

MAJOR ENHANCEMENTS IN AML/CTF COMPLIANCE
AND OTHER RELEVANT DEVELOPMENTS

AS Rigensis Bank



**RIGENSIS
BANK**



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PROFILE OF THE BANK

Brief description of the bank

Rigensis Bank AS was established in 2011 in Riga, Latvia as a European bank under the brand name of ICT Group. Since 1991 ICT Group has successfully developed a number of investment projects in Russia in industries such as metal and mining, precious metals, banking and finance, heavy machinery and logistics. ICT became a business incubator for those companies which are currently the leaders in their industries. Success stories of Polymetal international inc., Nomos bank, United Wagon are the most colorful examples.

Later in 2013, to enhance and maximize the value of the

Brand, independently developing companies under the ICT Brand were called together into newly established ICT Holding Ltd, a holding company incorporated in Cyprus.

ICT Holding Ltd webpage www.ict-holding.com.cy. ICT Holding invests in stable and successful companies, as well as new businesses with competitive advantages in terms of technology, know-how, licenses and access to limited natural resources. As of 31.06.2016 ICT Holding assets amount to 3.3 USD bn, equity – to 2.5 USD bn. ICT Holding Shareholders - Gudaytis AA 8.75%, Dobrinov NI 9.24%, Yanakov KP 3.88%, Nesis AN 50%, Tsyplakov IN 9.1%, Finagenov 9.99%, Sokolov DV 9.04%.

Since its foundation in 2011 Rigensis Bank develops as a niche, closed-club bank providing high-quality tailor-made corporate and private banking services. Target clients are internationally diversified holding structures and family offices, owning and managing business all over the world, as well as private individuals – their owners and top management, most of them being High Net Worth Individuals. Considering the client profile, one of the main priorities of the bank was to establish and maintain a strong AML internal control function. Bank does not attract clients on the market either itself or through agents, working only with known and referable clients that come through recommendation of Bank's shareholders or of existing clients. Nearly 100% of Bank's clients are Latvia's international clients. Most of the companies and their beneficiaries represent large Russian business that is not connected with Government or members of sanction lists and has diversified its assets outside Russia.

Bank mainly operates as a settlement bank with a number of specialized services provided to clients in total compliance to current requirements of US and EU AML. Main sources of bank's income are commissions and income on capital and money markets. Bank's core value is preservation and safety of clients' funds, therefore, it maintains a moderate and deliberate investment policy, and does not attract funds on interbank market.

Major business lines

Thus, Rigensis Bank has one solid business line – high-quality tailor-made financial services for large holding

structures and family offices as well as for their owners and top managers, provided through a limited list of specialized products, main of which are: (1) Settlement/payment services; (2) Forex trading & Money Markets operations; (3) Fiduciary and trust products; (4) Financial instruments & custody services; (5) MC payment cards.

Credit rating

Bank does not have a credit rating.

Turnover with shell companies

Turnover with shell companies comprised 70% as at 30.06.2017, 65% as at 2016 and 57% as at 2015.

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

Reduction of dependency of transactional business line

The total value of wire transfers in 2016 comparing to 2015 has decreased by 21%.

Diversification of lines of business/business lines to be developed

Rigensis Bank has one solid business line, which is niche banking for a closed book of international clients. The Bank has always been aware that such business model assumes high AML risk and from the very start

of business, high AML standards have been Bank's main priority. Bank attracts clients only through recommendation (closed-club bank) and therefore does not compete for market share with other Latvian banks. Rigensis Bank has no cash operations. Our internal AML policies and methods strictly comply with all relative legislation and best practices.

The fact that the Bank is servicing only a certain type of clients has been recognized by the Regulator. A banking license, issued by the Financial and Capital Market Commission of the Republic of Latvia, allows Rigensis to provide financial services under the condition that not less than 70% of the Bank's customer segment consist of large corporate customers (Companies included in and operating for the benefit of holdings of large corporate production, mining, financial, trade and other similar companies referred to in the Bank's development concept and companies equivalent thereto and recognized as "core customers").

Therefore, we do not assume business model reshaping or any significant changes in diversification of business lines to be developed.

Reduction of turnover with shell companies & sustainability of the business model in upcoming 3 years if turnover with shell companies reduced significantly

In 2016 the turnover with shell companies has decreased by 17% compared to 2015. In case of total recession of

turnover with shell companies, the Bank's balance will decrease up to 12.5% in 2019, and net profit up to 37.8%, but it will not cause issues for Banks business continuity and further development.

