

MAJOR ENHANCEMENTS IN AML/CTF COMPLIANCE  
AND OTHER RELEVANT DEVELOPMENTS

# Nordea Bank AB Latvia



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## PROFILE OF THE BANK

### **Brief description of the bank**

Nordea is the leading financial services group in Northern Europe and the Baltic States, the deposit fund of which is guaranteed by Sweden. In Latvia, Nordea operates as Nordea Bank AB Latvia (hereinafter — the “Branch”) and is one of the leading banks. It is stable and reliable, with a high credit rating in the financial market of Latvia. In certain segments, the Branch has taken leading positions, for example, in the field of corporate lending, housing crediting, car lease and Private Banking. Currently, the

Branch and Nordea subsidiary companies in Latvia employ approximately 500 employees in both Riga and the regions.

### **Credit rating**

AA- credit rating (according to Fitch, Standard & Poor’s).

### **Main orientations of the Bank's operations (business lines)**

- Provision of services and disbursement of loans to corporate customers and private persons;

- Savings products for Private Banking customers;
- Nordea Finance Latvia leasing, factoring and other services;
- Digital remote banking services (Nordea Online, Contact Centre);
- 2nd pillar pensions, 3rd pillar pensions;
- Savings and investments.

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

In accordance with the policy of the Branch, shell companies are not target customers of the Branch. Even though several shell companies have been identified in the customer portfolio of the Branch, their turnover does not exceed 0.5% of the total turnover of the Branch.

**Structure and profile of shareholders**

Nordea Bank AB Latvia operates as a branch. Nordea Bank AB Latvia is a publicly quoted joint stock company. The president of Nordea Group is Casper von Koskull. Shareholders are available here: <https://www.nordea.com/en/investor-relations/share/shareholders/>

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

**Dependence on the transaction (payment) business and changes thereof**

With customers becoming more active, the number of payments increases. At the same time, the share of proceeds from commission fees for payments in the total income of the bank in the first half of this year amounts to 5 percent and is small.

Year	2015	2016	2017 H1
Income from commission fees for payments to total income (according to management's accounting data)	4%	4%	5%

**Business lines diversification / business lines, which the Bank plans to develop within the revised business model**

Diversification of business areas of the Branch is related to the development of digital solutions and remote provision of banking services to customers. The most significant achievements in the provision of new products

and services are Nordea's online meetings to both private persons and corporate customers, as well as new and secure authentication tools (Nordea code application and Code Calculator), the first fingerprint identifier in the Baltics, corporate Internet portal with an online account opening solution, as well as a new, modern mobile application.

#### **Decrease in turnover (changes) in transactions with shell companies**

Statistical data of this type have not been summarised. Shell companies are not target customers of the Branch.

#### **Activities related to elimination of deficiencies according to requirements set forth by FCMC, if such requirements have been applied (for example, upon entering into administrative agreements, FCMC letters, decisions)**

There have been no additional FCMC requirements applied to the Branch.

#### **Forecasts, calculations, which attest the Bank's chosen business model's sustainability in the next 3 years if the turnover decreases significantly (for example, refusing services to shell companies)**

Shell companies are not target customers of the Branch; therefore, topical calculations on sustainability in the future are currently unavailable. The Branch continues

operating in accordance with the selected business strategy; as a result, in the first half of 2017, the total amount of loans has increased by 2 percent, of which loans to corporate customers have increased by 5 percent.

## **CORPORATE GOVERNANCE**

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

Within the framework of the Nordea Group, significant changes have taken place in the field of AML/CTF and as a result of changes, AML/CTF-related policies have been significantly improved. It is also important to note that detailed AML/CTF standards have been developed; these standards are directly applied to all members of Nordea Group, including the Branch.

### **Financial sanctions (UN, EU, national), OFAC adherence policy**

Nordea Group continuously improves policies in relation to the management of sanctions (UN, EU, OFAC, etc.). In addition, in 2016, new Sanction Management Standards were developed, defining strict and detailed requirements in relation to the observance of sanctions.

### **Strengthening the management and/or supervision function, appointed specialist for observance of financial sanctions**

As a result of structural changes in 2016 at the level of Nordea Group, a new and strong Sanction Management Department has been created. The structural unit comprises highly-qualified specialists responsible for the observance of sanctions within entire Nordea Group and provision of support to each employee of Nordea Group.

