Baltic International Bank

a niche bank providing individual, tailor-made services, offering high-quality financial products and investment solutions based on the principles of ESG (Environmental, Social, Governance)

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FACTSHEET

Association of Latvian Commercial Banks

MAJOR ENHANCEMENTS IN AML/CTF COMPLIANCE AND OTHER RELEVANT DEVELOPMENTS

Baltic International Bank

PROFILE OF THE BANK

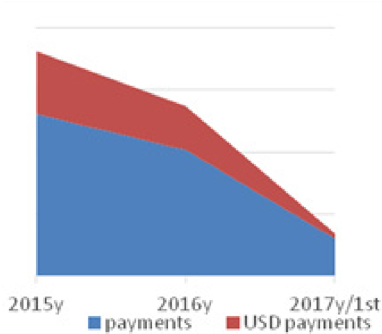
Brief description of the bank
Established in 1993, Baltic International Bank is a niche financial institution and one of the most experienced banks providing bespoke financial services and investment solutions. Most recently started to offer investments based on environmental, social and governance (ESG) factors. The Bank has no branches but has three representative offices established in the United Kingdom (London), Russia (Moscow) and Kyiv (Ukraine).

Major business lines
The Bank's core business centers on the management of investments having a built-in ESG component.

The banking services are provided to ensure investment activities of private individuals and their investment vehicles. The Bank also provides corporate banking services for long-term corporate clients in most cases in conjunction with providing investment management services for the owners and / or top management. The Bank's bonds are quoted on the NASDAQ Baltic Bond List of NASDAQ Riga.

Credit rating, if obtained on bank itself or financial instruments issued and/or enlisted
Not rated.

Structure and profile of shareholders
The subscribed (registered) capital of the Bank amounts to EUR 31.5 million, of which EUR 30.5 million is the share capital divided into 4,295,266 ordinary shares with equal voting rights. All shares of the Bank are registered shares. Overall, the Bank has 93 shareholders in the Bank of which 28 are legal entities and 65 – natural persons. The shareholders (residents of Latvia) Valeri Belokon (69.90%) and Vilori Belokon (30.00%) hold a qualifying shareholding (represents 10 percent or more of the share capital).



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

2016 was a year of significant changes which are interrelated in their nature. Thinking long-term, the Bank reshaped its business model, approved the new strategy, re-examined its customer base (implementing de-risking exercise) and strengthened its management and control systems.

Reduction of dependency of transactional (payments) business line
In 2016, there was a decrease of processed payments (23 %) versus 2015, accompanied by structural changes: decrease of USD payments – 31% versus 2015.

Diversification of lines of business/business lines to be developed in reshaped business model
The Bank is substituting these fees and commissions by developing other fee- generating business lines.

Reduction of turnover with shell companies
Turnover with shell companies decreased 37% year ’15 comparing to ’16.

Remediation actions subject to regulatory enforcement measures by FCMC, if applicable
On 9 March 2016, FCMC announced a regulatory fine of EUR 1.1 million imposed on the Bank and EUR 25 000 on the Chairperson of the Board.

Throughout 2016, the Bank actively cooperated with the FCMC while implementing the FCMC Board’s decision of 9 March 2016 which set forth a number of requirements regarding the revision of its clients' base and an independent testing of its system of internal control. The requirements were fulfilled by the end of 2016.

Projections, figures proving sustainability of the business model in upcoming 3 years if turnover with shell companies reduced significantly
The Bank is aiming at progressive transition into decreasing dependency on transactional part of the business (payment processing), developing other fee & commission generating business lines (investment management, brokerage), and providing clients with more holistic approach to their financial needs.

CORPORATE GOVERNANCE

Development of new policies and procedures
The Bank developed a number of new internal regulations for more efficient management of ML/TF risks. Among the most important were:

- Money Laundering and Terrorist Financing Risk Management Strategy 2017-2020
- Methods for Identification and Measurement of Money Laundering and Terrorist Financing Risk Exposure

The Bank significantly redesigned its risk scoring system and enhanced the procedure for identifying and measuring client's risk, re-worked its Money Laundering and Terrorist Financing Risk Management Policy.

The following internal procedures have been redesigned, enhancing analysis methods and making the procedures more comprehensive for the staff:

- Initial Customer Due Diligence Procedure
- Procedure for Performing Customer Due Diligence During the Business Relationship
- Procedure for Detecting Unusual and Suspicious Transactions

Financial sanctions (UN, EU, national) compliance policy and OFAC adherence policy
In line with all the international requirements as part of an enterprise wide AML/CTF policy.

The Bank now is finalizing its enterprise wide Sanctions policy and desktop procedures as separate package of documents.

Bank's technical capabilities, governance, and case management improved significantly using Siron embargo from Tonbeller.

Increased transparency (improved quality of information provided in payments, publicly available reports on compliance etc.)
Payments comply with FATF and U.S. payment transparency requirements.

