

MAJOR ENHANCEMENTS IN AML/CTF COMPLIANCE
AND OTHER RELEVANT DEVELOPMENTS

JSC Regionāla investīciju banka



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PROFILE OF THE BANK

Brief description of the bank

JSC “Reģionāla investīciju banka” is a universal European bank established in Latvia, with more than 15 years’ experience in the international financial industry. The Bank offers its Customers a full range of financial products and services.

Credit rating, if obtained on bank itself or financial instruments issued and/or enlisted in the regulated market

not rated

Major business lines

The primary business area of the Bank is customer service focused on large and medium-sized corporate customers – non-residents of the Republic of Latvia, who provide transport services (principally by water), cargo transshipment services at seaports, export agricultural products, timber, import fuel, invest in construction of infrastructure facilities and production capacities. Furthermore, the Bank is oriented towards cooperating with small and medium-sized business customers in Latvia. In the Bank’s development strategy the emphasis is placed on lending, provision of investment services and customers’ investment portfolio management.

Structure and profile of shareholders

The recent changes in the composition of shareholders were made on July 12, 2017. The actual structure of shareholders is:

SKY Investment Holding Ltd - 37.404%

Iurii Rodin – 19.998%

Stock Bank Pivdennyi – 14.761%

Others - 27.837%

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

Reduction of dependency of transactional (payments) business line

In 2016, there was a decrease of USD payments -37.63% versus 2015 by turnover, and -32.77% in quantity of payments. In 1st half of 2017 payments in US dollars reduced by 40%.

Diversification of lines of business/business lines to be developed in reshaped business model

As consequence of reduction of payments business and latest tendencies on the market the Banks business model is reshaped and is refaced on Credit operations and Investment operations.

Reduction of turnover (changes) with shell companies

Turnover with shell companies¹ has decreased 43.6% year 2015 comparing to 2016, comparing with 2015. In the first half of 2017 the turnover with shell company reduced by 31%.

Remediation actions subject to regulatory enforcement measures by FCMC, if applicable

JSC "Regionalna Investiciju Banka" (hereinafter - the Bank) underwent FCMC onsite review during 09/05/2016 to 01/12/2016 and worked out the remediation action plan to strengthen and develop the internal control system and mechanisms of the bank.

CORPORATE GOVERNANCE

Development of new policies and procedures

In 2016 and 2017, the Bank made significant changes in AML internal policies and procedures and developed a number of new ones for more efficient management of ML/TF risks. The key elements were:

- New Money Laundering and Terrorist Financing Risk Management Strategy 2017-2019;
- New JSC “Regionalna investiciju banka” Sanctions Compliance Program for 2017-2019.

- Internal policies related to customer transaction monitoring, reporting and EDD were revised, amended and approved taking into consideration recommendations of US consultants and FCMC requirements. Work on the regulatory framework oversight will continue and will be completed by the end of October 2017.

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

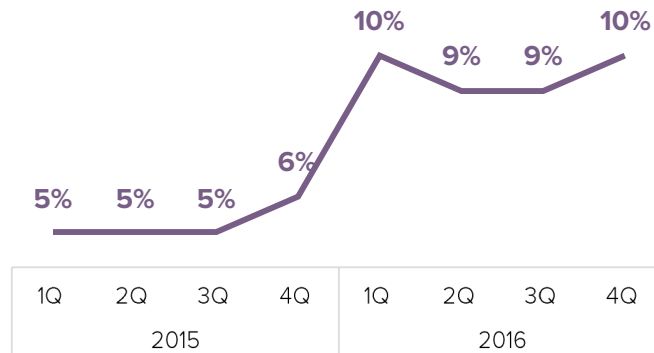
The Bank performs automated online screening of transactions and customer database control on a daily basis via AML screening solution in core banking system and additional worldwide database (World Check) in order to ensure that the Bank is not involved in transactions with the subjects of sanctions. The Bank ensures adherence to the restrictions imposed on the subjects of sanctions by both the European Union and the United Nations, as well as the OFAC.

Strengthened management and/or supervisory function (new employees, reporting lines etc.)

A significant increase in the number of employees in the Bank as a whole, but especially – AML&CFT field (with a simultaneous reduction in the number of clients). The Bank has enlarged AML and Compliance staff +35% in

2016 versus 2015, which is 10.3% from all employees of the Bank.

AML staff was increased by 25% in the 1st half of 2017.



Special financial sanctions compliance officer is designated.

A decision is made in the Bank on introducing the function “sanctions compliance officer” since 01/09/2017

whose main duty will be regular updating the Bank’s filters pursuant to the current information on all changes in sanctions programs/additions/updates, ensuring distribution of information materials, training, consulting and taking decisions with regards to operations executed

by customers on these issues as well as elaborating criteria for further implementation in the Bank's internal control system.

