FATF Guidance on National Money Laundering and Terrorist Financing Risk Assessment 2013<sup>17</sup>, FATF Terrorist Financing Risk Assessment Guidance 2018<sup>18</sup> and FATF Guidance on Proliferation Financing 2018<sup>19</sup> are used in this Report.

**A THREAT is a person or group of people, organisation or activity with the potential to cause harm to, for example, the state, society, the economy, etc.**

<sup>13</sup> The Criminal Law. Latvijas Vēstnesis, 199/200 (1260/1261), 08.07.1998. <https://likumi.lv/ta/id/88966> Section 79<sup>1</sup>

<sup>14</sup> Such a definition is provided by Section 5, Paragraphs three and four of the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing which provides a detailed list of actions that should be considered a terrorism financing, including references to several international documents.

<sup>15</sup> FATF Guidance on Proliferation Financing 2008

<sup>16</sup> FATF Report. Combating proliferation financing: A status report on policy development and consultation. February 2010, page 5

<sup>17</sup> FATF Guidance: National Money Laundering and Terrorist Financing Risk Assessment. February 2013, page 7

<sup>18</sup> FATF Terrorist financing risk assessment guidance, 15th October 2018, 9.pp

<sup>19</sup> FATF Guidance on Proliferation Financing 2018

In the context of TF threats include terrorist groups and their facilitators, as well as radicalised individuals that might use the financial system of Latvia in order to collect or transfer, directly or indirectly, financial resources, as well as assets obtained legally or illegally, to the terrorist groups or an individual terrorist.

In the context of PF threats include proliferation support networks that depend on the main coordinator or individual acting on behalf of someone else (for example, on behalf of sanctioned persons). These individuals or groups might use the Latvian financial system in order to transfer funds that are or will be used for proliferation financing.

**VULNERABILITY of the state in the context of TF and PF may manifest itself as a special financial transaction or service through which funds may be transferred for TF or PF, as well as possible deficiencies in the legal framework, control system or enforcement, or in case of particular circumstances, namely when difficulty arises to differ legal and illegal transactions. Vulnerability arises from threat.**

RISK is **assessed** by analysing the potential threats and vulnerabilities, as well as consequences that these may cause.

# LEGAL FRAMEWORK

## TERRORISM FINANCING

Criminal liability for terrorism and its financing, participation in a terrorist group, or its organisation or leading, invitation to terrorism and terrorism threats, recruiting and training of persons for terrorism and travelling for the purposes of terrorism can be applied to individuals in the Republic of Latvia.<sup>20</sup>

Criminal liability can also be applied for establishment or involvement of such a criminal organisation which consists of at least five persons, for the purpose of committing especially serious crimes against humanity or peace, war crimes, or of committing especially serious crimes against the state.<sup>21</sup>

On 23<sup>rd</sup> of May, 2018, amendments to the AML/CTF Law and the Criminal Law entered into force providing that TF criminal offence includes direct or indirect collection or transfer of financial resources or property obtained in any way to a terrorist group or individual terrorist. Likewise amendments entered into force that travelling for the purposes of terrorism shall clearly include provision or receipt of terrorism training.<sup>22</sup> Amendments specifically separate participation in terrorism from participation in an armed conflict.

On 22<sup>nd</sup> of October 2015, Latvia was one of the first countries to sign the Additional Protocol to the Council of Europe Convention on the Prevention of Terrorism. In accordance with beforehand mentioned Additional Protocol, amendments were made to the Criminal Law in relation to prevention of terrorism; and such actions as travelling for the purposes of terrorism or with a purpose to become involved in a terrorist group; to train or be trained for terrorism; financing of such travel; recruitment of a person for involvement in a terrorist group; as well as public praising of terrorism or justification or denial of conducted terrorism; and distribution of material with a content praising terrorism or denying, justifying the exercised terrorism, or inviting to terrorism were recognised as a criminal act.

Latvia is a Member State of the EU, NATO, UN, Organisation for Security and Co-operation in Europe and the Council of Europe. Latvia continues to be involved in and to promote international cooperation for combating international terrorism and prevention of its threat.

Latvia has ratified and implemented 13 out of a total of 14 UN conventions and protocols that form the basis for the international law in the area of counter-terrorism.<sup>23</sup>

The mentioned documents and amendments made to the laws and regulations of the Republic of Latvia significantly strengthen the ability of the state to effectively address terrorism related threats at an early stage.

Relevant laws and regulations are applied in everyday practice imposing a duty on obliged entities under the law listed in Section 3, paragraph 1 of the AML/CTF Law to perform identification, assessment and mitigation of TF

<sup>20</sup> The Criminal Law. Latvijas Vēstnesis, 199/200 (1260/1261), 08.07.1998. <https://likumi.lv/ta/id/88966> Sections 79<sup>1</sup>, 79<sup>2</sup>, 79<sup>3</sup>, 79<sup>4</sup>, 79<sup>5</sup>, 79<sup>6</sup>

<sup>21</sup> The Criminal Law. Latvijas Vēstnesis, 199/200 (1260/1261), 08.07.1998. <https://likumi.lv/ta/id/88966> Section 89<sup>1</sup>

<sup>22</sup> Cabinet Order of 11 October 2018 No. 512 Regarding Planned Actions for Prevention of Money Laundering and Terrorism Financing until 31 December 2019. Latvijas Vēstnesis, 203 (6289), 15.10.2018. <https://likumi.lv/ta/id/302218> Paragraphs 5.1., 5.2

<sup>23</sup> Ministry of Foreign Affairs: Combating international terrorism <https://www.mfa.gov.lv/arpolitika/drosibas-politika/cina-pret-startautisko-terorismu>

risks. The option laid down in the AML/CTF Law for the FIU Latvia to freeze funds obtained from criminal activity up to six months<sup>24</sup> ensures an effective and timely suspension and investigation of potential TF cases. FIU Latvia is entitled to accept the decision concerning independent freezing of financial resources in case of TF or PF in accordance with the Law on International Sanctions and National Sanctions of the Republic of Latvia.<sup>25</sup>

High-risk countries are not defined in the laws and regulations of the Republic of Latvia. High-risk countries or territories might include also countries with high risk of terrorism, corruption (in context with TF and WMD). The list of increased risk countries (when assessing significant illegal immigration risks and threat of terrorism) has been defined in the CoM Reg. No. 554 of 21<sup>st</sup> of June, 2010 "Regulation Regarding States for the Citizens of which in Issuing a Visa or a Residence Permit an Additional Assessment shall be Performed"; the annex to the mentioned Regulation lists 28 countries. The European Commission issues a list with high-risk third countries which insufficiently combat ML and TF. The purpose of this list is to protect the EU financial system by preventing ML and TF risks more effectively. This list consists of 23 countries<sup>26</sup>. By a term "terrorism risk countries" within this Report is understood the same as the high-risk countries specified in the CoM Reg. No. 554 and the list of the European Commission; however, it does not mean that all these countries clearly create a terrorism threat or are directly related to terrorist groups. The lists of countries are available in Annex No. 2.

### **PROLIFERATION FINANCING AND COMPLIANCE WITH SANCTIONS**

Criminal liability for manufacture, storage, movement, use, distribution (proliferation) of WMD and financing of these activities (PF)<sup>27</sup> and for violation of sanctions imposed by international organisations and Latvia<sup>28</sup> can be applied to individuals in the Republic of Latvia.

Sanction regimes that are binding to Latvia - the UN sanctions, Latvian national sanctions and sanctions of the Member States of the EU and NATO in accordance with the procedures set out in the Law on International Sanctions and National Sanctions of the Republic of Latvia, significantly affect the Latvian financial and capital market.

Imposition and enforcement of international and national sanctions in Latvia is regulated by the the Sanctions Law. The purpose of the Sanctions Law is to ensure peace, security and justice in accordance with the international obligations and national interests of Latvia, introducing international sanctions, imposing national sanctions, or applying the sanctions imposed by the EU and NATO in cases laid down in the Sanctions Law.<sup>29</sup> The CoM is responsible for imposition of the national sanctions<sup>30</sup>.

General procedures for execution of international sanctions and the procedures for execution of the national sanctions imposed by the CoM in order to combat international terrorism or manufacturing, storage, transportation, use or distribution of WMD are prescribed by the CoM Reg. No. 468 of 15<sup>th</sup> of July, 2016 "Procedures for the Execution of International and National Sanctions".

Recommendations included in Moneyval 5<sup>th</sup> Round Report on Latvia regarding targeted financial sanctions for combating PF, inter alia, establish that the legal basis in the area of financial sanctions should be revised to eliminate deficiencies in the technical compliance. In the context of the considerations set out in recommendations, amendments to the Sanctions Law entered into force on 12<sup>th</sup> of July, 2018. The most significant amendments emphasise the obligation of each person not to permit violations of sanctions, strengthen the understanding that the national sanctions imposed by the CoM become effective immediately, supplement the list of the competent institutions with the persons supervised by the SRS and CRPC), define internal control system and determine an obligation for the obliged entities supervised by FCMC, SRS and CRPC to carry out a risk assessment of sanctions, and before mentioned supervised obliged entities are obliged to establish internal control system until 1<sup>st</sup> of May, 2019. The Sanctions Law also governs application of sanctions in the area of public procurements.<sup>31</sup>

With amendments made in the Sanctions Law FCMC is obligation to issue a binding framework in relation to financial sanctions. Accordingly, on 28<sup>th</sup> of June, 2018 FCMC "Recommendations to Credit Institutions and

<sup>24</sup> Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing. Latvijas Vēstnesis, 116 (3900), 30.07.2008. <https://likumi.lv/ta/id/178987> Section 32<sup>2</sup>, Paragraph 2, Clause 1

<sup>25</sup> Law on International Sanctions and National Sanctions of the Republic of Latvia. Latvijas Vēstnesis, 31 (5603), 2016 <https://likumi.lv/ta/id/280278> Section 13, Clause 4<sup>1</sup>

<sup>26</sup> European Commission adopts a new list of third countries which are inadequately combating ML and TF. The list has been published on 13 November 2018 [http://europa.eu/rapid/press-release\\_IP-19-781\\_lv.htm](http://europa.eu/rapid/press-release_IP-19-781_lv.htm)

<sup>27</sup> The Criminal Law. Latvijas Vēstnesis, 199/200 (1260/1261), 08.07.1998. <https://likumi.lv/ta/id/88966> Section 73<sup>1</sup>

<sup>28</sup> The Criminal Law. Latvijas Vēstnesis, 199/200 (1260/1261), 08.07.1998. <https://likumi.lv/ta/id/88966> Section 84

<sup>29</sup> Ministry of Foreign Affairs: Law on International Sanctions and National Sanctions of the Republic of Latvia <https://www.mfa.gov.lv/arpolitika/par-eiropas-savienibas-ierobezojosiem-pasakumiem/sankciju-likums>

<sup>30</sup> Law on International Sanctions and National Sanctions of the Republic of Latvia. Latvijas Vēstnesis, 31 (5603), 2016 <https://likumi.lv/ta/id/280278> Section 3

<sup>31</sup> Ministry of Foreign Affairs: Law on International Sanctions and National Sanctions of the Republic of Latvia <https://www.mfa.gov.lv/arpolitika/par-eiropas-savienibas-ierobezojosiem-pasakumiem/sankciju-likums>

Licensed Payment and Electronic Money Institutions to Reduce the Risks Associated with the Failure to Comply with Sanctions”<sup>32</sup> entered into force.

CoM Reg. No. 138 of 8<sup>th</sup> of March, 2016 “Regulations on Countries and International Organisations that have compiled the Lists of Persons Suspected of Involvement in Terrorist Activities or Manufacturing, Storage, Transportation, Use or Distribution of the Weapons of Mass Destruction” defines countries and international organisations, who’s compiled terrorist lists are recognised in Latvia.

In accordance with 7th Recommendation of FATF, amendments were made in the Sanctions Law in 2018. Amendments clearly state that the FIU Latvia is entitled to adopt decisions necessary for enforcement of sanctions, including decisions binding to participants of the financial and capital market regarding permanent freezing of financial means in case of TF or PF.<sup>33</sup> As mentioned before, in accordance with the AML/CTF Law, financial resources in case of TF and PF are frozen for a period up to six months.

An obligation has been incorporated into the Sanctions Law that obliged entities under of the AML/CTF Law under supervision of FCMC, SRS and CRPC must perform risk assessment of sanctions as well as establish an internal control system by 1st of May, 2019.<sup>34</sup> Establishment and improvement of the internal control system is necessary in order to ensure TF prevention and execution of sanction requirements. Administrative sanctions have been provided for the lack of internal control. Guidelines or binding regulations regarding improvement of the internal control system are prepared by the competent institution – FCMC (issues regulations), SRS or CRPC (issues guidelines).

Latvia fully implements UN Security Council Resolutions (UNSCRs<sup>35</sup>) 1267 and 1737, as well as ensures compliance with FATF 6th and 7th Recommendation. UN sanctions are executed in accordance with the EU regulations; however, in order to immediately execute the sanctions imposed by the UN Security Council Recommendations, in the meeting of the State Secretaries of 31<sup>st</sup> of January, 2019 draft law “Amendments to the Law on International Sanctions and National Sanctions of the Republic of Latvia” was announced. Lists of sanctions of UN, EU, Latvian national lists and the lists of sanctions of the USA may be found on the website of the FIU Latvia,<sup>36</sup> where information is updated on daily basis.

# THE RESPONSIBLE AUTHORITIES

## Financial Intelligence Unit Latvia (FIU Latvia)

Office for the Prevention of Laundering of Proceeds Derived from Criminal Activity or FIU Latvia is the competent authority for execution of the financial restrictions to combat the international terrorism and manufacturing, storage, transportation, use or distribution of WMD.<sup>37</sup>

FIU Latvia distributes up-to-date information to credit institutions and other financial institutions, SSS and other competent institutions regarding current criteria of identification of the possible TF and PF cases. Similarly, methodological materials for mitigation of TF and financing of WMD risks are prepared and further transferred to the obliged entities under the AML/CTF Law, as well as information exchange is provided concerning persons that might be linked to terrorism, its financing or PF. Institutions are also informed of important amendments to the national or international laws and regulations. FIU Latvia also cooperates with SSS, including regular exchange of information.

FIU Latvia cooperates with analogous foreign FIUs, as well as national law enforcement authorities. Collaboration in mutual formats is more common among FIUs (without the use of requests for legal assistance). Described type of circulation of information is timely and effective.

