

MAJOR ENHANCEMENTS IN AML/CTF COMPLIANCE
AND OTHER RELEVANT DEVELOPMENTS

ABLV Bank



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PROFILE OF THE BANK

Brief description of the bank

ABLV Bank, AS currently is the largest independent private bank in Latvia with the group's representative offices in 9 foreign countries and 11 different cities, as well as subsidiary bank in Luxembourg ABLV Bank Luxembourg, S.A.

ABLV Bank, AS profit in H1 2017 was EUR 26,3 Mio. Bank's operating income – EUR 55,3 Mio.

Bank's capital and reserves – EUR 326,9 Mio.

Bank's capital adequacy level as of 30 June 2017 was equal to 21,96%, but liquidity ratio – 76,78%.

Credit rating

Not rated.

Major business lines

Bank's major business lines – banking, investments, advisory services (please see www.ablv.com).

Turnover (% from total turnover) with the companies classified as shell companies

The Bank has assessed the risks of cooperation with the shell companies and cooperates only with the

respectable companies with the legitimate commercial interests, whose inherent AML/CTF risk is acceptable for the Bank.

Structure and profile of shareholders

The bank's controlling interest is held by the founders and majority shareholders Ernests Bernis and Oļegs Fiļš. Other shareholders of the bank are its top managers and officers, as well as long-term business partners and customers.

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

Dependency of transactional (payments) business line and changes thereof

Tightening CDD and risk mitigation measures, assessment of Bank's customer database and refusal from customers whose service is associated with a high level of risk, decrease of commission income from payments, particularly in USD dollars, in H1 2017 comparing to H1 2016 is 34,3%.

Diversification of lines of business/business lines to be developed in reshaped business model (if it is planned to change the business model)

ABLV group business strategy for 2017 – 2020 foresees change of business model, reducing the exposure to

compliance risks. Main business lines - bank services to entrepreneurs – project and trade financing, asset management, advisory services.

Reduction (changes) of turnover with shell companies

Share of turnover of shell companies in total customer credit turnover of the Bank's customers as of 30 June 2017 has decreased by 5% comparing to 30 September 2016.

Remediation actions subject to regulatory enforcement measures by FCMC, if applicable (for example, by concluding administrative agreements, FCMC letters, decisions)

The most important steps taken:

- Revision of customer database
- Improvement of internal control system
- audit of AML/CTF policy and strategy conducted by independent US audit company
- ACAMS certification (as at 30.06.17. - 29 certified specialists)
- Involvement of US specialist for advice on issues connected with US compliance requirements in the context of AML/CTF and sanctions.

Forecasts, calculations attesting sustainability of the bank's chosen business model within next 3 years, in case of significant decrease of turnover , e.g. without servicing shell companies

In connection with customer base assessment and refusal of customers whose service is associated with too high risk level, the commission income from opening and servicing of accounts, and payments, in particular in US dollars, will decrease. Also, the profit in the coming years is planned to be lower than in previous years. The bank plans to return to the stable volume of deposits and increase in the number of customers during the next three years.

CORPORATE GOVERNANCE

Development of new policies and procedures. financial sanctions (UN, EU, national) compliance policy development

According to existing FCMC regulations the bank has developed AML/CTF and Sanctions Policy, which is in force since 1 September 2016.

Foreign unilateral, extraterritorial, for example, OFAC adherence policy, increase of transparency, strengthening of management and/or supervisory functions

The bank has implemented improvements in the Customer transaction and behaviour control system, ensuring both customers and business partners monitoring against OFAC lists, setting more stringent requirements and control for information in the payment and transaction supporting documents, therefore ensuring increase of transparency (improving the quality of the information available in the payments, etc.).

The Banks has reorganized Compliance division and Financial Accounting Division, and has increased the number of staff who ensure the compliance requirements are met and controlled. The number of Compliance Division staff was increased from 92 persons in December 2015 to 104 persons in December 2016.

Designated special financial sanctions officers

The person responsible for the bank's development and improvement of internal AML/CTF control system and sanctions issues is the Board member, Chief Compliance Officer (CCO). A special employee (MLRO) is appointed in the Bank, responsible for reporting on the money-laundering issues to FIY, as well in certain cases specified by law – to the State Revenue Service. Sanction's Officer is appointed in the Bank since 18 August 2016.

