

MAJOR ENHANCEMENTS IN AML/CTF COMPLIANCE  
AND OTHER RELEVANT DEVELOPMENTS

# Danske Bank A/S Latvia branch



Danske Bank

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## PROFILE OF THE BANK

Danske Bank A/S Latvia branch is part of Danske Bank Group, which is of the leading financial institutions in Scandinavia and Nordic countries. Group is widely represented in 15 countries and has more than 5 million customers, whose daily needs are met by more than 18 000 employees.

Danske Bank Latvia has earned recognition for its responsible operations, being ranked in the Silver category in the Sustainability Index 2017.

Danske Bank is rated by the three major international credit rating agencies:

	Moody's	S&P	Fitch
Long term	A2	A	A
Short term	P-1	A-1	F1
Outlook	Positive	Stable	Stable

Danske Bank Latvia concentrates on serving corporate customers and private individuals associated with them, ensuring wide range of services – from daily banking services till solutions in such areas as financing, trade finance and cash management.

Danske Bank share is listed on Nasdaq Copenhagen and is part of the OMX C20CAP index as the new C25 index.

Danske Bank has around 260 000 shareholders and 10 largest shareholders hold 37% of the shares. Shareholders who hold more than 5% of shares - A.P. Møller Holding Group ([www.apmollerfonde.dk](http://www.apmollerfonde.dk)) and BlackRock, Inc. ([www.blackrock.com](http://www.blackrock.com)).

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

Our strategy already since establishing of branch was aimed at minimizing AMLTF risks, therefore Danske Bank has not made changes to the strategy. We continue to strengthen our positions in corporate customers segment in Latvia, offering sophisticated advice and tailor-made financing solutions. We also focus on the efficient use of capital in order to compete successfully and provide the best offerings to our customers.

There were no specific supervision measures taken in respect to Danske Bank Latvia and its activities comply with legal acts regulating the financial sector in the Republic of Latvia.

## **CORPORATE GOVERNANCE**

### **Development of new policies and procedures**

Danske Bank Latvia regularly improves its internal policies and procedures, and develops new policies and procedures, according to the changes in the legal acts of the Republic of Latvia, as well as considering Danske Bank Group's strategic and political resolutions.

### **Financial sanctions (UN, EU, national)**

Danske Bank Latvia ensures compliance with the UN, EU and national financial sanctions, taking into account the regulatory framework of the Republic of Latvia, as well as the requirements of the Danske Bank Group policy, where the restrictions are in some cases wider than the International sanctions set out, in order to eliminate possible operational risks associated with such payments.

### **OFAC adherence policy**

Danske Bank Latvia conducts customer due diligence activities before commencing the business relations, as well as conducts customer transaction monitoring and customer due diligence along the cooperation, which includes also checking the customers of Danske Bank Latvia, their beneficial owners/ representatives against the list of persons mentioned in the OFAC sanctions.

Danske Bank Latvia refrains from entering into a business relationship if it is found that it meets the person mentioned in the OFAC sanctions list when conducting a potential customer due diligence.

### **Increased transparency**

Danske Bank pays great attention to complying with regulatory requirements in the area of money laundering and terrorist financing prevention, and its website provides information on Danske Bank and its taken measures aimed to prevent money laundering and terrorist financing.

In addition, Danske Bank pays great attention to corporate responsibility issues, and our customer due diligence prior to entering into a business relationship also involves evaluating the potential customer behaviour model. Namely, Danske Bank Latvia avoids from business relations with companies whose organizational structure and implemented corporate governance model are complicated and non-transparent.

More information: <https://danskebank.com/en-uk/ci/Client-coverage/financial-institutions/Pages/kyc-and-aml-info.aspx>

On Danske Bank Latvia website there is also information available to the customers about on of the main principles in banking – “Know your customer”.

### **Strengthened management and/or supervisory function**

Danske Bank Latvia has recruited an additional employee in the Customer Risk Supervision Department.

With a view to developing an even more effective system to prevent any possibility of being used for money laundering or terrorist financing transactions, Danske Bank Latvia has revised the distribution of responsibilities and functions of employees involved in the prevention of money laundering and terrorist financing. This means even more scrupulous customer transaction monitoring and additional activities for ensuring customer data quality.

### **Designated Sanctions officer (function)**

Danske Bank Latvia does not have a separate category of job - a financial sanctions specialist.

## **INTERNAL CONTROLS**

### **Structural changes**

No significant structural changes have been made.

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

Taking into account the regulatory framework in Latvia, including the FCMC regulations, as well as the requirements of the Danske Bank Group AML Directive, during the last year we made changes in the process of customer due diligence and monitoring. We supplemented the amount of information requested from customers, as well as the methods, how Danske Bank in Latvia verifies this information. At the same time, it is more

strictly controlled that the existing customer information is updated within the set term, depending on the customer's risk group.

A great attention is paid on documentary evidence of information, and this applies not only to high-risk but all Danske Bank customers.

In order to carry out supervision regarding financial sanctions, Danske Bank Latvia regularly conducts a review of its customers and their related parties (actual beneficiaries, board, shareholders and authorized persons) in accordance with the sanctions lists. We also perform counterparties check for incoming and outgoing payments.