<sup>32</sup> FCMC Recommendation No. 111 of 28 June 2018 “Recommendations to Credit Institutions and Licensed Payment and Electronic Money Institutions to Reduce the Risks Associated with the Failure to Comply with Sanctions”. Latvijas Vēstnesis, 130 (6216), 2018 <https://likumi.lv/ta/id/300044>

<sup>33</sup> Law on International Sanctions and National Sanctions of the Republic of Latvia. Latvijas Vēstnesis, 31 (5603), 2016 <https://likumi.lv/ta/id/280278> Section 13, Clause 4.1

<sup>34</sup> Law on International Sanctions and National Sanctions of the Republic of Latvia. Latvijas Vēstnesis, 31 (5603), 2016 <https://likumi.lv/ta/id/280278> Section 13 one

<sup>35</sup> United Nations Security Council resolutions

<sup>36</sup> CS: Lists of sanctions <http://sankcijas.kd.gov.lv/>

<sup>37</sup> Law on International Sanctions and National Sanctions of the Republic of Latvia. Latvijas Vēstnesis, 31 (5603), 2016 <https://likumi.lv/ta/id/280278> Section 13, Clause 1.

FIU Latvia takes part in international events for discussion of both - very practical cooperation improvement issues, as well as directions for strategic development.

Cooperation between FIU Latvia and subjects of operative activity, investigation authorities, Prosecutor's Office of the Republic of Latvia, courts<sup>38</sup>, SRS and obliged entities the AML/CTF Law has been promoted in 2018. In accordance with Moneyval recommendations, Regulation of Operation of the CCG has been compiled. The purpose of CCG is to strengthen the cooperation between the public and private sectors and to enhance exchange of information. Agenda of CCG also includes matters regarding issues related to TF and PF. Successful practical operation of CCG can be observed - 17 cases have been reviewed, including 3 cases linked to TF.

FIU Latvia has established TF prevention system, based on regulatory framework, methodological materials, and network of contact persons for the obliged entities under the AML/CTF Law. The responsible person of FIU Latvia conducts the processing of terrorist and their supporters lists and collection into the Consolidated Lists. FIU Latvia is included in the database of the UN Counter-Terrorism Executive Directorate (CTED) as the responsible authority in Latvia for freezing of funds in connection to terrorism or its financing.

### **Ministry of Foreign Affairs**

MFA is the coordinating authority in the matters of sanctions in Latvia. MFA coordinates exchange of information with international organisations and foreign competent authorities regarding imposition, implementation of sanctions and application of exceptions in Latvia.

Since MFA performs Secretariat functions of Committee for Control of GSS, collegially MFA is also responsible for the control measures of export of GSS. Each transaction with GSS – military and dual use – requires a licence issued by the Committee for Control of GSS. Mentioned licence is not issued in cases when weapons embargo has been imposed in relation to the particular receiving country.

### **State Security Service**

The State Security Service (formerly "Security Police" (changed in December, 2018)) is the competent authority responsible for combating terrorism and TF matters. Timely identification and prevention of terrorism threat is a significant operational direction of SSS. SSS conducts counter-intelligence and operative activity measures in order to obtain pre-emptive information on terrorist actions planned by the persons and to be able to prevent these actions in a timely manner. In the process of identification and neutralisation of counter-terrorism risks, SSS closely cooperates with foreign partnering services, performing regular exchange of information and situational analysis, as well as close cooperation has been established with the law enforcement and state authorities in Latvia.<sup>39</sup>

Within SSS specialised structural unit has been formed – Counter-Terrorism Centre. Counter-terrorism Centre analyses the situation in the counter-terrorism area and maintains regular communication with foreign partnering services, state authorities and legal persons, organises training, coordinates planning of counter-terrorism response measures.

In accordance with Moneyval recommendation, amendments in "By-laws of the Expert Advisory Council of the Counter-Terrorism Centre" have been developed on 3<sup>rd</sup> of December, 2018 by including representatives of the Ministry of Finance and FCMC on TF issues in the Expert Council of the Counter-Terrorism Centre that might promote systematic identification of TF risks.<sup>40</sup> FIU Latvia also takes place in the Expert Council of the Counter-Terrorism Centre.

### **Obliged entities under the AML/CTF Law and their supervisory and control authorities**

Section 3, paragraph 1 of the AML/CTF Law lists the obliged entities under the law (obliged entities under the AML/CTF Law), namely groups of merchants that are obliged to establish and apply internal control system for prevention of ML and TF, report unusual and suspicious transactions when conducting the commercial activity in a particular area.

Section 45 of the AML/CTF Law mentions Supervisory Authorities that determine ML and TF risk identification and assessment methodology in accordance with the activity of the supervised and controlled obliged entities under the AML/CTF Law. Duties and rights of the Supervisory Authorities have been laid down in Sections 46 and 47 of the AML/CTF Law.

<sup>38</sup> Judiciary power in Latvia belongs to the district (city) courts, regional courts, the Supreme Court, and the Constitutional Court.

<sup>39</sup> SSS: Counter-terrorism <https://vdd.gov.lv/lv/darbibas-jomas/preterorisms/> and SSS report on TF, page 11 (SSS internal document)

<sup>40</sup> Draft Regulations "Amendments to the Cabinet Regulation No. 880 of 22 November 2005 "By-laws of the Expert Advisory Council of the Counter-Terrorism Centre" (reviewed by the Cabinet on 05.02.2019.) [Http://tap.mk.gov.lv/lv/mk/tap/?pid=40465975](http://tap.mk.gov.lv/lv/mk/tap/?pid=40465975) and Cabinet Order of 11 October 2018 Nr.512 Regarding Planned Actions for Prevention of Money Laundering and Terrorism Financing until 31 December 2019. *Latvijas Vēstnesis*, 203 (6289), 2018 <https://likumi.lv/ta/id/280278> Paragraph 9.4

# TERRORISM FINANCING

The concept of TF includes various activities with a purpose to obtain money or other financial instruments for support of the terrorist groups or terrorist activities.

Thus far, no cases have been detected in Latvia when the residents of Latvia would finance foreign terrorist groups, and even though a criminal case has been initiated concerning TF, later that part of accusation on TF was terminated due to lack of the content of criminal offence (see Case Analysis No. 1).

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## Case Analysis No. 1: The criminal case that was initiated in 2018 concerning TF

Person X was accused of defrauding money from person Y. Both persons became acquainted during attendance of mosque. By using his status as an experience adherent of Islam, person X trained person Y and gained his trust. By using various fraudulent reasons, person X obtained from person Y few thousand euros which were formulated as donations. Taking into account the radical interpretation of Islam by person X and maintaining contacts with persons that were considering leaving for Syria, the possibility of TF was investigated as well within the framework of the criminal proceedings. It was found during the investigation that person X has used the obtained funds for personal purposes, and TF or characteristics of its planning were not detected.

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The terrorism threat level in Latvia can be assessed as low; terrorist attacks have not been conducted, and persons or organisations that might be classified as terroristic have not been detected. The available information does not show that the territory of Latvia might be used for support of activities of terroristic nature abroad. The same way indications have not been detected that persons with a tendency towards terrorism have attempted to enter Latvia, import or obtain the weapons, explosives, hazardous substances necessary for an act of terror, or gather intelligence on potential targets for terrorism.<sup>41</sup> However, the threats of TF are much more extensive than threats of terrorism. Taking into account the mentioned, there is low possibility of TF locally as there is low threats of terrorism. Additionally, in cases where terrorist attacks have been identified, no links to financing thereof have been traced to Latvia. Despite the mentioned, the threats of TF can be assessed as medium rather than low due to international transactions to high-risk countries and countries neighbouring such countries. Although asset flows from and to high-risk countries and neighbouring countries thereof have been identified (please see tables No. 14 – No. 19 in the annex), the values of the respective transactions do not total to large amounts and therefore the risks associated with those transactions can be adequately mitigated. In order to ensure proper TF risk mitigated, the supervisory authorities and the FIU Latvia have been circumvallating methodological materials on TF risks to obliged entities under the AML/CTF Law,

## THREAT

### Geographical reach

The geographical location of Latvia and the fact that Latvia is located on the transit road from east to west creates risk that the financial system in Latvia might be used as a channel for terrorism financing in another country. Latvian border with Russia and Belarus is the external border of the EU; therefore, a risk exists that financial resources can be transported across the border both in cash, precious metals or in other form, from the EU to the terrorism risk countries and vice versa.

### Radicalisation threat

Manuel Navarette, the Director of the Counter-Terrorism Centre of EUROPOL points out that one of the potential threats are people who have been arrested for illegal participation in conflicts as foreign militants and will be released in near future.<sup>42</sup> In December 2018, the court sentenced the first (and currently the only) "returnee" from Syria, Mārtiņš Grīnbergs, imprisonment of six years and eight months for the violation laid down in Section 89<sup>1</sup>, paragraph 2 of the Criminal Law, or participation in crimes of a criminal organisation against humanity or peace, or the state, or in crimes of war. Matter of TF was not found in this case.

Information provided by SSS shows that no more than 10 residents of Latvia remain resident in Syria and Iraq. Experience of the foreign partnering services shows that the Islamic terrorists based in Syria and Iraq use their supporters residing in Europe to obtain their aid for financing their activities.<sup>43</sup> However, currently SSS and the

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<sup>41</sup> SSS report, page 5 (SSS internal document)

<sup>42</sup> Terrorism in the EU: terror attacks, deaths and arrests <http://www.europarl.europa.eu/news/lv/headlines/priorities/terrorisms/20180703STO07125/terrorisms-eiropas-savieniba-uzbrukumi-bojagajusie-un-aresti>

<sup>43</sup> SSS report, page 5 (SSS internal document)

FIU Latvia have not obtained an affirmative information that would indicate financial support for such persons provided from Latvia.<sup>44</sup>

In order to avoid possible radicalisation of persons<sup>45</sup> or interest to finance the terrorist groups, SSS conducts preventive activities regarding inspection of persons with a possible interest in terrorism or support to its ideology.

SSS pays increased attention to persons who have accepted Islam during their lifetime and are actively involved in activities performed by organisations uniting Muslims, as well as are interested in possible travel to terrorism risk countries to live in accordance with Islam. Regular inspections are performed to prevent both the threat of terrorism and TF. SSS also continues to conduct inspections for activities of various associations and organisations.

Threat exists that terroristic organisations may use the flow of refugees to send potential terrorists to Europe. Thus, SSS conducts enhanced assessment of requests by the asylum seekers. In 2017 and 2018, the main countries of origin of the asylum seekers were Russia, Vietnam, Syria (see Table No. 13 in the annex). At the same time, within the framework of inspections conducted, no facts were found revealing adherence or support of persons to the terrorist groups and/or radical organisations during the reporting period.<sup>46</sup>

Currently the number of immigrants and refugees in Latvia is insignificant. 176 asylum seekers have requested international protection in Latvia in 2018; however, in 2017 it was requested by 395 asylum seekers - the largest amount of requests since 1998. It is estimate that the number of immigrants and refugees might remain low because the provided social guarantees might not satisfy the asylum seekers and refugees. The language barrier in Latvia is also more significant in comparison to countries with English as the state language. In 2018, 23 asylum seekers were granted with refugee status, by 16 less than in 2017 (see Table No. 12 in the annex).

## **VULNERABILITIES AND RISKS**

### **Targeted financial sanctions for combating terrorism financing**

Criminal proceedings concerning violations of TF targeted financial sanctions have not been initiated in Latvia during the reporting period, and the reports received regarding suspicious transactions that might be linked to TF have not confirmed the suspicions, and there has been no link to violation of TF sanctions or circumvention attempts.

It should be noted that participants of the financial sector are using automated systems to ensure the verification of lists of sanctions in relation to bank customers and their partners. However, in accordance with the international standards and practice, verification of persons in the lists of sanctions is not considered sufficient enough to believe that sanctions are complied with. For the obliged entities under the AML/CTF Law and pursuant to the Sanctions Law, all natural and legal persons should have an understanding of what sanctions are and how they affect (or do not affect) their activities. In order to ensure complete compliance with sanctions the risk-based approach should be used, combining it with the verification against the lists of sanctions and research in registers, as well as country of transaction target or origin should be evaluated. Also the persons not under the control of the supervisory authorities and are not obliged entities under the AML/CTF Law should be able to recognise the sanction risks and comply with sanctions in accordance with the Sanctions Law.<sup>47</sup>

Contrary to the financial sector, inspections of persons against the international and Latvian national list of sanctions are not widely practised in the non-banking sector. They do not have an automated system for identification of persons included in the lists of sanctions, and their knowledge of identifying TF or knowledge of lists of sanctions is incomplete.

As of September 2018, MFA organises seminars for the Supervisory Authorities and obliged entities under the Sanctions Law regarding sanctions and compliance with a purpose to promote supervision of transactions in relation to circumvention risks of financial sanctions. Seven seminars were hosted within the period of four months. Taking into account the great interest in these seminars, MFA will continue hosting informative seminars in the area of sanctions.<sup>48</sup> Measures with a purpose to increase awareness and understanding of the population on matters of prevention of ML, TF and PF and international financial sanctions have been planned for 2019.

### **Suspicious transactions and reports**

The number of reports on transactions causing suspicion on possible TF submitted by the obliged entities under the AML/CTF Law to FIU Latvia increases annually. During the reporting period, FIU Latvia has sent 3 materials

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<sup>44</sup> SSS report, page 9 (SSS internal document)

<sup>45</sup> Radicalisation has become a term used to describe a phenomenon that people accept intolerant opinions, views and ideas that might cause a violent extremism.

<sup>46</sup> Security Police (SSS) Public report of 2017, page 32

<sup>47</sup> Ministry of Foreign Affairs: Informative material (guidelines) for effective implementation of sanctions in Latvia, page 2 [https://www.mfa.gov.lv/images/apostille/AM\\_sankciju\\_vadlinijas.pdf](https://www.mfa.gov.lv/images/apostille/AM_sankciju_vadlinijas.pdf)

<sup>48</sup> The Ministry of Foreign Affairs organises a seminar on sanctions for sworn advocates, sworn notaries and prosecutors <https://www.mfa.gov.lv/aktualitates/zinas/62151-arlietu-ministrija-riko-seminaru-par-sankcijam-zverinatiem-advokatiem-zverinatiem-notariem-un-prokuroriem>

(see Table No. 1 in the annex) to SSS. The materials sent were mainly for the purpose of checking the person reported off. Analysis of two cases on materials sent to SSS is provided below.

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#### Case Analysis No. 2: Suspicious transaction No. 1

In 2018, the FIU Latvia received information on possible link of the person X (staying in Latvia) with committal of a criminal offence, including TF.

During the period from 2011 to 2014, the person X used an international money transfer institution to receive almost EUR 10,000 from the person Y.

In accordance with publicly accessible information online, person Y was detained in 2017 in the country A for possible link to ML, and later the person Y was surrendered to the country B.

During the course of further inspection, FIU Latvia detected other transactions related to money transfers to the person X. By using an international financial services company for transfer of money, the person X has received financial resources from high terrorism countries in Africa and Middle East from 2014 to 2017.

In addition to the above, there is information on money transfers of a person Z who is close to person X in 2014 from high-risk countries in the Middle East by using an international financial services company.