INTERNAL CONTROLS

Structural changes in the organization of internal control if any

After restructuring AML&CFT functions in the Bank in the end of 2016, the Customers Activity Monitoring Division was created and the tasks and roles in subdivisions are clearly separated and defined. Customers Activity Monitoring Division was also strengthened through the appointment of several highly qualified specialists - the AML risk analyst and experts in the field of Financial Monitoring.

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

The Bank has started to use new AML risk management system Siron (such modules as AML, KYC, RAS). The Bank acquired a new version of the Worldcheck database, which allows automated customer database screening, including PEP lists.

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

Oct 2016 - the Bank has initiated work of AML Risk Management Committee with full range of function to mitigate overall AML risk exposure of the Bank;

Dec 2016 - introduced an automated decision-making flow in the potential client onboarding process. This ensured that customer identification process is always made by the Bank's employee. This principle is also defined in the Bank's long term AML risk management strategy.

TRAINING OF THE STAFF

The Bank has developed a staff-training plan in AML&CFT field with the programs segregation according to employees duties – standard, advanced and specific AML training for existing Bank's employees, separate program for the new employees. Programs are regularly updated. The Bank ensures internal on-going AML testing for the employees after each training. Knowledge assessment test is mandatory for all employees of the Bank. Bank's leading AML&CFT and Monitoring areas staff have received ACAMS and ICA international certificates.

INDEPENDENT AML INTERNAL CONTROL SYSTEM TESTING

US consultants independent testing outcome

Independent auditing company "Exiger" recommendations are:

- to make certain amendments (requirements) to specific procedures and internal policies of the Bank,
- to promote and improve staff expertise in the AML&CFT areas,
- to increase the number of employees in above mentioned sphere,
- to improve the IT systems.

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. The work is being carried out according to the plan, and as of 30/06/2017, 87/8% is done.

Further plans for validation of implementation of remediation plans

Implementation is to be accomplished until the end of 1Q 2018.

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

The Bank plans to carry out another independent AML&CFT review in 2018 and plans to carry out existing scoring system's independent review in 3Q 2017.

AUTOMATED SYSTEMS (IT) AND TOOLS

Concise description of IT systems, changes (upgrades) in 2016 and Q1 of 2017

The Bank has introduced a customers' risk level "scoring" system SIRON, which also provides "offline" customer transaction scenarios and case management workflow.

Core banking system: name/ supplier

The Wall (supplier- DSW Latvia LTD) - core banking system, includes real time payment screening module, that screens against OFAC, EU, UN sanction lists. Offline scenarios are transferred to Siron AML risk management system.

AML/CFT monitoring system: name/ supplier

The Wall AML module (supplier- DSW Latvia LTD) Siron KYC/AML - (supplier FICO Tonbeller AG) - AML/CFT transaction offline monitoring system, case management, customers scoring (initial and regular risk rating), customer's onboarding and screening against black lists and sanction lists.

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

The Wall AML module (supplier - DSW Latvia LTD) - automated online payments screening module against databases, sanctions and black lists (OFAC, EU, UN), additional lists.

Other databases

The Bank purchased database from World –check (supplier Thomson Reuters).

DE-RISKING OF CUSTOMERS AND BUSINESS LINES

Business lines exited

As part of de-risking policy, the following business lines are exited – e-commerce and IT services like “virtual currencies”, “file sharing”, “traffic monetization”, online gambling and gaming platform, casino, internet advertising banners, “pay per click”/“pay per action” services, financial services providers without respective EU licensing, military goods, arms and munition traders without respective LR licensing, etc.

Comparison of de-risked high-risk customers

As a result of de-risking policy of the Bank the number of customers in 2016 vs 2015 has decreased by 19.72%,

17.78% were high-risk (“super-high risk”, “high-risk”, “PEP” jointly) customers.

In the 1st half of 2017, the number of customers also reduced by 6.36%.

Shift in customer base by jurisdiction

The Bank defines its target market and preferable jurisdictions as EU, Latvia, Ukraine, Russian Federation (by jurisdiction or geographical location of customers and its beneficial owners).

Changes in number of PEP customers

In 2016 vs. 2015 there were a decrease of number of PEPs by 9.94%.

In the 1st half of 2017, the number of PEP customers grew by 27.27% (customers are accepted by separate decisions of the Anti-Laundering Committee.)

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

Compared to 2015 in 2016 clients decreased by:
Super high risk – 49.39%
High risk – 17.47%
PEP – 9.94%
Low risk – 22.8%

In the 1st half of the 2017, reduction was as follows:

Very high risk – 21.43%

High risk – 10.66%

PEP + 27.27% (growth)

Low risk – 1.65%.

Trends in customers' structuring of their assets

Corporate clients, shipping companies, logistic, big trading companies (grain, oil products), production companies, local clients. Move from transactions to credit operations and investment banking.