Strengthened management and/ or supervisory function
The Bank added new members (employees performing core business functions, control functions, and support functions) to the Customer Due Diligence Committee to improve its effectiveness; charged the Committee with greater responsibility for certain ML/TF risk management-specific areas and processes.
The Supervisory Board was also strengthened through the appointment of three highly-qualified professionals having vast international-level experience in different areas, such as banking, finance, diplomacy, investments, and investigation of financial crimes.

Designated Sanctions officer (function)
Appointed since November, 2016

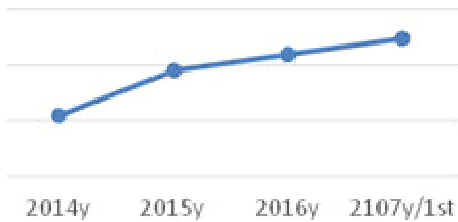
INTERNAL CONTROLS

Structural changes
In 2016, the Customer Supervision Department was reorganized to comprise of 3 new divisions formed with an emphasis on greater focus and specialization:

- sanctions and monitoring;
- due diligence;
- on-boarding.

Additional position of Project manager responsible for IT projects in AML/CTF area was created.
There was a significant increase of AML/CTF employees directly associated with compliance activities or in a compliance function: the greatest increase of + 83% was achieved already in 2015, as compared to 2014, but the trend continued and in 2016 the Bank increased AML/CTF staff for 20% more.

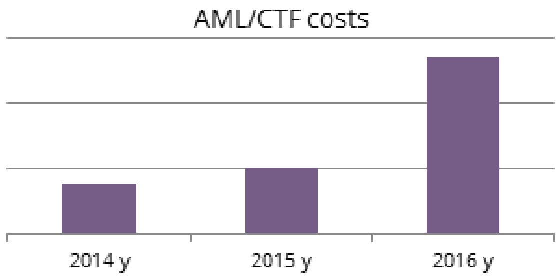
AML/CTL staff



Changes in KYC/CDD/EDD/PEP/Financial Sanctions monitoring, changes in on-boarding policies and procedures, including, on-boarding via agents
The Bank increased efficiency in KYC/CDD/EDD/PEP/ Financial Sanctions monitoring in line with the revised procedures (see Corporate governance part), revised the procedure and manner in which the Bank cooperates with its intermediaries (agents), set forth tougher requirements to the existing and potential partners empowered and entitled to conduct customer identification.

Concise description of changes in compliance costs, personnel
The Bank has been significantly investing into developing

a robust internal control system. It concerned many areas: hiring additional qualified personnel, acquiring and integrating new IT tools and access to databases, training staff directly and indirectly engaged into mitigating ML/TF risks. Total costs for AML/CTF compliance increased 4.3 times compared with 2014 and 2.9 times versus 2015.



TRAINING OF THE STAFF

Focused training provided in 2016, external/internal training, on-going testing and certification
In 2016, AML/CTF Training Program was prepared and made available to Bank-wide personnel, including testing which is to be repeated on an annual basis. E-learning tools are widely used. The staff members, who are directly involved in managing ML/TF risk, undergo training and tests twice a year.

The Bank's AML/CTF employees attended the following programs:

- ATTF. Prevention of Money Laundering & Terrorist Financing Foundation Level, Luxembourg
- ATTF. Prevention of Money Laundering - Advanced Level & Preparation course to the "Certified AML Specialist - CAMS Exam", Luxembourg.
- ATTF. Shaping the Future of your bank. Executive programme: a strategic bank management review.
- ACAMS 12th Annual AML & Financial Crime Conference Europe, London.

INDEPENDENT TESTING

US consultants independent testing outcome
The Bank was rigorously examined in order to compare its policies, procedures and practices to regulatory requirements set forth in the BSA and the USA PATRIOT Act and their implementing regulations, OFAC, the Federal Financial Institutions Examination Council BSA/AML Examination Manual, relevant enforcement actions, guidance promulgated by the Financial Action Task Force and industry best practices. The testing was performed by Exiger LLC and Lewis Baach Kaufmann (US consultants). The result of this project was a list of detailed recommendations on what should be developed in the area of AML /CTF to increase the level of compliance with the best practice.

Level of implementation of independent testing recommended elements
Based on these recommendations the Bank has work out a plan of measures for further enhancing its internal control system. Implementation is due till the end of 2017. As of June, 35% of the plan is already successfully implemented.

Further plans for validation of implementation of remediation plans
Implementation is to be validated end of 2017 – 1st quarter 2018.

Internal audit function ability to carry on independent testing in the field of AML/CTF
Internal audit performs testing of AML/CTF at the bank on an annual basis. Head of Internal Audit has international certificate and diploma in Compliance: CAMS, Int.Dip(Comp) MICA.

Other external audits, outcomes
According to the Latvian regulations the Bank should perform an independent external audit every 18 months.

