

MAJOR ENHANCEMENTS IN AML/CTF COMPLIANCE
AND OTHER RELEVANT DEVELOPMENTS

AS Expobank



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PROFILE OF THE BANK

AS Expobank is one of the oldest banks in the Republic of Latvia, established in 1991. Mr. Igor Kim, who has vast experience as an owner and manager of multiple banks and financial institutions across numerous geographies, is the sole shareholder of AS Expobank, holding 100% of its shares.

AS Expobank is medium in terms of its size and focuses on providing services in corporate finance as well as servicing foreign corporate customers, operating on major global financial markets. AS Expobank and its branches service customers from over 70 countries. AS Expobank focuses on servicing cash flows of the

customers, current and deposit account maintenance services, currency exchange operations, lending, as well as trust management, brokerage and investment services.

AS Expobank adheres to the “Follow Your Customer” principle and has opened branch in Cyprus in 2010, representative office in Hong Kong in 2015 and branch in Luxembourg in the beginning of 2017.

2016 was successful year for AS Expobank. The net profit amounted to 6,298 thousand Euro. Stability remains the key priority of AS Expobank’s activities. This is supported by the capital adequacy ratio, which as of 31 December 2016 was 37,6%, a high liquidity ratio of 116,6%, as well as a high liquidity coverage ratio (LCR) – 267%.

In accordance with its long-term strategy, AS Expobank continuously pursues a conservative risk management profile tailored according to the best practice of international banks. AS Expobank's anticipated growth going forward is based on ongoing development of risk management processes and compliance control systems, as well as on improving the quality of its customer base.

AS Expobank's main role is to be reliable and professional financial partner of the customers, promptly rendering high quality services, while maintaining security and stability.

RESHAPING OF THE BUSINESS MODEL IF AML/CTF COMPLIANCE DETERMINED (noteworthy, visible and impactful)

In 2016, AS Expobank reinstated its long-term Money laundering and terrorist financing ("ML/TF") risk management strategy.

AS Expobank's target customers are corporate clients, including large international corporations and their business partners, as well as other companies, doing business mainly in the European Union, Asia and other CIS countries and global financial and commodity markets.

Taking into account AS Expobank's cautious approach to ML/TF risk assessment, potential ML/TF risks arise in relation to a significant part of its target customers,

resulting in a high-risk customer profile. AS Expobank devotes substantial resources to ML/TF risk management and continued improvement of its internal control systems.

In 2016 and 2017 28% of AS Expobank's employees were involved in the performance of ML/TF risk management function (in 2015 - 24%).

In the past few years, AS Expobank has been revising its customer base on a regular basis. As a result, in 2017, as compared to 2016 the number of customers decreased.

CORPORATE GOVERNANCE

During 2016 the independent consultants from the USA (the "Consultants") provided a favourable assessment of the governance culture at AS Expobank, professionalism of the employees, the quality of the provided training on issues of ML/TF risk management, as well as automated solutions in the area of IT used in the process of daily control and monitoring of customer transactions.

According to the Consultant's assessment, *"Expobank demonstrated effective governance practices, specifically regarding the Board and Council's AML oversight and "tone at the top" and "Bank's AML Compliance Program complies with current Latvian regulations and its employees demonstrate a strong willingness to abide Bank's internal policies and procedures"*.

INTERNAL CONTROLS

During 2016 and 2017 AS Expobank has developed and implemented several new internal regulations and processes in accordance with the requirements of AML/CTF legislation. The Bank also is maintaining the high quality of the AML/CTF standards amongst the employees, as well as organizing regular trainings.

AS Expobank has implemented internal regulations and IT solutions to ensure compliance with international (EU, UN, OFAC, OSCE) and national sanctions regimes.

AS Expobank has maintained cooperation with Accuity – world's recognized leader in the area of international sanction monitoring – since 2011.

During 2016 and 2017 significant measures were taken in the areas of customer due diligence, transactions' monitoring and documentation system improvement:

- New customer questionnaire for individuals and legal entities and their ultimate beneficial owners was developed,
- Specialized customer questionnaires for customers, whose business activities are related to economic sector of heightened ML/TF risk were developed,
- The process of quality control of customers' initial due diligence was implemented,

- The process of customers' enhanced due diligence was improved, new automated solution, which provides overview of the activities of customer, containing 19 different reports, was introduced,
- Internal control function of customers payment monitoring (compliance of the most significant transactions, the declared limits, details of payments, etc.) was improved.

TRAINING OF THE STAFF

According to the Consultant: *"Bank's AML training program appears comprehensive, Bank provides regular and targeted training on AML topics on an annual basis, after regulatory changes, or because of updates to the Bank's policies and/or procedures and initial AML training to new employees with AML responsibilities."*

All employees whose responsibilities are related to ML/FT risk control functions have a certification in AML/CFT field.

Since beginning of 2016 6 employees have been certified by ACAMS ("Association of Certified Anti-Money Laundering Specialists").

INDEPENDENT TESTING

At the beginning of 2017, AS Expobank has developed a plan for implementing the Consultant's recommendations. Total number of recommendations – 32.

By the end of 2017 6 recommendations have to be implemented, and in 2018 repeated independent AML/ CFT audit has to be carried out.

Internal audit is performing on regular bases reviews in the AML/CTF area.

According to the Bank's ML/TF Risk Management Strategy Bank should perform an independent testing every 18 months.

AUTOMATED SYSTEMS AND TOOLS

According to the Consultant: *“The bank exercises good governance over its AML Program from an Information Systems perspective in the form of control, process and management, and oversight with generally comprehensive documentation, transaction monitoring and sanctions screening systems from industry recognized vendors.”*

During 2016 and 2017 AS Expobank continued regular activities in IT system automation in the area of AML/ CTF, improved existing IT systems and introduced new technologies in relation to the following processes:

- customer transaction monitoring: fully automated transactions monitoring process, proliferation financing control tool was introduced,
- the determination of numerical customers' risk level (scoring) automated customer risk identification process.

Core banking system

The Wall / DSW SIA (LV)

AML/CTF monitoring system

SIRON®AML / FICO (USA)

SIRON®KYC / FICO (USA)

Online database of verification, analysis and monitoring of companies, persons – SPARK / INTERFAX (RU), Online Compliance) / ACCUITY (USA), Lursoft/SIA Lursoft (LV)

Sanctions screening system

List update - automated (every hour 24/7/365), screened payments – all currencies, all type payments (in/out, SWIFT/ SEPA)

Compliance link (CWL, GWL) / ACCUITY (USA)

SIRON® KYC / FICO (USA)

PEP screening system

Compliance link (PEP list) / ACCUITY (USA)

Online database – ACCUITY (USA)

DE-RISKING OF CUSTOMERS AND BUSINESS LINES

AS Expobank does not cooperate with the customers, whose business activities pose high ML/TF risk or reputational risk, and AS Expobank, among other sources, uses publicly available information of negative nature both on customer itself and its representative and ultimate beneficial owner for the purposes of determination of the customers' ML/TF risk.

AS Expobank does not render services and does not enter into transactions posing high ML/TF risk, except for transactions where, in the course of rendering the services, AS Expobank may ensure multi-level control to mitigate the risk.

AS Expobank does not operate within such business and customer segment in which ML/TF risk level is assessed as high, unless risk mitigation measures are ensured to moderate the level of residual risk.

FATCA, CRS IMPLEMENTATION

FATCA and CRS regulations are implemented in AS Expobank and appropriate internal regulations are in place.