Remediation actions subject to regulatory enforcement measures by FCMC

There have never been and there are no regulatory enforcement measures by FCMC in force as at 30-06-2017. Despite this fact the Bank takes all the required measures to monitor the level of AML risks and perform a regular AML risk self-assessment. AML risks self-assessment methodology and first time assessment have been developed and performed together with Exiger and Lewis Baach Kaufmann Middlemiss and thus we obtained an overall AML risk picture of the Bank. The Bank is confident that Internal Audit tests and the independent review (by Navigant) had identified the key areas where enhancements are necessary to strengthen the AML controls and had begun to address these findings in August 2016, by drawing up an action plan implementing not only the 'required elements' as identified by Navigant, but also the 'optional suggestions' (Report of Independent Testing Findings & Recommendations', 27th June 2016, Navigant Consulting Inc). The 28 required elements and 29 optional suggestions were transposed into 168 actions. As at 30 Jun 2017, 86%. These are yet to be tested by internal audit and an independent reviewer, Navigant, which the Bank plans to engage in 4Q 2017 or 1Q 2018.

CORPORATE GOVERNANCE

Development of new policies and procedures

Navigant recognized that the Bank's AML policies and procedures are well documented and detailed, to the extent required by the Latvian regulations. In order to ensure that these documents comply with U.S. best practices and guidelines the Bank has amended 25 internal normative documents.

Financial sanctions (UN, EU, national) compliance policy, OFAC adherence policy, Sanctions officer

The Bank has ensured automated compliance with financial sanctions (UN, EU, national) and the requirements of the Office of Foreign Assets Control (OFAC) by using Acuity Compliance Link automated database screening and assigning a designated Sanctions Officer since November.

Increased transparency (improved quality of information provided in payments, publicly available reports on compliance etc.)

The Bank ensures full disclosure of payment information that corresponds to clients reported business and nature.

Strengthened management and/or supervisory function

The Bank has enlarged AML and Compliance staff by 7 employees (70%) ensuring that chief AML officer is ACAMS member, implemented AML strategic planning and strategy fulfillment control, replaced Client Committee

with new AML Committee significantly enlarging its functions (approval and supervision of AML strategy, methodologies and different AML reports, clients and partners' onboarding, non-standard client deals, etc.). By end of 3Q 2018 the Bank will implement an automated AML quality assurance process.

INTERNAL CONTROLS

Structural changes

The Bank has replaced Client Committee with new AML Committee significantly enlarging its functions.

Changes in KYC/CDD/EDD/PEP/ Financial Sanctions monitoring

The Bank has:

- enhanced EDD by implementing standardized documentation for conducting due diligence on intermediary companies that represent layers of ownership of the customer;
- developed and implemented automated AML risk scoring to define the level of overall money laundering and terrorist financing risk inherent in each customer at inception and during the business relationship;
- enhanced client EDD and CDD in accordance with risk-based approach (procedures and the scope of required documentation are based on the client AML risk score);
- toughened scenarios in Tonbeller FICO SIRON AML to enhance suspicious transactions detection;

- started implementing automated online PEP monitoring (finishing on 15-07-2017);
- implemented Acuity Compliance Link automated database screening to increase effectiveness of data input for black lists.

Changes in on-boarding policies and procedures, including, on-boarding via agents

Since March 2016 the Bank does not rely on any intermediaries or agents for AML information, agents do not have the right to identify the potential or existing clients.

Changes in compliance costs, personnel

The total costs in AML compliance in 2016 have increased by 3,4 times and reached 1,3 million EUR comparing to 2015. The Bank has significantly enlarged Bank's AML & Compliance control staff. A 50% increase in Compliance and methodology department (1 additional employee), a 50% increase in Internal audit department (1 additional employee) and 50% in AML Division (4 additional staff positions). In 2017 the Bank has added one more AML position – Head of AML Methodology department.

TRAINING OF THE STAFF

Focused training provided in 2016

In 2016 the Bank performed 36 AML trainings (29 internal and 7 external). 18 of 22 Bank structural divisions took part in them. In the period of 01.01.2017 – 30.06.2017 the Bank

conducted 8 AML trainings (4 internal and 4 external). The Head of AML Methodology and project management department is ACAMS certificate holder.

On-going testing and certification

The Bank ensures internal on-going AML testing for the employees at least twice per year. Chief AML Officer of the Bank is an ACAMS certificate holder. The Bank plans to organize ACAMS certification for one more AML employee.

INDEPENDENT TESTING

US consultants' independent testing outcome

Navigant assessed Rigensis Bank's AML and Sanctions program to be at a Low to Moderate level of compliance, the main reasons being that the Bank did not effectively design and/or implement all of its policies, procedures, and controls, that AML risk assessment methodology did not meet US better practices and due to some concerns regarding the knowledge and capabilities of the AML Officer.