AUTOMATED SYSTEMS AND TOOLS

Concise description of IT systems, changes (upgrades) in 2016, if any, AML/CTF monitoring system, Sanctions screening system, 24/7 or T+1/2/3, closed gaps, improved effectiveness, particularly in management of international financial sanctions
In 2016, the products of TONBELLER AG (www.tonbeller.com) were installed (up and running from 2017) instead of previously used Temenos AML Suite. They are as follows:

- Siron AML (Risk Profiling and Money-Laundering Alerts Through Customizable Scenarios),
- Siron RAS (for risk analysis),
- Siron KYC (Integrated Risk Classification for New and Existing Customers),
- Siron Embargo (Matching Payments with Sanction Lists)

This is a fully integrated solution that corresponds to specific business model of the Bank and is in line with the requirements of FCMC and best practice. It enables the Bank to: Detect Suspicious and Unusual transactions; Analyze deviations from usual customers' activity; Sanction screening; Filling SARs (Suspicious Activity Reports); Conduct list checking; Enable rules (including LV legislation & other rules); Evaluate different risk indicators; To assign risk categories for customers (Low, Middle, High, Very High).

Other databases
Additional upgrades have been made in the following systems:

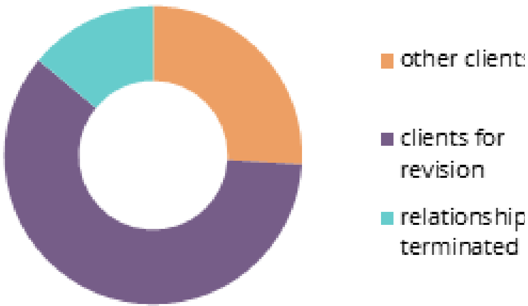
- Sanctions screening / monitoring (Accuity (2015)/ Dow Jones Factiva (2016))
- PEP screening and monitoring (Accuity (2015)/ Dow Jones Factiva (2016))

Core banking system
T24 / Temenos

DE-RISKING OF CUSTOMERS AND BUSINESS LINES

Business lines exited
As part of its de-risking initiative, the Bank decided to terminate the e-commerce business line. All related accounts and operational lines were closed in 2016.

De-risked customers
An extensive analysis of the customer base was performed based on changes in the Bank's business model, newly-adopted laws and regulations in Latvia, enhanced rules specifically related to the Bank, by integrating new requirements and business focus of the new strategy.



The percentage of clients included in the global review for de-risking purposes in 2016 constituted 70% of all the financial assets as of 01.01.2016. The Bank specifically reviewed making in-depth analysis of these clients. As a result of this process, 5% of the clients' accounts have been closed by the Bank for de-risking purposes. The other part remained as it was concluded that the Bank has sufficient level of comfort. With certain number of clients, there was a mutual agreement to terminate the business relationship as the Bank's new business model did not suit the needs of those clients, including the fees structure.

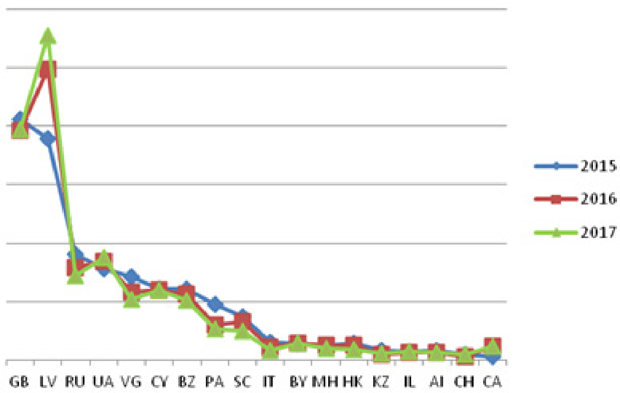
Shift in customer base by jurisdiction, reduction of AML/CTF risk level (scoring) among customers
Under the new strategy, the Bank is focused on diversification of its customer base, offering a platform of banking and investments products as we are well equipped to serve clients in the Baltic States, CIS and Europe as a gateway between the East and West.
The bank's assigned risks to the clients for 2017:
High risk: 19%; Medium risk: 30%; Low risk: 51%.

Changes in number of PEP customers
The Bank has small numbers of PEP clients – range between 20-24 clients. There were no significant changes in quantities.

Target markets
The Baltic states, Europe, CIS, China

Trends in customers' structuring of their assets

We are aiming at ensuring our clients with longer-term savings or investments solutions in line with our strategy. We work closely with our clients to explain the trends in the asset structuring, so that their assets are safe long-term, tax residency is clear to the Bank and the structure is used appropriately for assets holding or for business operations. There is a trend of clients adopting up-to-date methods of assets structuring and shifting their businesses to European countries, including Latvia.



FATCA, CRS implementation

The Bank is fully FATCA compliant and in 2016 it made certain steps to comply with the Common Reporting Standard (CRS) in effect as of 2017. The Bank requires all of the clients to provide information on their tax residency.