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

Danske Bank has implemented changes in the acceptance process for accounts opening. In 2016, we established a separate committee to accept/ reject the opening of accounts for high-risk clients, including politically exposed persons. Whereas the acceptance of all other new customers is carried out by a specially appointed official from the management of Danske Bank Latvia. In Danske Bank Latvia AML employees carry out the due diligence on all new clients, preparing a Client risk assessment for each client and together with AML

recommendations submitting them to a bank employee who accepts the opening of an account for the respective client.

Danske Bank Latvia does not collaborate with agents or any other third parties regarding the opening of client accounts. There is also no intention to use such services.

#### **TRAINING OF THE STAFF**

In the beginning of 2017, Danske Bank Latvia developed and approved an Employees Training Plan for 2017, including internal, external (specialized) and new employee training sections. In the internal regulatory framework, Danske Bank Latvia defines the categories of employees for which these trainings are compulsory.

##### **External trainings:**

2016: 8 courses  
1H 2017: 6 courses

##### **Internal trainings:**

2016: 7 courses  
1H 2017: 4 courses

#### **Employee testing and certification results**

Upon completion of the internal training, the knowledge

gained by the staff is tested by completing the test. Training is considered completed if the employee has passed the test with no more than 3 mistakes.

With regard to external trainings, the institution organizing the training issues a certificate, stating that the particular employee has completed the relevant training course.

In the first half of 2017, two Danske Bank Latvia employees obtained International Compliance Association Certificate in Anti Money Laundering. Our goal is to ensure, that all our AML employees are internationally certified.

## **INDEPENDENT TESTING**

### **Consultants independent testing outcome**

Auditing company KPMG carried out an external audit in 2016.

### **Level of implementation of independent testing recommended elements**

Danske Bank Latvia has complied with all the recommendations given in the conclusion of the auditing company KPMG.

## **Further plans for validation of implementation of remediation plans**

On 1 July 2017, Danske Bank Latvia launched a new, pan-Baltic customer servicing platform, thus introducing a new system that will not only offer modern banking services to our customers, but will allow us to control the risk factors of all customers during the business relationship more efficiently.

Danske Bank Latvia regularly takes measures to improve the system and increase its efficiency in order to avoid possibility of being used in money laundering and terrorist financing transactions.

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

An internal audit performs control on a regular basis, once a year. Internal auditors of Danske Bank Latvia or Danske Bank Group carry out the audit. The next internal audit of Danske Bank Latvia is scheduled in November 2017.

## **Other external audits, outcomes**

In 2014, the Financial and Capital Market Commission (FCMC) conducted an audit of Danske Bank Latvia on compliance with the requirements of legal acts on prevention of money laundering and terrorist financing. After the audit, the FCMC gave recommendations to the bank, which we introduced within the set deadline.

## **AUTOMATED SYSTEMS AND TOOLS**

### **Concise description of IT systems, changes (upgrades) in 2016 - H1 2017**

On 1 July 2017, Danske Bank launched a new, pan-Baltic customer-servicing platform in Latvia, thus introducing a new system that will allow to control even more efficiently all customer risk related factors during the business relationship. Currently, it includes about 40 potential customer transaction-tracking scenarios that identify customer suspicious and unusual transactions, not matching their business and personal activity.

Danske Bank Latvia has implemented a number of improvements in order to comply with requirements of the legal acts of the Republic of Latvia. It includes improving the customer risk-scoring model and related processes in accordance with the regulation of the Financial and Capital Market Commission No 234 "Regulatory provisions for credit institutions and licenced payment and electronic money institutions on enhanced customer due diligence", adopted on 23 December 2015.

At the same time, Danske Bank Latvia continues work on IT solutions in order to implement within the set deadlines the regulatory requirements set out in the regulation of the Financial and Capital Market Commission dated with December 28, 2016 (No. 219 "Regulations regarding

Provision of Information Technology for Money Laundering and Terrorist Financing Risk Management").

### **Core banking system: name / supplier**

Forpost/ Forbis UAB

### **AML/CTF monitoring system: name / supplier**

Forpost/ module developed Danske Bank

### **Sanctions screening system: name / supplier / online 24/7 or T+1/2/3**

Forpost/Forbis UAB/online

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

With the launch of the new IT and customer service system performed in July this year, we implemented a number of improvements, enabling Danske Bank Latvia to better manage the risks related with money laundering and terrorist financing, and to prevent the bank from being used for money laundering and terrorist financing. Improvements were made both in client transaction monitoring automation processes, and in automation processes of notifications about matches detected in the customer database against sanctions lists.

## **DE-RISKING OF CUSTOMERS AND BUSINESS LINES**

### **Business lines exited**

Danske Bank Latvia focuses on servicing corporate customers. In order to implement its strategy, the bank stepped out from the personal customers servicing market in 2016. Currently Danske Bank in Latvia offers its services to business customers and private individuals associated with them (owners, senior management).

### **Shift in customer base by jurisdiction**

The focus of Danske Bank Latvia was always on enterprises with business activities in Latvia and whose connection with Latvia is clear and unambiguous. Given, that Danske Bank Latvia has a very small number of non-residents (only clients of Danske Bank Group and whose country of residence does not pose additional risks to the bank); no significant changes have been observed in terms of customer jurisdiction.

### **Changes in number of PEP customers**

Since the new definition of PEP came into force, only few customers matching with PEP definition were identified in Danske Bank Latvia customer portfolio. In line with the internal requirements, each of these customers has been subjected to in-depth due diligence and the Customers' Committee has approved the continuation of cooperation.

### **Target markets**

International and local companies with business interests in Latvia.