When evaluating the above-mentioned information, FIU Latvia has prepared and sent a report to SSS in order to assess the information on the mentioned transactions; as a result, it is possible that criminal offences have been committed, including TF, for which criminal liability is provided. Currently the case is still under examination.

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#### Case Analysis No. 3: Suspicious transaction No. 2

In 2018, FIU Latvia received information on possible link of the person X with TF.

In 2013, the person X used an international money transfer institution to receive approximately EUR 90 from the person Y. When FIU Latvia performed additional inspections, it was found that the person Y has made transfers to approximately 22 other persons in three European countries, including Latvia, and to one person in an Asian country A. One of the recipients is the person Z who is possibly linked to an attack to a religious church in an Asian country A.

When evaluating the above-mentioned information, FIU Latvia sent a report to SSS with a request to conduct inspection of the person X and relation of the mentioned transaction with terrorism and/or TF. Currently the case is still under examination.

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Statistics on the number of orders issued by FIU Latvia on freezing of financial resources in cases of TF shows that the risk exists that the financial system in Latvia might be used for TF; however, the number of orders issued this far and the volume of frozen funds – TF is conducted by transactions in small amounts (see Table No. 3 in the annex), shows that the risk is not high.

Reports and number of suspicious transactions on TF is very low against the background of received reports and transactions in total (under 1%); however, it should be considered that the number increases each year, achieving the highest indicators in 2018: 20 reports, 70 suspicious transactions (see Table No. 2 in the annex). Statistics indicate that minor part of received reports confirm the concern on linkage with TF. Namely, in 2017 only 1 order on freezing of funds was issued, but in 2018 – there were no orders issued. In general, the increase in the number of reports is positive, as this tendency indicates reaction to the slightest suspicion.

During the reporting period, SSS received 1 material on TF and 9 risk reports from the local institutions of which in 1 case a decision was made to reject initiation of criminal proceedings, but in 9 cases inspection is carried out within the framework of the operative process activities. Even though in Latvia there are no criminal proceedings on TF<sup>49</sup>, experience gained by inspection of suspicious cases, including in relation to suspicion of TF, has provided knowledge on how to respond when detecting the cases of TF and shows how the responsible authorities respond to each suspicious case.

Requests from foreign partnering services received by SSS and FIU Latvia are mostly in relation to verification of persons, informative reports or inspections of suspicious financial transactions received from analogous institutions in Europe. Reports on suspicious financial transactions have no direct relation to TF, but rather a precautionary inspection, for example, when a person has transferred financial resources to an organisation or person who received money from a third person who has been linked to terrorism or TF. After conducting appropriate inspections, suspicions on TF were not confirmed (see Table No. 5 in the annex).

In 2017, SSS processed 5 requests of the foreign partnering services in relation to TF, and 7 requests in 2018 (see Table No. 5 in the annex). However, there are only few common characteristic indicators among these - mostly inspections on persons, without participation of Latvian residents. Connection of Latvia to any of the TF cases investigated by the foreign partnering services has not been found.

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<sup>49</sup> In 2018, one criminal process was initiated, but the part of charges concerning TF was terminated due to lack of content of a criminal offence.

## Financial sector

97% of reports on TF suspicious transactions received in FIU Latvia are from credit institutions and other financial institutions (see Table No. 1 in the annex). During the reporting period tendency can be noticed that the amount of reports on TF suspicious transactions has increased, and after conducting analysis of these transactions, FIU Latvia has forwarded the material to the law enforcement authorities only in 3 cases (see Table No. 2 in the annex). Two of mentioned cases are reflected in the case analysis No. 2 and No. 3.

Participants of the financial sector use automated tools (IT) for identification of terrorists, as well as knowledge on ML and TF can be assessed higher than in the other sectors. However, when FCMC conducts inspections of the banks, shortcomings of the internal control systems and deficiencies in customer due diligence are found regularly. During the reporting period, FCMC has imposed fines for mentioned violations to 8 banks. Deficiencies in the internal control systems and weaknesses in customer due diligence challenges identification of TF cases.

There are no registered cases in Latvia where financial resources would be used for TF in the territory of Latvia. However, considering Latvia as the transit country of financial flow, the risk exists that the financial system in Latvia might be used for TF in other countries. In 2018, cross-border payments of the banking sector customers were mostly made to or were incoming from the EU countries; however majority of the payments are made to or come from Russia. A large part of cross-border transactions to Russia are made by foreign customers of the banks (see Table No. 19 in the annex).

ML and TF risk profile is characterised also by geography of the foreign payments made by the customers of the credit institutions. In 2018, FCMC combined statistics on countries to which foreign customers of banks transferred financial resources. Predominantly payments are made to Russia, which can be explained by the fact that after termination of direct USA correspondent relationships, for example, with Deutsche Bank, the payments of the foreign customers of the Latvian banks in US dollars mostly go through the banks of the third countries. Mostly the outgoing payments of the foreign customers are transferred to the banks in Europe; however, payments to the banks in Ukraine, Belarus, China, USA, Turkey and Hong Kong have also been detected (see Table No. 18 in the annex). It should be noted that none of these countries has been included in the list of high-risk countries by the European Commission, and have not been included in the list of high-risk countries by FATF.

The European security services assess that traditional money delivery types, namely bank transfers, money transfer companies, *hawala*<sup>50</sup> and cash couriers will continue to be prioritised financing types for terrorist networks that require collection and delivery of large amounts of money. Similarly, terrorist groups operating in territories with weak or underdeveloped infrastructure of information technologies will continue being interested in cash or other easily usable valuables that are used more often or easily than, for example, virtual currency.<sup>51</sup>

## Consumer credit service providers

There are six activity types of consumer credit service providers in Latvia, and a total of 60 obliged entities under the AML/CTF Law: 23 distance loans, 20 consumer loans, 14 leasing and other loans secured by a vehicle or another item, 15 mortgages, 18 loans against the collateral of a movable property, and 23 loans to legal and natural persons for economic activity.

Mostly, receipt and repayment of loans takes place via bank transfers; however, there is a possibility to obtain a loan and repay it in cash. In relation to transactions made in cash it is less possible to gain assurance of further use of borrowed funds and to identify the origin of the monetary funds used for repayment of loan.

Moreover, the non-banking sector has comparably poorly developed technological solutions ensuring the possibility for automated identification of persons included in the lists of terrorists.

There is a risk that services of the consumer crediting might be used for TF. Factors proving before mentioned are following - the option to receive a loan remotely resulting in a risk of anonymity and fraud; transfer of money to a third party; the service is easily and quickly accessible; the purpose of use of the loan is not clear; the funds paid to the credit card may be quickly transferred across the border.

The total consumer credit portfolio of the consumer credit services providers<sup>52</sup> in Latvia was EUR 612.31 million on 31 December 2017, and the total portfolio of loans issued to the legal entities and/or natural persons for commercial activity comprised EUR 1,308.12 million. The total amount of both portfolios comprises EUR 1,920.43 million or 81.51% of the volume of assets declared by the licensed consumer credit service providers in reports of 2017 on 31<sup>st</sup> of December, 2017. The total amount of loans issued to consumers increases year by year; yet at the same time the number of newly contracted transactions reduces, and customers in a majority of cases are residents (ratio of non-residents in the customer portfolio is under 1%).

During the reporting period, FIU Latvia has not received reports from the consumer credit service providers on suspicious transactions in relation to TF. However, 12 reports on suspicious transactions were received in 2018

<sup>50</sup> Non-formal money transfer system by using intermediaries, without movement of physical cash across the border or via banks.

<sup>51</sup> SSS report, page 8 (SSS internal document)

<sup>52</sup> Aggregate of loans issued by a credit institution

(0 reports in 2017) with the cause for reporting mostly being repayment of the received loan to several persons from the same account (suspicion on application for a loan without the knowledge of the third party or transfer of the received loan to the third party), and turnover of atypically large volume of non-banking loan by a customer within a short period of time followed by extension of repayment deadlines, or contrary – early repayment in full amount.

### Cash transactions

TF may be carried out not only via bank transfers, but also in cash. Cash transactions are more difficult to identify and to determine the purpose of use of the funds. During the reporting period, FIU Latvia has received 70 reports on suspicious transactions in relation to suspicion of TF; 11 of the reports were received from the banks, and 57 from other financial institutions, including *Western Union* – provider of international money transfer services.

*Western Union* services may be received online or at the customer service centres by using cash. In Riga, the service may be received in "Latvijas Pasts", pawnshops or by mediation of other agents. Even though a significant number of reports has been received during the reporting period, these have mostly been related to money transfers between natural persons, for example, a natural person X receives money transfers from several other natural persons, when suspicion is created by the number of transactions received by person X. Connection to TF has not been identified in any of these cases.

State Joint Stock Company "Latvijas Pasts" provides financial services, such as cash transfers to 26 countries, as well as "EuroGiro" and "Western Union" services. It is not necessary to open a payment account at the post office in order to make a money transfer, however the person conducting the transfer has to present an identification document. Money transfers are mostly sent to recipients in Russia and Ukraine. Majority of the cross-border money transfers paid out in Latvia has come from the Great Britain, Germany, Russia, and Bosnia and Herzegovina.

By crossing the external border of the EU, person who has cash at their disposal equivalent to or exceeding EUR 10,000 must declare it. The duty of declaration applies also to minor persons. According to statistics of the customs of Latvia for the reporting period, cash declaration on the state border is constant (the number of cash declarations in 2017 was 889, and in 2018 it was 886). Declarations are mostly made at the airport when entering Latvia (682 declarations in 2017; the average amount of one declaration has been EUR 118,307.05); however, when leaving Latvia, cash is declared three times less (207 declarations made in 2017) yet on larger amounts (average amount of one declaration in 2017 has been EUR 981,397.90). Violations are detected on average of 4% of the total amount of declarations. Connection to TF has not been identified in any of the registered violations.

### Foreign currency exchange

The use of foreign currency cash purchase and sale in TF schemes is a process that does not require special planning, knowledge or expertise, and it is easily accessible to anyone. Therefore, purchase and sale of foreign currency cash may be used in TF.<sup>53</sup>

36 capital companies operate in the sector of purchase and sale of foreign currency cash. Each year the total amount of transactions is approximately EUR 300 million, and the average earnings of the capital companies is 1%.

Transactions are carried out in person, and in 2018, 97% of the transactions made by the capital companies have been anonymous (98.5% in 2017), consequently, the capital company has not established the identity of the person performing the transaction because the transactions have been under EUR 1,500, which is the threshold of transaction after reaching which the capital companies are obliged to perform customer due diligence. The rather high number of anonymous transactions indicates that most of the transactions are made in small amounts (average volume of a transaction ranges from 200 to 500 euros).

Services of the foreign currency exchange are easily accessible and anonymous; thus, the risk exists that funds may be used for TF. The capital companies registered in Latvia are mostly small companies dominated by individual transactions with unidentified performers. Full customer due diligence is performed rarely, and the information at the disposal of the licensing commission of the Bank of Latvia shows that the violations that are most often discovered in the capital companies are related to insufficient knowledge in the area of prevention of ML and TF.

Purchase and sale of foreign currency cash is an instant transaction conducted in person. Thus, all necessary information must be obtained at the moment of transaction, while aware that the customer may refuse from making the transaction or deliberately reduce the amount of transaction for purposes of reducing the provided information or avoiding from its provision at all. Mostly only information provided by the customer and quickly

<sup>53</sup> The Bank of Latvia: Guidelines for Prevention of ML and TF in the Sector of Purchase and Sale of Foreign Currency Cash Page 2

accessible public registers are used for inspection of the status of a beneficial owner and politically exposed person thus, full customer due diligence is hindered, in general increasing the vulnerability of the sector.<sup>54</sup>

The Bank of Latvia has identified suspicious characteristics and risk identifiers in purchase and sale transactions of foreign currency cash. Guidelines have been developed for identification, as well as an obligation has been imposed to perform customer due diligence if the amount of transaction exceeds the limits set by the AML/CTF Law.<sup>55</sup> Within the last years, reports from foreign currency exchange points in Latvia have not been received on suspicious transactions in relation to TF (see Table No. 1 in the annex).

### Virtual currency

Opportunities provided by the new technologies, for example, anonymity, encrypted communication and circumvention of financial control regimes, within the next few years could be used to obtain, store and transfer funds to TF. This tendency applies to other technologies with similar parameters as well, including online trade sites and so called *Darknet* which is freely available and together with anonymised payment options provides a high-level anonymity for the trade of illegal goods.<sup>56</sup> Therefore, there is a reason to assume that virtual currency may be used for TF as well.

FCMC sees provision of financial services to customers exercising various activities with cryptocurrencies (mining, cryptoexchange, initial coin offering, etc.) as a possible new risk in the banking sector, emphasising the lack of framework in the sector, anonymity principles linked to cryptoassets and risks of identity theft, as well as the wide use of cryptoassets for various criminal and fraudulent activities, circumvention of international sanctions.

In 2017, the definition of the virtual currency was included in Section 1 of the AML/CTF Law, by transposing it from the formulations of the EU discussions. As of 1<sup>st</sup> of July, 2019, virtual currency service providers in Latvia become obliged entities under the AML/CTF Law, and their supervisory authority shall be SRS.<sup>57</sup> Service providers offering conversion of the virtual currency into cash, as well as sites maintaining e-wallets for the virtual money will be considered under the AML/CTF Law. As an obliged entity under the AML/CTF Law, their main duties will be to submit a report on the type of activity conducted, appoint the responsible person, establishment of the internal control system as well as reporting on unusual and suspicious transactions.

Anonymity of the virtual currency transactions: transactions and operations are visible, however it is difficult to determine who has performed transactions; the customer cannot be identified; blockchains have been placed in many countries. All these factors challenges detection of a criminal offence, identification of involved persons and their prosecution creating the risk of virtual currency being used for TF.

During the reporting period, reports from e-currency service providers in Latvia have not been received on TF suspicious transactions by using virtual currency (see Table No. 1 in the annex).

### Donations

European security services emphasizes that collection of donations online for TF will become more important and organised in the near future. Donations may be collected both by individuals and organisations connected to seemingly legal objectives. Identification of the final beneficiaries of the money may be especially complicated if, for instance, it is linked to implementation of (business, political or charity) projects in the conflict zones and other territories in which Islamic terrorist groups operate.<sup>58</sup>

Infringements in collection and use of donations have not been registered in Latvia over the reporting period; however the risk exists that collection of donations, including online donations, may become more significant and organised in near future. Characteristics identified in the international practice regarding possible TF in relation to collection of donations mainly indicate unclear purposes of donation or unclear final beneficiaries of the collected donations.