INTERNAL CONTROLS

The improvement of the Bank's internal control system includes:

- Implementation of clients' AML/CTF risk scoring system
- Implementation of overall AML/CTF risk assessment
- Implementation of AML/CTF and sanctions policy
- Implementation of AML/CTF of a methodology for calculating risk indicators, changes in the new customers acceptance policy and procedures, including the collaboration with the agents (third parties)
- Improvement of Clients acceptance process
- Improvement of payment online and offline monitoring process
- Improvement of Customer due diligence process
- Improvement of agents (introducers) registration and monitoring process.

TRAINING OF THE STAFF

The bank has improved and updated an internal training on AML/CTF, introducing 2 training levels - basic and in-depth. This training is compulsory for all staff, whose duties require appropriate AML/CTF training.

The bank has special e-learning system that ensures testing and certification of each staff member, including newcomers.

In 2015 – 2016 all Bank staff was trained in AML/CTF area.

The bank has developed and approved an annual training plan in a AML/CTF sphere for 2017. According to this plan, the Bank ensures external trainings, as well as attending and participating in seminars, conferences in the AML/CTF area.

ACAMS certification is still ongoing in the bank. In addition, the Bank is developing a relevant programme for ACAMS certificate maintenance.

As at 30 June 2017 there were 29 ACAMS certified specialists in the Bank.

INDEPENDENT TESTING

As at 30 June 2017 the bank has implemented the most (~70%) of the US independent auditor recommendations. It is planned to implement all the recommendations until the end of 2017. The Bank has started the validation (assessment) process of the implemented recommendations carried out by the Internal Audit and Compliance Experts Departments.

In May 2017 the bank has performed the review of client AML/CTF risk scoring methodology by involving external consultants. The client AML/CTF risk scoring methodology's model implemented by the bank was assessed as compliant with FCMC requirements. All the observations in the consultant's report have a low risk profile.

A new independent review of the bank for the AML/CTF risk management strategy implementation is planned for 2018.

AUTOMATED SYSTEMS AND TOOLS

Core banking system software

T24 - Temenos, CRM Bank - Customer Relationship Management system. Tonbeller AG.

AML/CTF transaction monitoring systems

Siron AML, Siron KYC – Tonbeller AG, Open Text Content Suite, Open Text MBPM, Terrasoft RM.

Financial sanctions monitoring system

Siron Embargo, Siron KYC, Siron FATCA – Tonbeller AG, Open Text Content Suite, Open Text MBPM, Terrasoft RM.

Other IT tools and solutions

Temenos T24, Open Text Content Suite Management – Open Text, Canada. Open Text BPM – Open Text, Canada. Terrasoft CRM. AML&Sanctions Atlas – Promontory Compliance Solutions, LLC (USA).

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

The Bank continues to improve the existing IT systems with respect to AML/CTF and sanctions on a permanent basis.

DE-RISKING OF CUSTOMERS AND BUSINESS LINES

Business lines exited

The bank has set circle of unwanted customers, including documenting AML/CTF risk indications of unwanted

customers. Bank's unwanted customer base consists of: Shall banks, institutional clients maintaining business relations with shell banks, money service brokers, foreign charity organizations, as well as the customers matching signs of Bank's unwanted clients.

De-risked customers

Bank's customer database in H1 2017 compared with the end of 2015, has decreased for almost 20,0%, including termination of business relations with the clients who caused a high reputational or AML/CTF risk to the Bank.

Shift in customer base by jurisdiction

The Bank mainly services clients from the Baltic and CIS countries.

Changes in numbers of PEP clients

Foreign PEP clients number as at 30 June 2017 comparing to 2015, has decreased for ~26,7%.

Target markets

The target profile of the Bank is entrepreneurs and business owners from Latvia, the Baltic States, the CIS, the EU and other countries of the target region.

Tendencies in the structuring of customer assets

The amount of investments in financial instruments as of 30.06.2017. has increased comparing to 31.12.2015.