

Latvia

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Valters Gencs

Law Offices of Valters Gencs Riga

Latvia has amended its Credit Institution Law 1995 to specify the regulations for Latvian banks now that the country has joined the EU.

Types of credit institutions

The law defines two types of credit institutions: a bank and an electronic money institution. A bank is defined as a company that accepts deposits and other repayable funds from an unlimited circle of clients, issuing credits in its own name and providing other financial services. An electronic money institution is a company that emits and serves electronic money, and is not a bank.

This new type of credit institution – the electronic money institution – may be either a limited liability company or a joint stock company, unlike a bank, which may only be established as a joint stock company.

The following are entitled to operate as credit institutions:

- credit institutions incorporated in Latvia, or in another EU or EEA member state;
- foreign credit institutions' branches incorporated in Latvia; and
- branches of credit institutions incorporated in another member state.

Electronic money institutions

An electronic money institution's sole aim is to emit and serve electronic money. Electronic money is a value stored on an electronic device and formed up on receipt of customer funds in an amount no less than the monetary value registered in the device. Undertakings accept it as a means of payment.

Electronic money institutions expecting to emit no more than €5 million-worth of electronic money are exempt from the obligation to request a licence from the Financial and Capital Market Commission.

The bank's name and marketing

A bank incorporated in Latvia, or a foreign bank's branch, may only use the words *credit institution*, *bank* or a combination of the two in its name or for marketing if it has received an operation licence from the Commission. A bank or a branch incorporated in

another member state can only provide financial services in Latvia once the Commission has received the notice required by law from the competent authority of its member state.

Establishing a credit institution

A Latvian credit institution (except electronic money institutions that do not expect to exceed the €5 million threshold) must hold a licence from the Commission. An electronic money institution that does not expect to exceed €5 million must inform the Bank of Latvia about its planned operations.

An individual, state or municipality, or a legal entity that has been operating for at least three financial years may establish a credit institution, provided it prepares and audits its financial reports according to the international accounting standards. A person wishing to set up a credit institution must have an unimpeachable reputation and free capital, which will be checked by the Commission.

Management of a credit institution

The members of the board (including the chairperson), head of the internal audit division, company controller, head of the branch of a foreign bank, or a person who makes relevant decisions and creates obligations on behalf of a credit institution must be a Latvian resident, competent in financial management, have the necessary education and at least three years' professional experience in a company, organization or institution of relevant size. They must have an unimpeachable reputation and must not have had their right to engage in entrepreneurial activities revoked.

The members of the board (including the chairperson), the head of the internal audit division and the company controller must have a higher education.

Doing business in Latvia

A financial institution (a subsidiary) incorporated in a member state and controlled by one or more credit institutions (parent companies) may provide financial services in Latvia with or without opening a branch if it has complied with the following:

- the parent companies hold licences for operation in the member state whose laws govern the subsidiary's operation;
- the subsidiary provides the financial services in the member state whose laws govern the operation of the respective subsidiary;

- the parent companies hold at least 90% of shares with voting rights in the subsidiary;
- the parent companies provide the prudent management of the subsidiary according to the requirements of the competent authorities of the relevant home member state; and
- the parent companies have declared their joint liability for the subsidiary's commitments and the subsidiary is subject to the consolidated supervision of the parent companies, in particular for the calculation of the solvency ratio, the control of large exposures and participation in other companies.

Outsourcing services

Understanding the variations of financial market development, the law entitles credit institutions to commission services from another entity (third party) for its accounting, organization of internal control, management and development of IT systems, internal audit services and financial services. Previously, the performance of activities such as bookkeeping was exclusively within the competence of a credit institution. A service provider will enter into a written agreement with a credit institution. It is not necessary to seek the Commission's permission to engage a third party but institutions are obliged to inform the Commission when they appoint the head of the internal audit division. Internal audit services may only be deputed to a sworn auditor or an auditor company.

Confidentiality

A credit institution is not entitled to inform a customer or a third party that information about a customer's account or transactions has been given to the court or the prosecutor if laws or international agreements prohibit such information. The amendments conform to the Protocol to the Convention on Mutual Assistance in Criminal Matters between the member states of the EU, which provide that each member state must ensure that banks do not disclose to the customer concerned or to third persons that an investigation is being carried out or that information has been transmitted to another member state that has requested the information for accounts and transactions or monitoring of accounts according to the Protocol.

These amendments should create a more detailed regulatory framework for providing financial services in Latvia.