### Non-governmental organisations

FATF 8th Recommendation "Non-profit Organisation" imposes a duty on the states to revise the compliance of their laws and regulations in relation to the structural units that might be abused for TF purposes. Non-profit organisations are especially vulnerable, and the state is obliged to guarantee that they cannot be abused, that is, it should be guaranteed that:

- a. they are not used by terrorist organisations pretending to be legal structural units;
- b. legal structural units are not used as means for TF, including for the purpose of avoidance of asset freezing measures;

<sup>54</sup> Licensing Commission of the Bank of Latvia: Assessment of Money Laundering and Terrorism Financing Risks in the Sector of Purchase and Sale of Foreign Currency Cash, Page 3

<sup>55</sup> The Bank of Latvia: Guidelines for Prevention of ML and TF in the Sector of Purchase and Sale of Foreign Currency Cash Page 7

<sup>56</sup> SSS report, page 8 (SSS internal document)

<sup>57</sup> Law on the Prevention of Money Laundering and Terrorism Financing. Latvijas Vēstnesis, 116 (3900), 2008 <https://likumi.lv/ta/id/178987> Section 45, Clause 2

<sup>58</sup> SSS report, page 8 (SSS internal document)

- c. they are not used to conceal or mask secret redirection of funds meant for legal purposes towards terrorist organisations.

It is stipulated in the Associations and Foundations Law that an association and a foundation in its activity is prohibited from proclaiming violence or terrorism, promote war, praise or invite to committal of criminal offences. An association and a foundation is prohibited from arming the members thereof or other persons, to organise military training for members and to establish militarised units.<sup>59</sup>

Currently the NGO in Latvia is formed by associations and foundations, political parties, religious organisations and trade unions. NGOs are not obliged entities under the AML/CTF Law; however SRS supervises and controls NGOs in relation to tax policy and within their competence assesses the financial flow, including evaluating the possible ML and TF risks related to this sector. More stringent financial control and supervision is applied to NGOs that have received the status of PBO. The other NGOs have been delegated extensive rights to oversee their own activity.

Supervision of NGOs in the area of ML and TF may not be considered as sufficient. SRS supervises and controls NGOs in the context of tax regime compliance and only indirectly in relation to ML and TF risks. Consequently, the duty to supervise NGOs indirectly is transferred to credit institutions that are obligated to implement the "know your customer" principle in their business. However, it may be concluded that customers of the credit institutions that are NGOs rarely appear within the field of vision of the divisions of the credit institutions supervising ML and TF risks.

As at 12<sup>th</sup> of December, 2018, in accordance with publicly available data in *Lursoft* database there are 22,514 active associations and 1,624 foundations in Latvia. A total of 28,310 active public organisations, their associations, societies and foundations have been registered.<sup>60</sup> Most of these, 9,915, are registered in Riga.<sup>61</sup> In 2017, PBO status has been granted to 221 NGOs, but in the first half of 2018 – to 67 NGOs.

In accordance with the definition provided by FATF, the list of NVOs that are a subject to a high ML and TF includes religious organisations, charity organisations, organisations performing activity in social aid, accommodation matters, healthcare and education. Over the reporting period increase of listed organisations established has been observed in Latvia, except the number of religious organisations – it has decreased by 143 (see Figure No. 4 in the annex).

No TF indicators were found in any of NGOs assessed, as well as linkage to terrorist organisations was not identified during TF risk assessment conducted in 2018. None of the NGOs assessed had previously been in the field of vision of SSS regarding TF.

Associations, foundations or trade unions must submit annual reports of donations and contributions, however while it is possible to accept anonymous donations freely the sources of which (origin of funds and persons making the donations) are not listed, it is difficult to exercise general control of the use of targeted donations and general control of financing transparency and legitimacy of the financing of associations.<sup>62</sup> Annual reports of donations and contributions provide information on amounts used, however detailed purpose of use is not provided. Use of finances by NGOs with a granted PBO status is thoroughly supervised, and in cases when the use of donations does not correspond to the purpose, the granted PBO status is lost.

During the reporting period, the financial institutions<sup>63</sup> performed detailed analysis of incoming and outgoing transactions of NGOs; which led to the conclusion that 98% of all transactions performed are domestic transactions between the organisations in Latvia in the NGO sector, and only 2% are international transactions, mostly among the member states of EU. The total sum of the incoming transactions only slightly exceeds the outgoing sum (the margin is EUR 18,293,483 or 0.8%). However, when analysing the amounts of performed transactions, 63% of financial resources circulate in domestic transactions, and 37% are transactions made by foreign countries (see Tables No. 14, No. 15 and No. 16 in the annex), indicating that the volume of one international transaction is higher than in domestic transactions.

As mentioned before, the transactions in the NGO sector are mostly carried out within the EU countries. When divided according to the 10 largest volumes of transactions, majority of transactions are made with the neighbouring countries, such as Lithuania and Estonia, as well as Russia and Belarus, from which mostly incoming payments can be observed (see Tables No. 15 and No. 16 in the annex). Both the outgoing and the incoming

<sup>59</sup> Associations and Foundations Law. Latvijas Vēstnesis, 161 (2926), 14.11.2003. <https://likumi.lv/ta/id/81050> Section 10 (Clause 1.1); Section 11

<sup>60</sup> Lursoft statistics: Distribution of Public Organisations, their Associations, Societies and Foundations by Type as at 12 December 2018 [https://www.lursoft.lv/lursoft\\_statistika/?id=66](https://www.lursoft.lv/lursoft_statistika/?id=66)

<sup>61</sup> Lursoft statistics: Distribution of Public Organisations, their Associations, Societies and Foundations by Municipalities/Cities in Latvia as at 12 December 2018 [https://www.lursoft.lv/lursoft\\_statistika/?id=50](https://www.lursoft.lv/lursoft_statistika/?id=50)

<sup>62</sup> Informative report of the Ministry of Justice "Regarding the Execution of the Task Given in Paragraph 2 of the Cabinet Protocol Decision of the Session of 15 July 2014 (minutes No. 39 49. §) "Informative Report "On Proposals for Amendments to the Regulatory Framework for Restriction of Receipt of Anonymous Donations of Associations Impacting the Political Processes"" <http://tap.mk.gov.lv/lv/mk/tap/?pid=40356956> and Cabinet Regulation No. 808 of 3 October 2006 "Regulations on Annual Reports of Associations, Foundations and Trade Unions". Latvijas Vēstnesis, 160 (3528), 06.10.2006. <https://likumi.lv/ta/id/145113> Section 52.1

<sup>63</sup> Data was submitted by 16 credit institutions and 2 branches of the banks; 2 branches of the banks did not provide data because there were no NGO customers; data was not received from 1 branch of the bank.

transactions are not carried out with such risk countries as North Korea, Iran, Iraq or Syria; however, transactions with their neighbouring countries or other risk countries or regions have been registered (see Table No. 17 in the annex), although the identified transactions accumulate relatively small volumes considering the size of financial sector of Latvia. It should be noted that transactions to high-risk countries are not regular and therefore such transactions can be properly investigated and associated risks – mitigated.

SSS will continue conducting assessment of TF risks in relation to NGOs registered in Latvia. At the same time, methodology will be developed, improved and applied in order to carry out in-depth and uniform assessment of NGOs TF risk. Considering the number of NGOs, such criteria are necessary to divide these organisations in risk groups. Not only will the information at the disposal of SSS be used for the assessment, but also information of other institutions, for instance, information at the disposal of SRS. Additionally, attention will be focused to possible activity in Latvia by NGOs registered abroad, and associated TF risk assessment will be performed.<sup>64</sup>

# PROLIFERATION AND PROLIFERATION FINANCING

One of the significant elements of the Latvian foreign and security policy is a responsible action in the areas of arms control and non-proliferation of conventional weapons and WMD. It is especially important not to permit the distribution of WMD at the time when terrorism threats are of concern to the society. Latvia fulfils the binding commitments by participating in the most significant international agreements for control of conventional arms and non-proliferation of WMD and in international export control regimes. A comprehensive export control policy in compliance with the EU provisions has been implemented in Latvia.<sup>65</sup>

In accordance with FATF 7<sup>th</sup> Recommendation, the states must implement targeted financial sanctions in compliance with the resolutions of the UN Security Council in the area of proliferation and combating PF. FATF 7<sup>th</sup> Recommendation is currently applicable to two countries – North Korea and Iran; however, it does not mean that precautionary measures and restrictions do not apply to other high-risk countries. Financial institutions and companies that have chosen to cooperate with or service customers conducting transactions with North Korea or Iran, or other terrorism risk countries must carry out precautionary measures and additional inspections when conducting transactions. When conducting such type of business, mentioned financial institutions and companies should be aware of the high risks, and each case should be assessed individually.

Cases of PF are hard to identify, as obliged entities can be both natural persons and countries. It is imperative to check the international and Latvian national lists of sanctions and to identify the true beneficial owners of the customer.

During the course of 2018, the legal framework of PF mitigation has been improved; sufficient resources have been ensured to supervise the implementation of targeted financial sanctions; the obliged entities have been tasked with obligatory establishment of internal control system; composition of the Committee for Control of GSS has been enhanced; international cooperation for combating PF has been developed.<sup>66</sup>

## THREATS

### Geographical reach

Latvia is a suitable place for organisation of transit and logistics between the countries of the EU, Commonwealth of Independent States (CIS) and Asian markets. The border of Latvia with Belarus and Russia is also the external border of the EU. Latvia is actively working on improvement of logistics and transport services and strengthening of trade routes between Europe and Asian countries, including in cooperation with China within the framework of the Belt and Road Initiative and 16+1<sup>67</sup> format. Potentially interesting is also the option of Northern-Southern Corridor, connecting the Baltic Sea region with India.

Possibility exists that by using transport infrastructure and favourable geographical location of Latvia GSS might be transported through Latvia to sanctioned countries and to high terrorism risk countries with a purpose to transfer GSS to the terrorist groups.<sup>68</sup>

<sup>64</sup> SSS assessment on NGOs (letter of 12.10.2018. No. 21/3756: SSS internal document)

<sup>65</sup> Ministry of Foreign Affairs: Arms control and non-proliferation of weapons of mass destruction <https://www.mfa.gov.lv/arpolitika/drosibas-politika/brunojuma-kontrolle>

<sup>66</sup> Cabinet Order of 11 October 2018 No. 512 Regarding Planned Actions for Prevention of Money Laundering and Terrorism Financing until 31 December 2019. *Latvijas Vēstnesis*, 203 (6289), 15.10.2018. <https://likumi.lv/ta/id/302218>

<sup>67</sup> Cooperation format of the countries of the Central Europe and Eastern Europe and China.

<sup>68</sup> SSS report, page 12 (SSS internal document)

In case of PF, the financial system of Latvia may be used for suspicious transfers as a stage in complex transaction chains to pay for GSS and transporting in scenarios when GSS are transported via other countries, by transferring financial resources through banks or payment institutions registered in Latvia.

### **The role of control of goods of strategic significance in restriction of proliferation**

Control of the GSS movement has an important role in mitigating the terrorism threat and restriction of circulation of WMD. It may cause significant threat to the security of Europe and other countries across the world, if terrorists receive particular GSS in their possession.

GSS are military goods, including weapons and explosives, and dual use goods (civil and military), for example, equipment, materials, chemical substances, software, technologies and services. Trade of dual use goods is controlled because those may potentially be used for uncontrolled manufacturing of military technologies or weapons.<sup>69</sup>

One of the directions of action in the control of GSS circulation is the analysis of information obtained to prevent distribution of WMD and its parts. One of the main purposes for controlling GSS circulation is to prevent entry of GSS, as well as other sensitive goods (that are not GSS but are controlled, considering separate risks, for example, a particular recipient country) into sanctioned countries, terrorism risk countries or at the disposal of terrorist groups. SSS obtains information on subjects of GSS circulation and companies related to GSS circulation, as well as conducts analysis of the mentioned information.<sup>70</sup>

Development of laws and regulations concerning the circulation of GSS and control of goods is implemented by the Committee for Control of GSS. Under the leadership of the State Secretary of the Ministry of Foreign Affairs the following state authorities of Latvia - the Ministry of Foreign Affairs, the Ministry of Economics, the Ministry of Finance, the Ministry of Health, the Ministry of Defence, the State Environmental Service, the State Police, the State Security Service, the Constitution Protection Bureau, the State Revenue Service and the Radiation Safety Centre, operate collegially in the Committee for Control of GSS. In order to improve mutual exchange of information at the national level and to promote understanding of proliferation risks, representatives of FIU Latvia and FCMC participate in the work of the Committee for Control of GSS as of 2018.<sup>71</sup>

Control of the GSS movement in Latvia is regulated by the Law On the Circulation of Goods of Strategic Significance and by the CoM Reg. No. 657 of 20<sup>th</sup> of July, 2010 "Procedures for Issuing or Refusal to Issue a Licence for Goods of Strategic Significance and Other Documents Related to the Circulation of Goods of Strategic Significance" defining that each import, export or transit transaction of GSS requires a licence for receipt - an application to obtain a licence must be submitted to the Ministry of Foreign Affairs.<sup>72</sup> GSS goods are goods included in the lists of controlled goods under the law mentioned above. The lists of controlled goods are developed in the framework of international export control regimes - Nuclear Suppliers Group, Wassenaar Arrangement, Australia Group, Missile Technology Control Regime, and transposed into Council Regulation (EC) No 428/2009 of 5<sup>th</sup> of May, 2009 setting up a Community regime for the control of exports, transfer, brokering and transit of dual-use items and the Common Military List of the European Union and are directly binding to Latvia. CoM Reg. No. 645 of 25<sup>th</sup> of September, 2007 "Regulations Regarding the National List of Goods and Services of Strategic Significance" lays down the goods of strategic significance the control of which has been determined at the national level.

In Latvia, administrative liability is applied for violations of GSS import, export, transfer and transit regulations, as well as for actions if committed repeatedly within a year after imposition of an administrative penalty.<sup>73</sup>

Criminal liability is applied for illegal movement of goods and substances the circulation of which is prohibited or specially regulated across the state border of Latvia, including violation of GSS circulation regulations.<sup>74</sup>

This far, GSS transfer or sale to terrorist groups has not been detected in Latvia. In 2017, two criminal proceedings were initiated on infringements of GSS circulation regulations where Latvia was involved as a transit country in a possible illegal movement of dual-use goods. Currently investigation is conducted within the framework of the criminal proceedings. Case Analysis No. 4 provides more detailed information on one of the criminal proceedings initiated in 2017.

<sup>69</sup> Ministry of Foreign Affairs: Control of the Goods of Strategic Significance <https://www.mfa.gov.lv/tautiesiem-arzemes/aktualitates-tautiesiem/20440-strategiskas-nozimes-precu-kontrolle?lang=lv-LV>

<sup>70</sup> SSS report, page 9 (SSS internal document)

<sup>71</sup> Cabinet Regulation No. 866 of 4 August 2009 "By-Laws of the Committee for Control of Goods of Strategic Significance". Latvijas Vēstnesis, 126 (4112), 11.08.2009. <https://likumi.lv/ta/id/195928>

<sup>72</sup> Ministry of Foreign Affairs: Control of the Goods of Strategic Significance <https://www.mfa.gov.lv/tautiesiem-arzemes/aktualitates-tautiesiem/20440-strategiskas-nozimes-precu-kontrolle?lang=lv-LV>

<sup>73</sup> Latvian Administrative Violations Code. Latvijas Padoņju Sociālistiskās Republikas Augstākās Padoņes un Valdības Ziņotājs, 51, 20.12.1984. <https://likumi.lv/ta/id/89648> Section 201.<sup>10</sup>, Paragraphs 4 and 5.

