

MAJOR ENHANCEMENTS IN AML/CTF COMPLIANCE
AND OTHER RELEVANT DEVELOPMENTS

Meridian Trade Bank



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PROFILE OF THE BANK

Brief description of the bank

AS Meridian Trade Bank has been successfully operating for over 20 years and has a well-developed branch network in Latvia and Lithuania. Head office is located in Riga, the Bank has a branch in Liepaja, 15 service centres in Riga and other 9 in Latvia's most economically active cities. The Bank has another branch and 2 service centres in Lithuania. The number of customers of MTB exceeds 39 thousand. MTB staff in Latvia and Lithuania counts more than 260 people. Strong liquidity ratio at 78 % (end of 2016). MTB is owned by five local private individuals, who acquired the Bank via management buy-out in 2014.

Major business lines

The bank offers a wide range of services, which are typical for a universal bank operating in the Baltic region, to small and medium sized corporate customers and natural persons:

- Deposit products;
- Lending, leasing;
- Payment cards;
- Brokerage services;
- E-commerce.

MTB aims at a stable and rational growth through low-risk operations based on further improvement of services provided to customers, who are based in the Baltic region.

KEY AML/CTF ACTIVITIES

- On-going work on strong corporate governance and AML/CTF programmes
- Developed and implemented ML risk management strategy
- Revised Client risk management process
- Implemented a new Client risk scoring system
- Updated DD and EDD procedures
- Implementation of AML/CTF monitoring and Client risk scoring systems from FICO Tonbeller SIRON®
- Implementation of new Sanctions screening system by Accuity
- Implementation of advanced AML training system
- Significantly increased the number and quality/ experience of AML/CTF employees

RESHAPING OF THE BUSINESS MODEL

Reduction of dependency of transactional business line

- Re-shaped business model, approved new strategy, re-examined clients file (implementing de-risking) and strengthened control systems
- Implementation of risk-mitigating measures reduce transaction volume

Work on diversification of business lines according to the re-shaped business model

- Further development of corporate and retail services

for the Baltic market

- In 2016 net interest income increased by 7% and commission income by 37%
- In 2016 percentage of resident clients reached 91%

Diversification through Latvian and Lithuanian resident clients

Switching from international clients to resident clients.

The main customer groups of the Bank will be:

- Natural persons (LV and LT residents and EU residents)
- Small and medium sized Baltic region companies, including those involved in international trade , export-import cargo transportation, trade and transit services in the Baltic region or having their business counterparts or investments in the Baltic region

CORPORATE GOVERNANCE

Development of new policies and procedures

- Consistent establishment of new and wider-reaching policies and procedures designed to strengthen overall governance
- Significantly re-designed Client risk scoring system and enhanced procedure for measuring the client's risk
- Re-building the Internal Control System in compliance with new regulatory requirements and the independent US audit recommendations

- Implementing high business ethics standards throughout the Bank, assessing compliance performance
- Established Quality Assurance programmes

Increased transparency

Improved quality of information collected from payments.

Financial sanctions (UN, EU, OFAC) compliance policy

- Implemented an Internal Control System, which ensures compliance with UN, EU, OFAC sanctions
- Sanctions screening tool provided by Accuity was implemented to strengthen the capacity of the bank to mitigate sanctions risk

Designated Sanctions officer

Since December 2016.

Strengthened management and supervisory function

- Increased awareness
- 8 new AML compliance employees
- Wider reporting, AML risk assessment system

INTERNAL CONTROLS

Structural changes

- Strong AML management team structure was created
- AML/CTF risk control functions are independent from the business functions

Changes in compliance costs, staff

- AML related expenses increased by 400 000 EUR comparing to 2015
- Increased the number of AML employees by 50%

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

- New ML risk assessment methodology
- New automated Client risk scoring system
- New AML monitoring system
- New Sanctions screening system
- De-risking of the Client base

TRAINING OF THE STAFF

Focused training provided in 2016

- Training program covers all AML related areas
- For AML staff specific external trainings are ensured

External training

- International AML trainings, seminars, conferences for AML staff
- 2 CAMS certified specialists

On-going testing and certification

- The Bank will continue providing initial training for all new employees and intends to tailor initial training to meet specific needs
- Regular training program to all staff

- Specific external training for senior AML/CTF staff and management
- International training for senior responsible AML/CTF officers

INDEPENDENT TESTING

US consultants independent testing outcome

The Bank was examined in order to compare its practices to regulatory requirements set forth in the US Bank Secrecy Act/AML/OFAC regulations.

The testing was performed by US consultant Exiger LLC and Lewis Baach Kaufmann Middlemiss.

The main recommendations of the Remediation plan have been implemented.

Other external audits

- Next expected independent testing Q1 2018
- AML IT system's audit once every 18 months – next Q2 2018

Main recommendations were related to:

- meaningful risk assessment;
- compliance performance;
- compliance culture;
- training process;
- AML monitoring system;
- AML case management system.

Internal audit function

- Has further strengthened its capacity/expertise to perform independent testing of AML/CFT processes through training
- Follow-up fulfilment of the previous recommendations

AUTOMATED SYSTEMS AND TOOLS

IT system's changes

- Implemented new systems from FICO Tonbeller Siron® RAS, KYC and AML tools
- Implemented Accuity Sanctions, screening and PEP system

Core banking system

The Wall

AML/CTF monitoring system

FICO Tonbeller Siron®

Sanctions Screening system

Online 24/7, Accuity tool

Other databases

Dow Jones Factiva

Management of international financial sanctions

Has been improved by the tool from Accuity and FICO Tonbeller Siron®.