Financial conglomerates

The new Financial Conglomerate Law, and the respective amendments to the Credit Institution Law, contain specific rules for the operation and supervision of financial conglomerates and their subsidiaries. A financial conglomerate is defined as a group headed by a regulated entity of which at least one subsidiary operates in: (i) the financial sector, or which has a close link with another entity in the financial sector; (ii) the insurance sector; or (iii) in the banking or investment services sector, provided that all of the subsidiaries in question exceed certain thresholds for solvency requirements and total assets prescribed by law.

The law provides stricter supervisory rules for conglomerates in comparison to ordinary credit institutions. For example, regarding financial stability, when calculating the equity adequacy of the

conglomerate's entity the investments in the insurance entities of which 20% are owned by a conglomerate's entity are counted towards the decrease of the equity. Also, a conglomerate's entity must inform the supervisory authority if the risk transactions with one person (entity) or related persons exceed 10% of its equity.

These amendments should create a more detailed regulatory framework for providing financial services in Latvia, expanding the tasks of the supervisory authority, providing protection of customer interests and preventing money laundering.

Banking and finance

Recommended firms

Tier 1

Lejins Torgans & Partners

Tier 2

Blueger & Plaude

Klavins & Slaidins LAWIN

Loze Grunte & Cers

Liepa Skopina/BORENIUS

Skudra & Udris

Tier 3

Glimstedt & Partners

Sorainen Law Offices

Corporate and commercial

Recommended firms

Tier 1

Klavins & Slaidins LAWIN

Loze Grunte & Cers

Lejins Torgans & Partners

Tier 2

Blueger & Plaude

Liepa Skopina/BORENIUS

Skudra & Udris

Sorainen Law Offices

Tier 3

Glimstedt & Partners

Kronbergs & Cukste Attorneys at Law

Law Offices of Valters Gencs

Blueger & Plaude

Founded in 1990, Blueger & Plaude has the distinction of being the first private law firm in Latvia. The firm's office in Riga now houses eight lawyers, a group made up of four partners and four associates.

Blueger & Plaude has a history of advising influential clients, and has worked closely with the European Bank for Reconstruction and Development on a number of different projects in Latvia. The firm also has experience handling privatization matters, and had appeared before all Latvian courts, including the Supreme Court, the Constitutional Court and the Arbitration Tribunal.

Blueger & Plaude maintains strong links with other financial law firms in Sweden, Finland, Germany, and the US and the team can conduct transactions in Latvian, Russian, German and English. The firm has an international outlook and both name partners have worked in firms in the US.

Key contact partners

Valentin Blueger
Baiba Plaude

Klavins & Slaidins LAWIN

Filip Klavins and Raymond Slaidins set up their law firm in 1992 with just a computer and a mobile phone. The firm has since grown to employ 16 lawyers, making it one of the largest teams in Latvia. Klavins & Slaidins' large capacity allows the firm to work on a great number of important transactions for local clients, while strong connections with American clients ensure work on groundbreaking deals.

For example, this year the firm worked on the first securitization in Latvia (and, indeed, the first mortgage-backed securities issue in central and eastern Europe) as local counsel to the Baltic American Enterprise Fund, which securitized its \$63.6 million Latvian mortgage portfolio. Among the finance practice's other work this year, it also represented the International Finance Corporation and DnB NOR Bank in relation to separate financings of the Linstow Group. In the latter of these – the largest ever private financing in Latvia – a syndicate of five Latvian banks (led by DnB NOR Bank) provided a €120 million (\$145 million) credit facility to Linstow.

Klavins & Slaidins is regarded as one of the best firms in Latvia for corporate work, and had a healthy roster of deals over the past year. Among the year's highlights, the firm advised AS Watson & Co in relation to its acquisition of Drogas, a Latvian health and beauty retailer, acted for Orkla on its purchase of SIA Spilva, a Latvian food producer, and represented Alta Capital on its acquisition of Latvian clothing manufacturer A/S Lauma. The firm's two name partners also advised ICA on the Latvian aspects of its joint venture with Kesko, and acted for the American Exigen Group on its acquisition of A/S Dati, a leading Latvian IT company.

Klavins & Slaidins also has a solid reputation for advice on commercial re-registrations for incorporated companies in Latvia. The firm has worked for SAS on its holding in Air Baltic, Ruhrgas on its control of the Latvian Gas Utility, and Metsaliitto Group on its holding in the Latvian pulp mill project Baltic Pulp.