<sup>74</sup> The Criminal Law. Latvijas Vēstnesis, 199/200 (1260/1261), 08.07.1998. <https://likumi.lv/ta/id/88966> Section 190.<sup>1</sup>, Section 237.<sup>1</sup>

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#### Case Analysis No. 4: Criminal proceedings on violations of movement of GSS

Latvian company X performed illegal movement of GSS by acquiring goods of military nature from Russia and transporting these goods to Vietnam. In order to circumvent the sanctions imposed by the EU against Russia (prohibition on import of military goods), the company X made a payment for goods to a company Y registered in the Great Britain which was an intermediary for the Russian manufacturer of goods. The company X deliberately avoided from the receipt of GSS transit licence to avoid the inspections of conducted activity and goods.

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In 2017, the Committee for Control of GSS has issued 572 licences, and 601 licences in 2018 (see Table No. 9 in the annex). Within two years 26,176 requests for identification of goods have been reviewed, of which 394 goods have been recognised as to be licensed. When assessing the risks of the final recipient country, international commitments and restrictions, regional stability and security, the Committee for Control of GSS in 2017 and 2018 has refused to issue a licence in four cases. It should be noted that in separate cases, when the senders of the goods find out that a licence is needed for the export or transit of the goods and that it might be refused due to above-mentioned considerations, they prefer not to submit an application for licensing and do not move the goods.

During the reporting period, dual-use goods in transit are mostly moved to Russia and Belarus, and mostly to Russia, Israel, Ukraine and Pakistan (see Table No. 6 in the annex). Dual-use goods that are exported or moved in transit to the mentioned countries have been inspected in detail by the Committee for the Control of GSS, and appropriate licences have been issued. There have been cases when by using the transit roads in Latvia attempts have been made to transport dual-use goods illegally - analysis of these cases are provided below. It should be noted that cases No. 5, No. 6 and No. 7 mentioned below are currently under investigation.

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#### Case Analysis No. 5: Movement of GSS in transit through Latvia No. 1

Russian citizen X with a company registered in Latvia was engaged in organisation of illegal proliferation of technological materials from the USA to Russia (microchips manufactured in the USA were delivered to Russia for a possible use in military industry). Microchips were received from the USA by courier mail and afterwards independently exported to Russia by train. An application was also sent to the relevant authorities of the USA to obtain a permit for a purchase of a large quantity of microchips; as an end user was specified a company the production manufactured by which may be used for military needs. After rejection of the application repeated consignments of microchips were performed by courier mail making use of forged invoices. Money was transferred from the Russian company owned by X to the Latvian company X, and afterwards to the manufacturer of microchips in the USA.

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#### Case Analysis No. 6: Movement of GSS in transit through Latvia No. 2

Companies A and B registered in Latvia were involved in supplies of oils intended for military needs from Belarus and Russia to Syria. Delivery took place via Latvia by using the infrastructure of the Riga port companies. In separate cases, the ports of neighbouring countries of Syria were used for sending of the mentioned goods (by not sending the goods from Riga directly to Syria) in order to avoid from violating the sanctions. Payment for the goods and sending in Latvia was organised by the registered companies via offshore companies.

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#### Case Analysis No. 7: Movement of GSS in transit through Latvia No. 3

Companies A and B registered in Latvia were involved in transit of materials used in nuclear industry to Syria from Belarus to Latvia. Inadequate codes of goods were provided in the accompanying documents of the goods. Belorussian company X made an unsuccessful attempt to send silicon fibre to Syria via Latvia (due to its parameters the fibre is considered sensitive goods that may be used for development of missiles).

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#### Case Analysis No. 8: Movement of GSS in transit through Latvia No. 4

GSS were moved without the transit licence on the route China – Latvia – Russia. Latvian company X declared goods in the transit customs procedure by using the permit issued by customs authority for the recognised recipient/sender, and did not submit a GSS transit licence. GSS goods were confiscated, and Latvian company A received administrative penalty.

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#### Case Analysis No. 9: Movement of GSS in transit through Latvia No. 5

When scanning the truck on the border of Latvia and Russia on the route Moscow - Kaliningrad, undeclared goods were found that are included in the Common Military List of EU. To circumvent the sanctions imposed by the EU against Russia, the goods of military nature were concealed in the declared loaded cargo.

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Analysis of the above-mentioned cases show that increased attention should be paid to transit from and to Russia. Committee for Control of GSS most often issues licences for import and export, as well as for transit of dual-use goods directly in transactions with Russia. However, there is a risk that deliberately or due to lack of knowledge concerning the necessity of a GSS licence, GSS or dual-use goods without appropriate licences might be further moved through Latvia. It should be noted that Latvia is located in the transit way between Russia and its territory at the Baltic Sea, where Russia constantly strengthens its military potential in the Kaliningrad region over the last years, as well as the military exercise takes place.

Latvia does not have international GSS trade with North Korea. MFA has not issued or reviewed any licence for GSS trade with North Korea, and the exporters have not shown interest. In 2017, export of dual-use goods to Iran has been registered, but in 2018 the GSS trade with this country was no longer registered (see Table No. 6 in the annex).

External trade of Latvia with Iran and North Korea is insignificant; in 2017 and 2018 it comprises only 0.02% (Iran – 8 million EUR; North Korea – EUR 68,296) of the total external trade of goods (see Table No. 10 in the annex). Mostly timber and peat is exported to Iran, and pharmaceutical products to North Korea. It should be noted that the responsible authorities of the State have conducted inspections on these cases of trade, and violations were not detected.

### Democratic People's Republic of Korea (North Korea)

North Korea has conducted several ballistic missile and nuclear tests, thus clearly violating the resolutions approved by the UN Security Council and creating threat to security not only in the region of Asia, but on the global scale as well. A comprehensive sanctions regime has been applied to North Korea for implementation of the nuclear programme, including arms embargo, export and import restrictions, and restrictions in the financial sector and to financial aid, restrictions in the transport and investments sector, travel restrictions, service provision restrictions as well as other restrictions.

Even though North Korea geographically is located far away, Latvian financial institutions have been used for circumvention of the financial sanctions imposed against North Korea by using fictitious companies and performing complex chains of transactions. EU practice shows that companies registered in the EU are often used for proliferation, including intermediary companies, as well as consignment re-export, significantly hindering detection of proliferation.<sup>75</sup>

Latvia has imposed national sanctions – financial restrictions – for support of the North Korean political regime and programmes related to nuclear weapons, WMD or ballistic missiles.<sup>76</sup>

Sanctions Law provides an opportunity for Latvia to impose national sanctions. In accordance with the Sanctions Law, on 25<sup>th</sup> of July, 2017 the CoM adopted Reg. No. 419 "Regulations Regarding Imposition of National Sanctions in Relation to Subjects Linked to the Nuclear Programme and Political Regime Implemented by the Democratic People's Republic of Korea". On the basis of the above-mentioned regulations, two orders by the CoM were issued imposing sanctions against three persons (two natural and one legal person) in 2017 and 2018 for PF attempts by using financial system in Latvia.

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#### Case Analysis No. 10: Latvia implements sanctions against a citizen and a legal entity of North Korea

Latvia has imposed financial restrictions against the citizen of North Korea Ri Song-Hyok also known as LI, Cheng He, who in accordance with the information at the disposal of competent authorities of Latvia has by his actions promoted the nuclear programme implemented by North Korea and supports the political regime of North Korea. By using the company Ruskor International Company Ltd., Ri Song-Hyok has provided financial and material aid to promote strengthening of the political regime of North Korea, as well as development of such programmes that are related to WMD, including nuclear weapons and ballistic missiles.<sup>77</sup>

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Case Analysis No. 10 provides more detailed information on the natural and legal persons that were included in the national list of sanctions. In accordance with Section 5 of the Sanctions Law, these persons are prohibited from access to financial resources and financial instruments, receipt of financial services laid down in the international and national sanctions, as well as obliged entities under the AML/CTF Law are obliged to freeze all financial resources and financial instruments in the ownership, possession or control of the subject of sanctions.

In 2018, one of the banks in Latvia made a decision to self-liquidate after the US Treasury Department (FinCEN or Financial Crimes Enforcement Network) published a notice on possible involvement of the bank in ML schemes, thus it faced reputation problems. FinCEN also pointed out persons who are linked to persons included in the US

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<sup>75</sup> SSS report, page 10 (SSS internal document)

<sup>76</sup> Ministry of Foreign Affairs: On Implementation of the EU Sanctions against the Democratic People's Republic of Korea <https://www.mfa.gov.lv/arpolitika/par-eiropas-savienibas-ierobezojosiem-pasakumiem/ktldr>

<sup>77</sup> Ministry of Foreign Affairs: Latvia Implements Sanctions against a Citizen and Legal Entity of North Korea <https://www.mfa.gov.lv/aktualitates/zinas/59637-latvija-sankcione-ziemelkorejas-pilsoni-un-juridisko-personu>

and UN lists of sanctions of which some had been involved in purchase or export of ballistic missiles to North Korea.<sup>78</sup> Both the mentioned cases of North Korea and other cases related to other sanction regimes indicate the sanctions risk inherent to servicing customers of high-risk foreign countries.

FCCM has applied penalties to several banks for servicing customers that have circumvented the international sanctions imposed against North Korea (see Table No. 11 in the annex). In 2017, fines were imposed for transfers made during period from 2009 to 2016, and it should be noted that the banks had not reported to the FIU Latvia regarding suspicious transaction indications of these transactions. After violations detected in the banks, FIU Latvia developed and sent guidelines to all credit institutions and payment institutions on indications regarding possible attempt of circumvention of sanctions.

Thus far participants of the financial sector used automated systems in order to ensure verification of the bank's customers and their cooperation partners against the lists of sanctions; however, considering that verification of persons against the list of sanctions is insufficient to prevent the circumvention of sanctions, FCCM has provided explanatory information and has issued binding regulations for mitigation of sanctions risk. At the same time, for mitigation of the sanctions risk, it is important that credit institutions that are historically oriented to servicing of high-risk foreign customers change their core business models by not providing services to the high-risk customers; as a result the financial system of Latvia is subject to a high risk of sanctions.

## Iran

Two regimes of sanctions against Iran are in force in the EU. One is linked to the threat of nuclear weapons development, and the other with violations of human rights. Iran sanctions apply to various areas: freezing of funds, arms embargo, as well as various restrictions in the area of export and import, financial and transport area, travel, service provision, financial aid, provision of specialised training.

As of 2006, the UN Security Council has adopted several resolutions requiring Iran to terminate uranium enrichment for the purposes of manufacturing nuclear weapons. These resolutions were gradually supplemented with restrictive measures to persuade Iran to comply with internationally imposed requirements. It should be noted that the EU implements the sanctions imposed by the UN when adopting EU laws.

On the 14<sup>th</sup> of July, 2015, USA, the United Kingdom, France, Iran, Russia, China, Germany with participation of the High Representative of the European Union for Foreign Affairs and Security Policy concluded an agreement for a JCPOA to ensure the exclusively peaceful nature of Iran's nuclear programme and to ensure cancellation of the sanctions imposed by the UN Security Council, EU and USA in relation to the nuclear programme of Iran. On 8<sup>th</sup> of May, 2018, the President of US Donald Trump adopted a decision to withdraw from JCPOA and renew sanctions against Iran.

## VULNERABILITIES AND RISKS

### Ability of the state to combat proliferation financing

PF differs from TF by the fact that usually only formal sources of financing system are used (banking system, rather than Western Union, Hawala, etc.). Therefore, it is important to ensure appropriate customer due diligence both in theory and in practice. This is particularly topical matter in Latvia, considering the above-mentioned cases with the aggressive risk policy of the Latvian banks in combination with deficiencies in customer due diligence and supervision of transactions; resulting in imposed fines on several banks by FCCM (see Table No. 11 in the annex).<sup>79</sup>

In December 2018, 15 banks and 5 branches of foreign banks operated in Latvia. In order to prevent the possibility that the financial system in Latvia is used for ML, circumvention of sanctions, TF or PF, amendments were made in 2018 to the AML/CTF Law, stipulating that credit institutions, payment institutions, electronic money institutions, investment brokerage companies and, regarding the management of individual portfolios of customers and distribution of open investment fund certificates, also investment management companies thereafter are prohibited to cooperate with shell companies that correspond to at least two indicators laid down in the AML/CTF Law<sup>80</sup> concerning shell arrangements, and to maintain their accounts;<sup>81</sup> thus mitigating the circumvention risk of targeted financial sanctions.

On the basis of above-mentioned amendments to the AML/CTF Law, within two months cooperation with more than 9,000 shell arrangements of all types was rejected<sup>82</sup> and a rapid reduction in deposits by shell arrangements

<sup>78</sup> Financial Crimes Enforcement Network Treasury: Notice of proposed rulemaking (31 CFR Part 1010) pp. 6986-6994 [https://www.fincen.gov/sites/default/files/federal\\_register\\_notices/2018-02-16/2018-03214.pdf](https://www.fincen.gov/sites/default/files/federal_register_notices/2018-02-16/2018-03214.pdf)

<sup>79</sup> News portal "Tvnet" article of 27 June 2017: Three Latvian Banks Involved in Circumvention of Sanctions Imposed on North Korea <https://www.tvnet.lv/4568604/tris-latvijas-bankas-iesaistitas-ziemelkorejai-noteikto-sankciju-apiesana>

<sup>80</sup> Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing. Latvijas Vēstnesis, 116 (3900), 30.07.2008. <https://likumi.lv/ta/id/178987> Section 1, Clause 15.1

<sup>81</sup> Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing. Latvijas Vēstnesis, 116 (3900), 30.07.2008. <https://likumi.lv/ta/id/178987> Section 21.1

<sup>82</sup> FCCM: Latvian Banking Sector is Free of Undesirable Shell Arrangements <http://www.fktk.lv/lv/mediju-telpa/pazinojumi-masu-informacijas-l/2018/7156-fktk-latvijas-banku-sektors-ir-atbrivojies-no-nevelamiem-caulas-veidojumiem-2.html>

can be observed; and as of 31<sup>st</sup> of July, 2018, the banking sector no longer has shell arrangements that would correspond to at least two indicators specified in the AML/CTF Law (see Figure No. 2 in the annex).