Results of Navigant assessment as of 27th June 2016:

Functional Area	Rating
Governance/AML Compliance Officer	Moderate to Low
Internal Controls	Low
Training	Moderate
Independent Testing	High
AML Systems	Moderate
Total/Overall Rating	Low to Moderate

To ensure compliance with U.S. best practices and guidelines the bank has amended and implemented 25 internal normative documents. Bank together with Exiger and Lewis Baach Kaufmann Middlemiss the Bank developed and performed Sanction risk and AML risk assessment methodology. The Bank has hired the head of AML Methodology and project management department and with excellent AML experience, guidelines knowledge and ACAMS certification.

Level of implementation of independent testing recommended elements

As at 30-06-2017 the Bank has implemented 86% of all the tasks required for Navigant implementation. The remaining 15% are related to systems development and will be finished in Q2-3 2018.

Further plans for validation of implementation of remediation plans

The Bank plans to validate the implementation of remediation plan in Q4-2017 - Q1-2018. The Bank will discuss the possibility to perform validation in two parts – first in 2017 and the second in 2018. The US consultants engaged for validation will be Navigant In

Internal audit function ability to carry on independent testing in the field of AML/CTF

Navigant assessed that the Head of the Internal Audit Department conducts meaningful independent testing of the Bank's AML Program, has requisite experience and knowledge; and FCMC commended the Head of Internal Audit for her outstanding work.

Other external audits, outcomes

The Bank together with Exiger and Lewis Baach Kaufmann Middlemiss developed Sanction and AML risk self-assessment methodology and performed AML risk self-assessment. The results of the self-assessment show that as of the end of 2016, the Bank has a residual AML risk rating of MEDIUM.

Results of AML risk assessment performed with Exiger in March 2017

Program Element	Rating
AML Program Structure and Governance	Effective
AML Officer Function	Needs improvement*
AML Internal Controls	Effective
AML Training, Staffing	Effective
AML Independent Testing	Strong
AML Systems	Effective
Targeted AML Policies and Procedures	Effective
Total/Overall Rating	Medium

The results of the Sanction risk self assessment show that as of the end of 2016, the Bank has a residual Sanction risk rating of MEDIUM.

Results of Sanction risk assessment performed with Exiger in August 2017

Program Element	Rating
Sanctions Program Overview	Effective
Program Governance / Sanctions Officer	Effective
Training, Staffing, Program Resources	Effective
Internal Controls	Effective
Recordkeeping and Reporting	Effective
Independent Testing	Effective
Sanctions Screening and Filtering Systems	Effective
KYC	Effective
Overall Control Effectiveness Score	Medium

AUTOMATED SYSTEMS AND TOOLS

IT systems, changes (upgrades) in 2016

- The WALL (vendor – DSW) – core banking system, includes real time payment screening module, that screens against OFAC, EU, UN sanctions lists. Screening function now moved to Accuity’s “Compliance Link”;
- SIRON AML (vendor – FICO Tonbeller) – AML/CTF transaction monitoring system used to monitor all the wire transactions and detect suspicious activity;
- Accuity Compliance Link (vendor – Accuity) – AML/CTF monitoring system used for black lists, PEP and sanctions screening online 24/7;
- Customer monitoring (vendor – CYONE) – business-process system used for customer acceptance, due diligence and Enhanced due diligence investigation reports: PEP reports; AML acceptance and client scoring results;
- Customer Catalogue (vendor – CYONE) – system used for documenting AML activities, communication with customer, legal and business documents depository;
- Client Scoring (vendor – CYONE) – customer risk scoring tool, daily recalculating scoring for all clients overnight + ad-hoc real time during on-boarding.

Closed gaps, improved effectiveness, particularly in management of international financial sanctions

- Implementing of Accuity/ Compliance Link screening

tool instead of the WALL tool increased effectiveness of black lists, PEP and sanctions screening.

- Toughening of scenarios in Tonbeller FICO SIRON AML to enhance suspicious transactions detection.
- Implementing of Client Scoring set the Risk based approach in determination of client AML risk.

DE-RISKING OF CUSTOMERS AND BUSINESS LINES

Business lines exited; de-risked customers, shift in customer base by jurisdiction, target markets, trends in customers' structuring of their assets

Due to the reasons described in RESHAPING OF BUSINESS section the Bank does not expect any significant changes in this area except for gradual reduction in numbers of clients – shell-companies and volumes of their business.

Changes in number of PEP customers

As at 30.06.2017 the number of PEP clients is 46, which is a 15% decrease comparing to number of PEP clients in 2016 (54 client).

Reduction of AML/CTF risk level (scoring) among customers

The total number of clients as at 30.06.2017 is 1215. Compared to 2016 High risk customers decreased by 14% (-140 clients), medium risk clients increased by 5% (+2 clients) and low risk clients increased by 0,6% (+ 2 clients).

FATCA, CRS implementation

- FATCA – The Bank has implemented all the requirements.
- CRS – The Bank has developed and sent a questionnaire to clients to determine the client's tax residence and obtain additional information for subsequent transfer of received information in accordance with the requirements of Automatic Exchange of Information (AEOI).