The firm's client list is among the most extensive of all Latvian law firms, and it provides general corporate advice to such companies as Coca-Cola, IBM, AC Nielsen, AoN Holdings, AT&T, Cendant, Leo Burnett and Maersk.

Leading lawyers

Filip Klavins
Raymond Slaidins

Key contact partners

Filip Klavins
Raymond Slaidins

Lejins Torgans & Partners

Lejins Torgans & Partners is the most respected business law firm in Latvia, and the only one to have a top-tier ranking both for banking and for corporate law. Not one competitor disputed the four-partner firm's top ranking in these areas. Partners Dace Silava-Tomsone and Andrejs Lielkalns were consistently lauded by peers for their expertise in financial law transactions. In his most impressive mandate, Lielkalns provided advice to ABN Amro on the €905 million (\$1.15 billion) refinancing of the Hagemayer Group.

Name-partner Girts Lejins leads the prestigious banking and finance practice at Lejins Torgans & Partners. This year the firm guided SIA Viesnica Ridzene through its €6 million refinancing, advised Europrocessing on its €30 million financing, acted for VAS Latvenergo in relation to a €6 million (\$10.2 million) syndicated loan agreement and advised Wachovia Bank on various commercial matters within Latvia. Lielkalns also provided advice to Codan on its mandatory minority buyout offer to shareholders of Balta, the largest Latvian insurance company. And in December 2004, Girts Lejins steered long-term client the Linstow Group through a €120 million loan facility provided by DnB NOR Bank. At the time of writing, Lejins is advising the London branch of Deutsche Bank on derivatives transactions to finance the construction of the South Bridge in Riga.

The firm's reputation in finance helps win mandates to advise on infrastructure projects. For example, VAS Latvenergo brought in corporate and finance specialist Dace to advise on its €30 million servicing and restructuring of a thermo-electrical power plant operated by Demag Delaval Industrial Turbomachinery. Silava-Tomsone is also working with the Latvian Ministry of Economics on the issue of the first licence for the extraction of hydrocarbons in the Baltic Sea, which has been given to Odin Energy.

The firm also excels in corporate law, and has been involved in many of the largest M&A deals in Latvia this year. Lejins Torgans & Partners advised the majority shareholders of Bolderaja, one of the largest wood-processing companies in the Baltics, on the sale of a 51% stake to Baltijos Baldu Grupe. Silava-Tomsone was counsel to Bayer on the Latvian aspects of its acquisition of Roche's OTC business, Baltic Property Trust on the acquisition of three real estate companies, and Philip Morris Latvia on various competition issues. The firm also has a robust record in venture capital deals, representing Swedish group East Capital in relation to its €5 million investment in Baltic Cosmetic Holdings.

In May last year, Lejins Torgans & Partners became a member of RoschierRaidla, a network of leading firms in Finland, Estonia and Lithuania. Roschier Holmberg of Finland, Raidla & Partners of Estonia and Norcous & Partners of Lithuania make up the group, which employs more than 150 lawyers.

Leading lawyers

Girts Lejins
Andrejs Lielkalns
Dace Silava-Tomsone

Key contact partners

Girst Lejins
Dace Silava-Tomsone
Romualds Vonsovcis

Liepa Skopina/BORENIUS

Liepa Skopina/BORENIUS has only been operating for two years, but already its fortunes are soaring. The firm – headed by founding partners Lauris Liepa and Laine Skopina – hired four junior associates this year to cope with the increase in demand.

Name partners Lauris Liepa and Laine Skopina advised Republic of Latvia on one of the firm's standout deals; a €400 million (\$503 million) bond arranged by Citigroup. The firm's expertise in capital markets transactions also led to a mandate from Credit Suisse First Boston, who managed a €100 million bond issue by Parex Banka. The firm also proved that it is capable of acting on deals at the cutting edge, when Lauris Liepa and Sigita Kravle led a team that worked on the first Latvian securitization for Wachovia Securities. In this transaction The Baltic-American Investment Fund issued securities worth \$63.6 million backed by a portfolio of residential mortgages.

Liepa Skopina/BORENIUS has an equally impressive track record in M&A and corporate transactions. Over the last 12 months the firm has worked in cooperation with DLA Nordic representing First Data Corporation on its purchase of EuroProcessing International, advised road construction company Colas in relation to its sale of Union Asphaltechni to Panevezio keliai, and represented Investorium, Russia's largest power-supply company, on its purchase of all of the shares of Siltumelektroprojekts. Liepa Skopina/Borenius also served as counsel to Suomen Posti in a share purchase agreement with LLC Latvijas Elektroniskais Pasts.