In general, a significant drop in number and deposits by shell arrangements (corresponding only to one indicator specified in the AML/CTF Law) can be observed in the banking sector of Latvia over the reporting period (see Figure No. 3 in the annex); however, the remaining shell arrangements still create a high ML, TF and PF risk both due to the volume of financial resources in the accounts of these customers, as well as the risk that after closure of the shell company a new enterprise may be registered right away to use the same funds. It still requires increased attention within the framework of supervision.

In less than a year, ratio of foreign customer (non-resident) deposits in the total amount of deposits is reduced almost by half; in September 2018 – 20.5% (2017 – 39.7%).<sup>83</sup> Currently domestic (80%) and EU resident (10%) deposits dominate in Latvia (see Figure No. 1 in the annex).<sup>84</sup> Even though a drop in deposits by foreign customers can be observed, and its volume is seemingly insignificant; increased attention should still be paid to credit institutions focussing on servicing foreign customers.

Rapid decrease of shell arrangements in Latvia has been successful in 2018; however, if a legal person registered in the Republic of Latvia opens an account abroad and does not register it with SRS, precedents may occur using mentioned legal persons as shell arrangements for fictitious transactions, including use for various types of TF activities or PF.

Currently Ministry of Justice and the Enterprise Register are purposefully working to clarify the beneficial owners of legal persons. 96% of the LLC have revealed their beneficial owners; however, 4% have not revealed their beneficial owners yet, thereof these legal persons are assessed as high risk because their shareholders are foreign legal entities. There is a reason to believe that Latvian capital companies owned by citizens of other countries whilst hiding their beneficial owners may be involved in various types of ML, TF or PF activities. An official request by the Enterprise Register will be sent to legal persons included in these 4% to reveal their beneficial owners; in case of unfulfilled request, the relevant LLC will be excluded from the commercial register by the August 2019, or claim applications on their exclusion will be submitted to the court.

In order to reduce the possibility of proliferation, SSS continues working on development of the national contact point established in 2015 for reporting on suspicious transactions with precursors of explosives, thefts thereof and cases of loss (received reports: 0 in 2017; 1 in 2018). The largest merchants of Latvia involved in the circulation of precursors of explosives on daily basis were provided with information on how to recognise suspicious transactions and how to act when detecting theft or loss of precursors of explosives.<sup>85</sup> In addition, informative seminars are organised on current events in the movement of explosives precursors for representatives of the involved largest importers, traders and manufacturers of explosives precursors as well as relevant state authorities. Informative booklet "Precursors of Explosives. For Reporting on Suspicious Transactions, Cases of Loss and Theft" was developed in 2017. The booklet was distributed to related companies in Latvia.

### Targeted financial sanctions for combating proliferation financing

Two criminal proceedings have been initiated in the reporting period according to Section 83 of the Criminal Law "Violation of Sanctions Imposed by International Organisations and the Republic of Latvia", and almost 7 million euros have been frozen at the FIU Latvia according to the relevant section of the Criminal Law (see Tables No. 3 and No. 4 in the annex). Criminal proceedings are still in the process of investigation.

Section 84 of the Criminal Law determines criminal liability for deliberate violation of laws and regulations<sup>86</sup> in the area of sanctions, rather than for violation, circumvention of international and national Latvian sanctions, or attempts to avoid enforcement of sanctions. On the basis of above-mentioned violations in the banks in relation to circumvention of sanctions imposed on the regime of North Korea, reports on suspicious transactions submitted to the FIU Latvia, possible use of the Latvian financial system in complex chains of transactions, mostly the risk is caused by circumvention of targeted financial sanction, and violation to a lesser measure.

Detecting cases of circumvention of sanctions is more challenging than direct violations because persons involved in circumvention of sanctions will not be included in the lists of sanctions. Sanctions Law<sup>87</sup> provide that sanctions binding to Latvia should be complied with by all natural and legal persons. Execution of the requirements of the Sanctions Law is not limited only to verification of persons against the lists of sanctions, but includes also inspection of the transaction – evaluating the target country of the transaction, performing customer due

<sup>83</sup> FCMC: Infographics: Transformation of the Latvian Banking Sector, 30.09.2018. <http://www.fktk.lv/lv/mediju-telpa/pazinojumi-masu-informacijas-l/infografikas/7328-infografika-latvijas-banku-sektora-transformacija-30-09-2018.html>

<sup>84</sup> FCMC: Infographics: Transformation of the Latvian Banking Sector, 30.09.2018. <http://www.fktk.lv/lv/mediju-telpa/pazinojumi-masu-informacijas-l/infografikas/7328-infografika-latvijas-banku-sektora-transformacija-30-09-2018.html>

<sup>85</sup> Security Police (SSS): Public Report 2017; page 34

<sup>86</sup> Laws and regulations governing the operation of the sanctions imposed by the UN Security Council, EU and other international organisations in Latvia or governing and regulating the operation of national sanctions of Latvia.

<sup>87</sup> Law on International Sanctions and National Sanctions of the Republic of Latvia. Latvijas Vēstnesis, 31 (5603), 2016 <https://likumi.lv/ta/id/280278> Section 2, Clause 2

diligence, clarifying the origin and final user of goods, importer, as well as exporter. None of the persons may perform actions that would allow or facilitate circumvention of the sanctions regime or evasion from execution of sanctions, for example, by making available financial resources to a person against which sanctions are effective in Latvia.

Awareness and skills of the financial and especially private sector in compliance with the PF sanctions should be improved. Comparably low number of reports submitted to FIU Latvia on suspicious transactions (see Table No. 3 in the annex), and penalties applied by FCMC to banks for deficiencies in supervision of customers and transactions (see Table No. 11 in the annex) proves that knowledge or skills are insufficient.

On the basis of Moneyval 5<sup>th</sup> Round Report on Latvia, targeted financial sanctions for combating PF are one of the main courses of action that requires progress. In accordance with the Planned Actions, Latvia has set the main priorities for action for the period until 31<sup>st</sup> of December, 2019; one of the priorities is improvement of the system of targeted financial sanctions by establishing a common understanding of cooperation partners on this system and the necessity for its operation.

### **Suspicious transactions and reports**

High number of reports or transactions on PF cases cannot be observed in Latvia; and no criminal proceedings have been initiated (see Tables No. 2 and No. 4 in the annex). Two criminal proceedings have been initiated during the reporting period for circumvention of the international sanctions imposed on North Korea (see Table No. 4 in the annex) and funds of almost 7 million EUR have been frozen (see Table No. 3 in the annex).

During the reporting period, FIU Latvia has issued 9 orders on freezing of financial resources in relation to circumvention of sanctions imposed by international organisations and Latvia, when the involved business partners have used the financial institutions of Latvia for money transfers. Therefore, Latvia has been used as a transit country for financial transactions. The volume of frozen funds reaches 6% of the total amount of funds frozen by the FIU Latvia in 2018, which is the largest volume of registered frozen funds this far in relation to violation of sanctions (1.4% of the total amount of funds frozen by the FIU Latvia in 2017). It should be noted that inspections are still carried out regarding part of these orders (see Table No. 3 in the annex).

SSS has investigated 8 materials during the reporting period which have expressed suspicion on circumvention of targeted financial sanctions. In one case, a decision was made on initiation of criminal proceedings, within the framework of which examination of 6 above-mentioned materials takes place. In another material a decision was made to refuse initiation of the criminal proceedings. Volume of materials and initiation of the criminal proceedings indicate the ability of the law enforcement authorities to prove the possible cases of sanctions circumvention or PF, and to react, thus mitigating risk. Considering the statistics of the last years, Latvia has recognised the necessity to perform fundamental improvements in the legal framework of sanctions, especially in effective implementation of targeted financial sanctions in mitigation of PF.<sup>88</sup>

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<sup>88</sup> Cabinet: "Moneyval" report confirms the direction of the course selected by the government (23.08.2018.) <https://www.mk.gov.lv/lv/aktualitates/moneyval-zinojums-apstiprina-valdibas-izveleta-reformu-kursa-virzieni>

# ABBREVIATIONS AND TERMS

AML/CTF Law	Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing
Circumvention of sanctions	Any activity aimed at non-compliance or indirect violation of imposed sanctions
CoM	Cabinet of Ministers
CRPC	Consumer Rights Protection Centre
EU	European Union
EUR	Euro
FATF	Financial Action Task Force
FATF Recommendations	Financial Action Task Force 40 Recommendations – internationally recognised global standard for implementation of effective AML/CTF Law measures (version of 2012)
FCMC	Financial and Capital Market Commission
FIU Latvia	Financial Intelligence Unit Latvia
Foreign partnering services	Authorities in the Member States of the European Union and outside EU that are analogous to SSS or CS
GSS	Goods of strategic significance
JCPOA	Joint Common Plan of Action
List of sanctions	A list of any persons or organisations published by an authority on the basis of laws and regulations in the area of sanctions
MFA	Ministry of Foreign Affairs
ML	Money laundering
Moneyval	Council of Europe Committee of Experts on the Evaluation of AML Measures and the FT
Moneyval 5th Round Report on Latvia	Council of Europe Moneyval Committee Mutual Assessment 5th Round Report on Latvia evaluating the measures for prevention of ML and TF implemented in the country, adopted on 23 August 2018
Moneyval recommendations	Recommendations included in the Moneyval 5th Round Report on Latvia
NATO	North Atlantic Treaty Organisation
NGO	Non-governmental organisation
North Korea	Democratic People’s Republic of Korea
Obligated entities under the AML/CTF Law	Subjects listed in Section 3 of the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing
PBO	Public benefit organisation
PF	Proliferation financing
Planned Actions	Cabinet Order of 11 October 2018 Nr.512 Regarding Planned Actions for Prevention of Money Laundering and Terrorism Financing until 31 December 2019
Radicalisation	People accept intolerant opinions, views and ideas that might cause violent extremism
Report	National Report on Terrorism and Proliferation Financing Risks 2017-2018
Reporting period	2017-2018
Sanctions Law	Law on International Sanctions and National Sanctions of the Republic of Latvia
SRS	State Revenue Service
SSS	State Security Service
Supervisory authorities	Supervisory and control authorities listed in Section 45 of the AML/CTF Law
Targeted financial sanctions	Include freezing of financial resources or property, prohibiting their transfer to the persons (natural or legal) and organisations included in the lists of sanctions, including individual sanctions (terrorist lists)
TF	Terrorism financing
UN	United Nations
USA	United States of America
Violation of sanctions	Any activity violating the imposed sanctions
WMD	Weapons of mass destruction



# ANNEX NO. 1

**Table No. 1** – Number of reported suspicious transactions of TF submitted by subjects of the AML/CTF Law to the FIU Latvia

	2014	2015	2016	2017	2018
Total number of TF suspicious transactions	0	4	19	15	70
Banks	0	3	15	12	11
Insurers	0	0	0	0	0
Transactions with securities	0	0	0	0	0
Investment firms	0	0	0	0	0
Foreign currency exchange capital companies	0	0	0	0	0
E-currency service providers	0	0	0	0	0
Other financial institutions	0	1	0	0	57
Providers of gambling and lottery services	0	0	0	0	0
Providers of services in precious metals, precious stones and products thereof	0	0	0	0	0
Real estate agencies	0	0	0	0	0
Auditors	0	0	0	0	0
Tax consultants	0	0	0	0	0
Providers of trust and corporate services	0	0	0	0	0
Lawyers	0	0	0	0	0
Notaries	0	0	0	2	0
Accountants	0	0	0	0	0
Others	0	0	4	1	2
Number of materials transferred by the FIU Latvia to the law enforcement authorities	0	2	7	1	2

Source: FIU Latvia

**Table No. 2** – Number of reports and suspicious transactions received by the FIU Latvia from the state subjects and foreign services concerning TF and PF

		2014		2015		2016		2017		2018	
		Reports	Transactions								
TF	Foreign services	0	0	16	16	22	23	6	6	10	10
	Subjects of Latvia	0	0	4	4	16	19	11	15	20	70
PF	Foreign services	0	0	0	0	0	0	0	0	0	0
	Subjects of Latvia	0	0	0	0	0	0	4	4	1	1

Source: FIU Latvia

**Table No. 3 – Number of orders issued by the FIU Latvia on freezing of financial resources in cases of TF and PF and volume thereof, and the total number of orders issued by the FIU Latvia on freezing of financial resources and the volume thereof (EUR)**

Year		TF	PF	Circumvention of sanctions*	Total CS
2014	Number of orders	0	0	1	403
	Amount (EUR)	0	0	16,223.84	79,000,000.00
2015	Number of orders	0	0	0	243
	Amount (EUR)	0	0	0	21,614,000.00
2016	Number of orders	2	0	0	252
	Amount (EUR)	431.64	0	0	36,170,000.00
2017	Number of orders	1	0	1	243
	Amount (EUR)	34,203.22	0	652,448.70	45,600,000.00
2018	Number of orders	0	0	9	196
	Amount (EUR)	0	0	6,021,580.62	101,482,410.78

\* Orders of 2014, 2017 and 2018 and the reason for frozen funds – Section 84 of the Criminal Law, circumvention of sanctions imposed by the international organisations and Latvia.

Source: FIU Latvia

**Table No. 4 – Criminal proceedings in relation to cases of TF and PF**

		2014	2015	2016	2017	2018
TF	Initiated CP	0	1	0	0	1*
	Forwarded to prosecutor's office	0	0	0	0	0
	Forwarded to court	0	0	0	0	0
PF	Initiated CP	0	0	0	0	0
	Forwarded to prosecutor's office	0	0	0	0	0
	Forwarded to court	0	0	0	0	0
Sanctions (S. 84 of the CL)	Initiated CP	1	1	4	1	1
	Forwarded to prosecutor's office	0	0	1	0	2
	Forwarded to court	0	0	1	0	1

\* later on part of charges on TF was terminated due to lack of content of a criminal offence.