## **INTERNAL CONTROLS**

### **Structural changes**

At the end of 2016, significant changes were launched in the AML/CTF organisational structure within entire Nordea Group and in May 2016, a new structural unit “Nordea Group AML & Sanctions” was created, including supervision of sanctions and transactions, as well as supervision of “Know Your Client” data. Structural changes were also applied at the Branch, as a result of which the number of employees working in the field of AML/CTF has tripled.

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

At the beginning of 2017, the Branch developed and approved new regulations of the AML/CTF internal control

system, determining stricter requirements for customer assessment, customer’s ML/TF risk assessment and its supervision.

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

In accordance with the policy of the Branch, the Branch does not use agent services.

## **TRAINING OF THE STAFF**

### **Training course carried out in the field of AML/CTF in 2016 and 1st half of 2017**

In 2016, Nordea Group developed new e-training courses in the field of AML/CTF and adjusted them to local needs and laws. The training course is mandatory for all current and new employees; a test is an integral and mandatory part of such training course.

### **Intern / external training**

All employees working in the field of AML/CTF in Latvia took an external training course organised by “Compliance Baltic SIA” in 2016 and 2017 and successfully obtained their certificates. In addition, other external training courses are taken on a regular basis, including external e-training courses, taking into account the AML/CTF employee’s duties.

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

In 2017, the employee responsible for AML/CTF took a full-time training course in Luxembourg and obtained a CAMS (certified anti-money laundering specialist) certificate.

### **INDEPENDENT TESTING**

In the first half of 2017, an independent internal audit of Nordea Group was carried out, focusing on the compliance of the Branch to requirements set forth in laws and regulations of Latvia. The majority of audit recommendations have currently been implemented and it is planned to implement them in full by the end of September 2017.

### **AUTOMATED SYSTEMS AND TOOLS**

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

T24 / TEMENOS

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

Financial Anti-Crime Platform / BAE Systems Applied Intelligence

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

1. Financial Anti-Crime Platform / BAE Systems Applied Intelligence / 24/7 and T+1/2/3
2. Swift Screening Services / SWIFT / 24/7

#### **Other IT tools and solutions**

1. Internal IT solutions, ensuring Customer's ML/TF risk assessment and screening according to special lists.
2. International Register of Companies BUREAU VAN DIJK (<http://www.bvdinfo.com/en-gb/our-products/company-information/international-products/orbis>)
3. Dow Jones ([www.dowjones.com/products/risk-compliance/](http://www.dowjones.com/products/risk-compliance/))

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

The Branch continuously improves and strengthens the performance of the internal control system in order to prevent violations of set sanctions.

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

The Branch continues operating and orients towards residents or persons who have a relation to the Republic of Latvia. The Branch does not maintain business relations with higher-risk customers.

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

No crucial changes to the customer base according to jurisdiction have taken place, taking into account that the target customers of the Branch are residents of Latvia or persons who have a relation to the Republic of Latvia.

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

Prior to changes in laws and regulations with regard to the definition of PEP, the circle of target customers of the Branch did not include politically exposed persons and just a few customers were included in the customer portfolio. After changes in the definition of PEP, as of the beginning of 2017, the number of PEP's did not exceed 1 percent of the total customer base.

### **Decrease in the ML/TF risk scoring among customers**

In 2015 and 2016, the share of high-risk customers in the total customer portfolio amounted to up to 1.5 percent. At the end of 2016, along with changes in the methodology of ML/TF risk level (scoring) assessment, as of August 2017, the share of high-risk customers amounts to 3.5 percent of the total customer portfolio.

### **Target markets**

- Provision of services to large, small and medium corporate customers and their financing
- Provision of services to private persons, their financing, investments
- Range of Private Banking services
- Nordea Finance Latvia leasing and other services
- Digital remote banking services (Nordea Online, Contact Centre)
- 2nd pillar pensions, 3rd pillar pensions, pensions products.

### **Tendencies in the structuring of customer assets**

Currently, loans of the Branch with a term of up to one year form 12 percent of all loans, as compared to 15 percent as of the end of 2015.\*

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\* Nordea branch observes the guidelines for the publication of financial results of Nordea Group, as a result of which legal accounting results are not published and are not intended for public distribution.