Other clients that have benefited from the firm's solid and reliable advice include HSH Nordbank, Olympus, Esso, Dow Europe, Corus, IBM and the State Health Insurance Agency.

Leading lawyer

Lauris Liepa

Key contact partners

Lauris Liepa
Laine Skopina

Loze Grunte & Cers

Loze & Partners and Grunte & Cers merged in May 2005 to form Loze Grunte & Cers. Loze Grunte & Cers is now the largest law firm in Latvia and employs 45 people, 28 of which are lawyers.

Before the merger, Loze & Partners was a five-partner firm with more than 10 years' experience in structuring commercial transactions. Name partner Janis Loze advised Skandinaviska Enskilda Banken on its share buyout of Unibanka, one of the largest commercial banks in Latvia. She also represented SIA Spilva on the sale of its shares, SIA Neste Latvija and Statoil in disputes over the Riga Free Port, and Crédit Lyonnais and Kreditanstalt für Wiederaufbau as the providers of a loan to finance aircraft leases. The firm also represented Rigas Piena Kombinats, the largest

milk-processing company in Latvia, in a deal with Tetra Pak on the development of the largest cheese plant project in Latvia. Other clients of Loze & Partners have included Masterfoods, Kodak, Cemex, Continental, the ICA Group and Philip Morris.

Grunte & Cers was one of the oldest law firms in Latvia, and was active from 1991. The firm specialized in corporate transactions, and advised on the merger of Shell and Statoil, the merger of Kesko and ICA, and represented international banks in various syndicated loans to Latvian companies. Other clients of the firm included McDonald's, Volvo, Zurich Insurance and DDB Latvija.

The combined expertise of these two well-respected firms is undoubted, and it will be interesting to see the impact that the new firm has on the Latvian corporate and finance legal market.

Leading lawyers

Gundar Cers
Ivars Grunte
Janis Loze

Key contact partners

Gundar Cers
Ivars Grunte
Janis Loze

Skudra & Udris

Skudra & Udris was formed in 1992 by associates from US firm Carroll Burdick & McDonough. In this time, the firm's lawyers have put together an impressive list of clients and deals.

Skudra & Udris has a particularly strong reputation in banking, which has attracted an impressive client list that includes Lehman Brothers, The Bank of New York, JP Morgan, Morgan Stanley, Bank of America, UBS, Daiwa Europe, CIBC World Markets, Raiffeisen Zentralbank and the World Bank. At the local level, the firm was counsel to the Central Bank of Latvia on the development of a legal framework for inter-bank settlements in Latvia. Skudra & Udris also maintains close ties with corporate clients such as Accenture and British Telecom.

Transactional high points for the firm over the past year include advising a syndicate of international banks led by Raiffeisen Zentralbank on a €50 million (\$60 million) syndicated loan to Latvijas Hipoteku un Zemes Bank, and acting for Parex Bank and Depha Investment Bank on a €13 million syndicated facility for Latvenergo, the state electricity company.

The firm was also counsel to the shareholders on the sale of a controlling stake in Lauma, the largest textile company in the Baltic region, and represented General Electric Capital in a \$20 million commercial lease of Boeing 737-500s to Air Baltic.

Commercial litigation and arbitration specialist Ziedonis Udris manages the firm.

Leading lawyer

Armands Skudra

Key contact partner

Armands Skudra

Other notable firms

With offices in Latvia, Estonia, Lithuania and Helsinki, **Sorainen Law Offices** can claim impressive coverage of the Fenno-Baltic region. One recent highlight saw Girts Ruda and Gints Vilgerts lead a team that advised Danish real estate developer TK Development on sale of one of the largest shopping centres in Riga to Meinl European Land for €40 million (\$50 million).

The **Law Offices of Valters Gencs** worked on several high-profile deals this year. The firm acted for the European Investment Bank and Nordic Investment Bank on a €120 million loan agreement for a Latvian energy company, advised the Kesko Group on competition issues arising out of its merger with ICA, and assisted a Cayman Islands investment fund against minority squeeze-out in a leading Latvian bank. It also joined forces with Lovells' Paris office to advise on the refinancing of the Alstom Group.

Glimstedt & Partners is consistently highly praised for its work in the financial sector. Last year it negotiated with international banks on behalf of the Latvian State Treasury regarding an Isda Master Agreement.