Source: FIU Latvia

**Table No. 5 – Number of received and sent international requests (including spontaneous reports) in 2017-2018 in relation to terrorism and/or TF**

	Received		Sent	
	2017	2018	2017	2018
FIU Latvia*	6	10***	0	3
SSS**	5	7	0	0

\*informative reports, checks on persons, suspicious financial transactions

\*\*checks on persons

\*\*\*including 4 reports on suspicious TF reports

Source: FIU Latvia, SSS

**Table No. 6** – Import, export and transit of GSS in Latvia, 2017 and 2018

Year	Country	Military import (EUR)	Military export (EUR)	Military transit (EUR)	Import of dual-use goods (EUR)	Export of dual-use goods (EUR)	Transit of dual-use goods (EUR)
2017	UAE*	0	0	0	0	203,128	251,070
	USA	74,341,565	86,958,535	0	54,104	21,288	0
	Belarus	7,800	0	0	1,123	11,900	0
	Brazil	78,604	0	0	0	0	0
	South Africa	0	200	0	0	15,400	0
	Ecuador	0	0	0	35,000	0	0
	Ghana	0	0	0	0	20,000	0
	Georgia	0	0	0	144,810	173,839	0
	Hong Kong	54	0	0	46,339	399,811	0
	India	0	0	0	0	328,900	0
	Indonesia	0	0	0	0	349,670	0
	Iran	0	0	0	0	29,490	0
	Israel	23,853	0	0	93,000	3,559,690	0
	Jamaica	0	0	0	0	974,706	0
	Canada	151,353	0	0	0	0	0
	Cambodia	0	0	0	100,000	0	0
	Columbia	0	0	0	0	207,301	0
	South Korea	186,000	0	0	0	45,884	56,155
	Russia	0	0	0	97,200	22,661,439	3,207,539
	China	1,858	0	0	126,701	501,850	0
	Malaysia	75	0	0	0	0	0
	Norway	62,365	0	0	0	0	0
	Pakistan	0	0	0	0	2,225,199	36,900
	Peru	0	0	0	0	48,000	0
	Sri Lanka	0	0	0	0	0	32,275
	Switzerland	20,531	0	0	0	0	0
	Taiwan	7,035	0	0	0	0	0
	Thailand	0	0	0	0	36,404	0
	Turkey	0	0	0	0	57,500	0
	Uganda	0	0	0	0	0	443,361
Ukraine	0	0	0	17,414,386	108,700	0	
Vietnam	0	0	0	300	618,183	726,515	
<i>Total in 2017</i>		<i>74,881,093</i>	<i>86,958,735</i>	<i>0</i>	<i>18,112,963</i>	<i>32,598,282</i>	<i>4,753,815</i>

**Continuation of Table No. 6**

2018	UAE	0	0	0	5,640	108,984	749,649
	Armenia	0	0	0	0	52,625	0
	Australia	6,314	6,314	0	0	0	0
	USA	16,014,084	11,500,388	0	0	0	0
	Belarus	0	0	0	861,140	18,283	3,548,160
	Brazil	72,206	0	0	0	0	0
	South Africa	0	0	0	0	146,345	0
	Ecuador	0	0	0	35,000	0	0
	Philippines	0	0	0	0	49,500	0
	Georgia	0	0	0	289,619	144,810	177,400
	Hong Kong	0	0	0	6,249	1,111,346	0
	India	0	0	0	0	851,636	0
	Indonesia	0	0	0	0	207,580	0
	Israel	2,295	0	0	68,846	4,045,986	0
	Cambodia	0	0	0	0	100,000	0
	Kazakhstan	0	0	0	0	601,300	0
	South Korea	1,598,150	1,700	0	1,870	32,690	0
	Russia	0	0	0	6,785,530	22,984,530	7,134,578
	China	0	0	0	77,561	869,050	0
	Malaysia	0	75	0	0	0	0
	Mexico	0	0	0	0	379,702	0
	Norway	66,959	0	0	0	0	0
	Pakistan	0	0	0	0	2,364,421	0
	Singapore	0	0	0	3,853	821,875	0
	Sudan	0	0	0	0	58,600	0
	Sri Lanka	0	0	0	0	0	52,483
	Switzerland	178,570	134,000	0	0	0	0
	Taiwan	0	0	0	0	900	0
	Thailand	0	0	0	0	117,190	0
	Turkey	0	0	0	0	272,754	0
Uganda	0	0	0	0	0	829,974	
Ukraine	64,260	0	0	14,801,650	6,946,848	184,100	
Vietnam	0	0	0	3,500	504,637	225,290	
<i>Total in 2018</i>		<i>18,002,838</i>	<i>11,642,477</i>	<i>0</i>	<i>22,940,459</i>	<i>42,791,592</i>	<i>12,901,634</i>
<i>Total in 2017/2018</i>		<i>92,883,930</i>	<i>98,601,212</i>	<i>0</i>	<i>41,954,038</i>	<i>85,400,985</i>	<i>36,420,027</i>

\*UAE – United Arab Emirates

Source: Ministry of Foreign Affairs

**Table No. 7** – Transit of dual-use goods via Latvia in 2017 and 2018 in total, distributed by countries

Country	Amount (EUR)	Ratio to total transit of dual-use goods (%)
Russia	10,342,117	59 %
Belarus	3,548,160	20 %
Uganda	1,273,335	7 %
United Arab Emirates	1,000,719	6 %
Vietnam	951,805	5 %
Other	539,313	3 %
Total transit	17,655,448.91	100%

Source: Ministry of Foreign Affairs

**Table No. 8** – Import, export and transit ratio of GSS in Latvia, a total in 2017 and 2018

Direction	Amount (EUR)	Ratio (%)
Import	133,937,352	41 %
Export	173,991,086	54 %
Transit	17,655,449	5 %
Total	325,583,887	100 %

Source: Ministry of Foreign Affairs

**Table No. 9** – Number of licences issued by the Commission for Control of GSS

Year	Export licence	Import licence	Transit licence	Movement of goods from the EU to Latvia	Movement of goods from Latvia to the EU	Total
2015	111	224	35	333	34	737
2016	116	149	34	271	35	605
2017	102	108	33	258	71	572
2018	137	123	43	247	51	601
Total	466	604	145	1109	191	2515

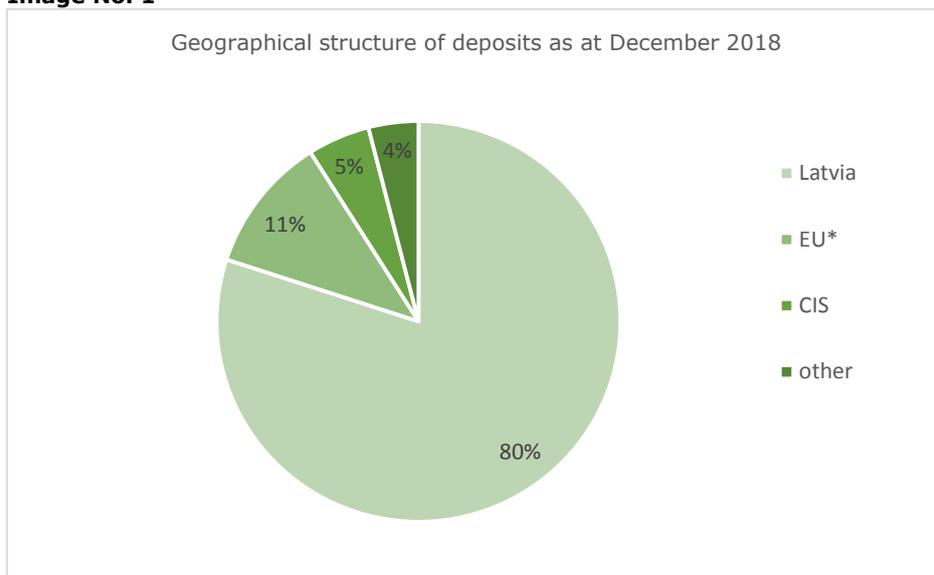
Source: Ministry of Foreign Affairs

**Table No. 10** – External trade of goods between Latvia and Iran, and North Korea (EUR)

Year	Direction	Iran (EUR)	North Korea (EUR)	Total external trade of Latvia (million EUR)
2014	Import	252,166	344	12,654
	Export	83,902,374	0	10,249
2015	Import	307,525	0	12,492
	Export	5,134,014	69,446	10,363
2016	Import	137,293	0	12,249
	Export	2,912,043	0	10,358
2017	Import	357,133	0	14,041
	Export	2,982,827	0	11,507
2018	Import	215,223	0	14,244
	Export	4,704,057	68,296	11,395
Total		100,904,655	137,742	1,195,528

Source: Central Statistics Bureau (CSB)

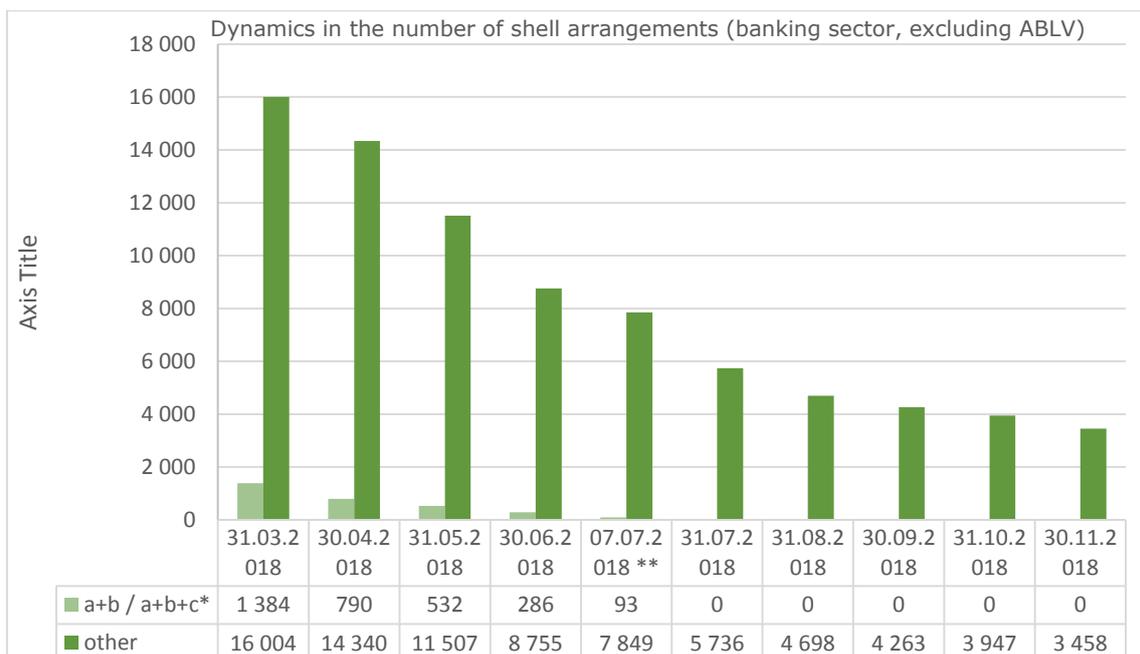
**Image No. 1**



\*EU States, except Latvia

Source: FCMC

**Image No. 2**



\*Shell arrangements that at the same time correspond to indicators laid down in Section 1, Clause 15<sup>1</sup> "a" and "b" or "a" and "b" and "c" sub-clauses:

a) there is no legal connection of the legal person with an actual economic activity, and activity of the legal person creates little or creates no economic value, and at the disposal of the subject of the law there is no documentary information to prove the opposite;

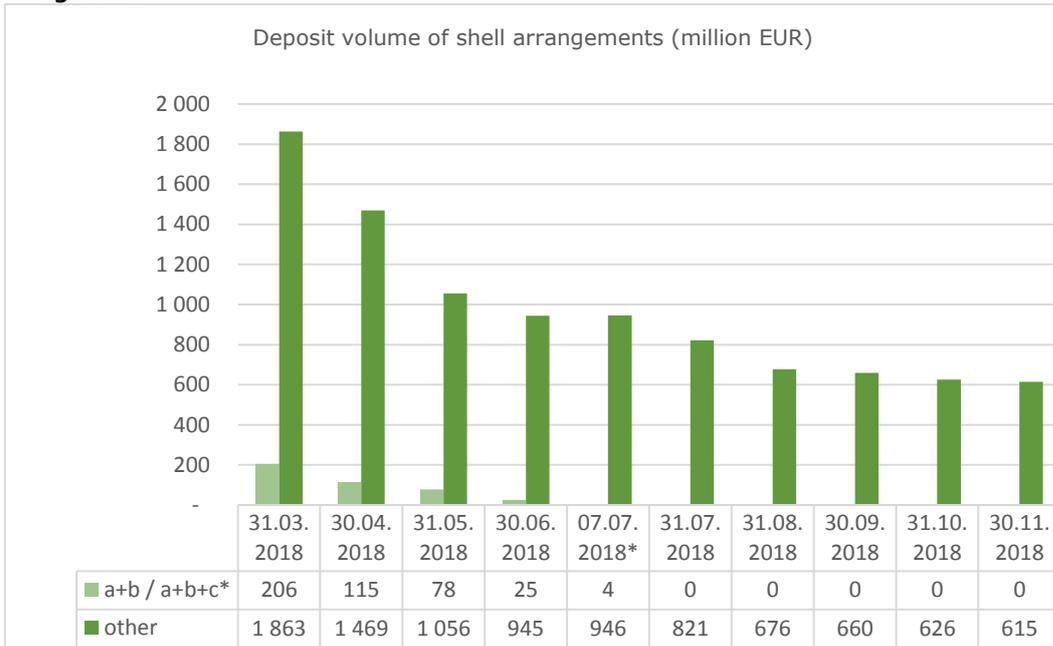
b) the laws and regulations of the country in which the legal person is registered does not provide an obligation to prepare and submit financial statements to the supervisory authorities of the respective country, including annual financial statements, for its activity;

c) the legal person does not have the economic activity performance location in the state in which the legal person has been registered.

\*\*On 7<sup>th</sup> of July, 2018, the remaining (a+b/a+b+c) shell arrangement have been blocked, arrested or otherwise closed with a balance in all banks.

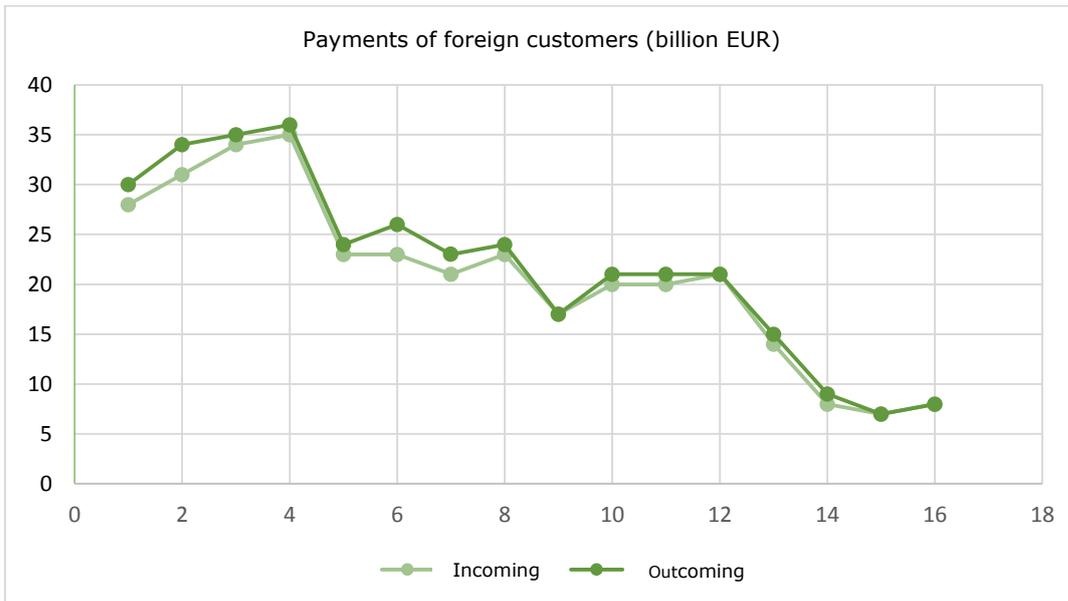
Source: FCMC

**Image No. 3**



\*See comments to Image No. 2  
Source: FCMC

**Image No. 4**



Source: FCMC

**Table No. 13** – The countries from which the asylum seekers and refugee or alternative status seekers mostly come from

Asylum seekers	
2017	Syria, Vietnam, Russia, Eritrea, Kazakhstan
2018	Russia, Iraq, Azerbaijan, Egypt, Vietnam
Refugees/alternative status seekers	
2017	Syria, Eritrea, Afghanistan, Turkey
2018	Syria, Russia, Eritrea

Source: Office for Citizenship and Migration Affairs

**Table No. 11** – Sanctions to banks applied by FCMC and the amount of fine (EUR)\*

Year	Circumvention of the international sanctions**	Amount of fine (EUR)	Ineffective ICS or defects in customer due diligence, other	Amount of fine (EUR)
2014	0	0	1	70,000
2015	0	0	4	2,211,830
2016	0	0	3	2,766,954
2017	5	3,532,785	1	889,651
2018	0	0	4	3,922,093

\*Information on ABLV bank is not included in the statistics.

\*\*In 2017, violations on circumvention of the international sanctions registered together with violations of ineffective internal procedure system or non-conformities in customer due diligence.

Source: Information publicly available on FCMC website.<sup>89</sup>

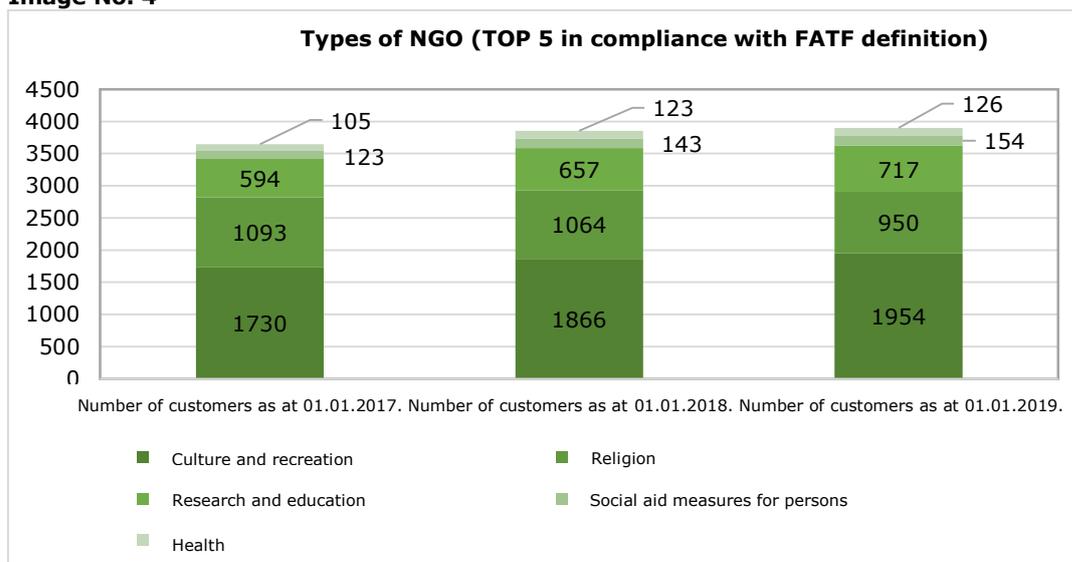
**Table No. 12** – Statistics of Latvia in the area of asylum

Year	Asylum seekers	Refugee status	Alternative status
2014	364	3	21
2015	328	6	23
2016	350	47	107
2017	395	39	259
2018	176	23	24

Source: Office for Citizenship and Migration Affairs

<sup>89</sup> [http://www.fktk.lv/attachments/article/7396/SANKCIJU\\_TABULA.pdf](http://www.fktk.lv/attachments/article/7396/SANKCIJU_TABULA.pdf)

**Image No. 4**



Source: FCMC

**Table No. 14** – Distribution of incoming and outgoing transactions registered in Latvia in accordance with transaction amounts and number (%), and the average amount of one transaction (EUR), in 2017-2018

Type of transactions	According to the sum of transactions	According to the number of transactions	Volume of one transaction (EUR)
<b>INCOMING</b>			
Latvian (domestic)	89%	98%	341.70
International	11%	2%	2,310.87
<b>OUTGOING</b>			
Latvian (domestic)	95%	98%	748.53
International	5%	2%	1,615.54
<b>INCOMING AND OUTGOING TRANSACTIONS, TOTAL</b>			
Latvian (domestic)	63%	98%	473.48
International	37%	2%	2,035.80

Source: FCMC

**Table No. 15** – Distribution of the total amount of incoming and outgoing payments of NGOs registered in Latvia (TOP 10) (EUR)

No.	Incoming transactions		Outgoing transactions	
	Country	Total amount of transactions	Country	Total amount of transactions
1	Latvia	1,132,863,899.26	Latvia	1,188,982,637.66
2	Switzerland	17,716,995.15	Estonia	8,421,085.14
3	Germany	16,935,285.44	Germany	6,869,613.93
4	USA	15,234,652.39	The Great Britain	5,593,308.47
5	The Great Britain	10,136,302.64	Lithuania	4,751,470.29
6	Russia	9,215,289.21	USA	4,207,970.54
7	Sweden	6,610,234.29	Russia	4,031,152.42
8	Belarus	5,675,854.88	Poland	2,904,440.86
9	Lithuania	4,951,219.58	Denmark	2,639,539.76
10	Estonia	4,554,429.12	Switzerland	2,560,373.59

Source: FCMC

**Table No. 16** – Distribution of the incoming and outgoing transactions of NGOs registered in Latvia, in 2017-2018 (TOP 10)

No.	Incoming transactions		Outgoing transactions	
	Country	Number of transactions	Country	Number of transactions
1	Latvia	3,315,402	Latvia	1,588,416
2	Lithuania	9,477	Estonia	4,289
3	Finland	8,983	Lithuania	4,060
4	Germany	8,571	Germany	2,693
5	Estonia	7,829	The Great Britain	2,232
6	The Great Britain	2,955	Ireland	1,528
7	Sweden	2,393	Poland	1,341
8	Russia	1,844	USA	1,326
9	Ireland	1,721	Russia	1,295
10	Norway	1,582	France	1,149

Source: FCMC

**Table No. 17** – Incoming and outgoing transactions of NGOs registered in Latvia with high-risk countries and their neighbouring countries in 2017-2018

High-risk countries*	Incoming transactions		Outgoing transactions	
	Number of transactions	Total amount (EUR)	Number of transactions	Total amount (EUR)
Bahrain	0	0.00	4	52.39
Egypt	2	655.00	15	11,426.91
Indonesia	0	0.00	6	23,242.09
Jordan	8	31,593.54	0	0.00
Qatar	4	5,321.96	0	0.00
Kuwait	1	1,500.00	0	0.00
Lebanon	6	11,234.99	1	516.54
Morocco	1	200.00	4	1,183.86
Nigeria	1	885.00	1	2,950.00
Pakistan	0	0.00	4	3,580.00
Palestine	0	0.00	8	36,579.00
Panama	7	211,674.55	1	1,184.15
Saudi Arabia	3	171,195.00	1	3,725.00
Sri Lanka	0	0.00	4	6,905.81
Tunisia	1	3,840.00	0	0.00
Neighbouring countries of the high-risk countries*				
Armenia	18	30,679.02	62	30,063.26
Azerbaijan	30	80,396	46	150,567.68
South Korea	23	166,376.71	51	245,784.91
Israel	111	1,505,382.04	153	415,962.09
Russia	1,844	9,215,289.21	1,295	4,031,152.42
China	38	115,218.61	53	189,339.74
Turkey	84	246,349.39	88	150,538.93
Turkmenistan	0	0.00	1	1058.38

\*High-risk countries in accordance with the CoM Reg. No. 554 "Regulation Regarding States for the Citizens of which in Issuing a Visa or a Residence Permit an Additional Assessment shall be Performed" and the high-risk third countries defined by the European Commission (list published on 13 November 2018)

\*\*Neighbouring countries of Iraq, Iran, Syria and North Korea that are not included in the lists of above-mentioned list.

Source: FCMC

**Table No. 18** – Ratio of the countries of the outgoing payment receiving banks of the foreign customers (% of the total outgoing payments of the foreign customers) in 2018

No.	Registration country of the beneficiary's bank	Ratio
1	Russia	23.1%
2	Estonia	9.5%
3	Lithuania	7.3%
4	Germany	6.4%
5	Switzerland	5.5%
6	The Great Britain	4.7%
7	Ukraine	4.3%
8	Latvia	4.2%
9	Czech Republic	2.7%
10	Poland	2.5%
11	Sweden	2.3%
12	Cyprus	2.3%
13	Belarus	2.0%
14	Austria	1.6%
15	China	1.6%
16	Luxembourg	1.5%
17	Netherlands	1.4%
18	Italy	1.2%
19	USA	1.1%
20	Turkey	0.9%
21	Hong Kong	0.9%
22	Spain	0.9%
	Other	12.2%

Source: FCMC

**Table No. 19** – Cross-border payments of the banking sector customers in 2018, EUR

No	Incoming payments			Outgoing payments		
	Registration country of the initiator's bank	Payment amount	Ratio	Registration country of the beneficiary's bank	Payment amount	Ratio
	EU countries	33,312,256,114.91	58%	EU countries	38,448,268,835.25	61%
	CIS* countries	14,689,770,303.21	25%	CIS countries	15,335,231,118.73	24%
	Other	9,639,841,654.34	17%	Other	9,252,084,508.07	15%
1	Russia	10,677,429,372.60	18.5%	Russia	11,179,797,483.52	17.7%
2	Estonia	5,708,091,889.82	9.9%	Germany	7,117,481,340.52	11.3%
3	Lithuania	5,651,988,895.72	9.8%	Lithuania	6,402,229,022.73	10.2%
4	Germany	4,359,819,390.08	7.6%	Estonia	5,532,811,703.68	8.8%
5	The Great Britain	3,593,629,036.38	6.2%	The Great Britain	3,394,467,257.94	5.4%
6	Switzerland	3,544,651,789.62	6.1%	Switzerland	2,958,933,178.89	4.7%
7	Sweden	1,945,166,286.49	3.4%	Poland	2,212,920,477.09	3.5%
8	Ukraine	1,739,446,538.21	3.0%	Ukraine	1,961,261,815.87	3.1%
9	Finland	1,702,848,257.49	2.9%	Finland	1,842,976,232.30	2.9%
10	USA	1,515,073,525.66	2.6%	Sweden	1,756,360,977.37	2.8%
11	Netherlands	1,369,060,896.63	2.4%	Czech Republic	1,322,189,455.13	2.1%
12	Norway	1,060,186,101.17	1.8%	Netherlands	1,258,985,186.85	2.0%

13	Poland	1,053,720,087.26	1.8%	Belarus	1,231,880,336.70	2.0%
14	Denmark	981,871,802.18	1.7%	Austria	1,093,630,272.08	1.7%
15	Cyprus	933,088,756.44	1.6%	Cyprus	996,049,367.40	1.6%

**Continuation of Table No. 19**

16	Austria	849,621,719.36	1.5%	USA	914,865,908.66	1.5%
17	Czech Republic	821,916,344.47	1.4%	Italy	906,483,921.28	1.4%
18	Italy	755,854,885.46	1.3%	China	885,612,824.99	1.4%
19	Uzbekistan	720,153,158.99	1.2%	Luxembourg	855,367,104.33	1.4%
20	Luxembourg	648,699,953.98	1.1%	Denmark	633,689,838.57	1.0%
21	Belarus	612,321,418.64	1.1%	Norway	594,649,243.08	0.9%
22	Belgium	609,179,259.43	1.1%	France	586,821,778.66	0.9%
23	France	586,655,937.87	1.0%	Spain	580,196,580.80	0.9%
24	Turkey	556,401,498.87	1.0%	Hong Kong	548,046,729.99	0.9%
25	Kazakhstan	482,445,870.36	0.8%	Turkey	485,765,382.25	0.8%
	Other	5,808,837,696.65	9.2%	Other	5,259,998,798.02	9.1%

\*CIS – states of the Commonwealth of Independent States: Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Russia, Moldova, Tajikistan, Ukraine, Uzbekistan  
Source: FCTC Regulations 208

# ANNEX NO. 2

List of countries in accordance with the CoM Reg. No. 554 of 21 June 2010 "Regulation Regarding States for the Citizens of which in issuing a Visa or a Residence Permit an Additional Assessment shall be performed"

1. Islamic Republic of Afghanistan
2. Democratic People's Republic of Algeria
3. Kingdom of Bahrain
4. People's Republic of Bangladesh
- 4.<sup>1</sup> Republic of South Sudan
- 4.<sup>2</sup> Georgia (Abkhazia and South Ossetia)
5. Arab Republic of Egypt
6. Republic of Indonesia
7. Republic of Iraq
8. Islamic Republic of Afghanistan
9. Republic of Yemen
10. Hashemite Kingdom of Jordan
11. State of Qatar
12. Republic of Kenya
13. Democratic People's Republic of Korea
14. Russian Federation (Chechnya, Dagestan, Ingushia and North Ossetia)
15. State of Kuwait
16. Republic of Lebanon
17. Socialist Arab People's Jamahiriya of Lybia
- 17.<sup>1</sup> Republic of Mali
18. Kingdom of Morocco
19. Federative Republic of Nigeria
20. Sultanate of Oman
21. Islamic Republic of Pakistan
22. Palestinian Authority\*
23. Kingdom of Saudi Arabia
24. Arab Republic of Syria
25. Somalia
26. Republic of Sudan
27. Republic of Tunisia
38. Ukraine (Autonomous Republic of Crimea, Luhansk Region and Donetsk Region)

List of 23 third countries with strategic deficiencies in the systems of combating ML and TF adopted by the European Commission on 13<sup>th</sup> of February, 2019. In accordance with the Directive (EU) 2015/849 (4th Directive) and (EU) 2018/843 (5th Directive) of the European Parliament and of the Council, the European Commission is authorised to conduct an autonomous assessment to determine the high-risk third countries. The list includes 12 states which are included in the list by the Financial Action Task Force (*FATF*), and 11 other jurisdictions.

1. Afghanistan
2. American Samoa
3. Bahamas Islands
4. Botswana
5. Democratic People's Republic of Korea
6. Ethiopia
7. Ghana
8. Guam
9. Iran
10. Iraq
11. Lybia
12. Nigeria
13. Pakistan
14. Panama
15. Puerto Rico
16. Samoa
17. Saudi Arabia
18. Sri Lanka
19. Syria
20. Trinidad and Tobago
21. Tunisia
22. US Virgin Islands
23. Yemen