

MAJOR ENHANCEMENTS IN AML/CTF COMPLIANCE
AND OTHER RELEVANT DEVELOPMENTS

Norvik Banka

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PROFILE OF THE BANK

Brief description of the bank

AS Norvik Banka was established on 29 April 1992 and is one of the oldest commercial banks in Latvia. The Bank has the largest branch and customer service centre network in the country and is represented in 16 Latvian cities; in terms of assets it is the 8th largest bank in Latvia. The Norvik Group is represented in Russia through PJSC “Norvik Bank” and in the U.K. through Norvik Banka UK Limited. For further details please see www.norvik.eu.

Credit rating, if obtained on bank itself or financial instruments issued and/or enlisted

Not rated.

Major business lines

“Latvian Banking”, “Private Banking & Wealth Management”, “International Banking” and “Capital Markets”;

Structure and profile of shareholders

Mr. Grigory Guselnikov, citizen of the Russian Federation and the U.K. – 95,97% (of which 38.31% directly and 57.66% indirectly).

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

Reducing of dependency of transactional part (payments)

Number of funds transfers (2015 comparing to 2016) has declined 8.9% year-on-year, and commission income from funds transfers has declined by 8.6% year-on-year. Number of funds transfers (6m'16 comparing to 6m'17) has declined 10.7% year-on-year, and commission income from funds transfers has declined by 10% year-on-year.

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

As basic business lines the Bank sees the following for strategic development:

- providing a wide range of banking services to legal entities and private individuals on the Latvian market;
- providing financial services to large international clients' corporations;
- proprietary activities on the financial markets (securities investments);
- provision of services to affluent and HNWI private clients in the private-bank format;
- management, and run-off of the non-profile assets portfolio.

This will allow the Bank to retain strong positions in international financial markets, transactional customer

banking as well as maintaining a secure position on the Latvian market primarily in the field of financial services to individuals.

Reducing of turnover with shell companies

Turnover with shell companies in 2016 decreased by 43% year-on-year. Turnover with shell companies in 6m'17 decreased by 13% year-on-year.

Projections, figures proving sustainability of the business model in upcoming 3 years if turnover with shell companies reduced significantly

Diversification of the balance sheet through Latvian resident customers, and diversification in income streams through a switch from international clients, shell companies to well-known international corporates and HNWI private banking clients.

CORPORATE GOVERNANCE

Development of new policies and procedures

At present the Bank is rebuilding its internal control system in compliance with the new regulatory requirements and US audit findings. New procedures have been developed and approved regulating the cooperation with agents and procedure of training the new AML/CTF requirements to staff. New procedures are being developed on the procedure for starting cooperation and examination of new clients, as well as

for the monitoring of existing clients using the AML-IT system Siron® from FICO-Tonbeller. Additionally, the bank's policy and strategy in the field of AML/CTF are being updated.

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

According to the bank's AML/CTF policy the bank meets all mandatory international requirements related to sanctions. Prior to execution, all outgoing and incoming payments are verified to establish financial transactions that could potentially or are directly connected to persons against whom international or national sanctions are imposed.

Increased transparency (improved quality of information provided in payments, publicly available reports on compliance etc.)

The bank accepts and carries out payments which have clear economic feasibility, purpose and essence of the payment, as well as payments not related to money laundering and terrorism financing. The payments must correspond to the client's business activity and be within the limits of turnovers set by the Bank.

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

Due to increased requirements in the field of AML/CTF additional employees responsible for due diligence and analysis of clients have been employed in the Client

Monitoring Department. The Bank has started using the AML-IT system Siron® from FICO-Tonbeller which automatically generates messages regarding instances requiring client analysis.

Designated Sanctions officer (function)

Since October 2016.

INTERNAL CONTROLS

Structural changes

in 2017, changes were introduced to the Internal AML structure: the Compliance Division is not a part of the Client Monitoring Department anymore.

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

New ways and methods for client analysis are being introduced at the bank, mainly related to the introduction of an automated calculation of the client risk level and application of the new AML-IT system Siron® from FICO-Tonbeller by units allowing improved control over client monitoring, determination and analysis of PEP activity and control over compliance with international sanctions.

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

Throughout 2016 the bank kept toughening the requirements for new clients and for the process of initiating cooperation with new clients. At the very start of any form of cooperation mandatory verification is performed to detect matches with the Accuity data base and sanctions lists. There are certain groups of clients which whom cooperation can be started only upon receipt of the AML Committee's decision. See also a paragraph on new procedures and policies under the CORPORATE GOVERNANCE section.

TRAINING OF THE STAFF

Focused training provided

In 2016 annual training was conducted for the employees engaged in sourcing and servicing clients and for the senior management of the bank. Prior to starting the use of the AML-IT system Siron®, all of the employees of the Client Monitoring Department received training on the set-up and operation of the system. In 6m'17 annual training was conducted for the employees engaged in sourcing and servicing clients.

External/internal training

In addition to in-house training, many employees mastered external training programs in the field of AML/CTF and received local (Latvian) AML/CTF

certification; the CEO (responsible for AML/CTF) received the CAMS certification.

On-going testing and certification

Remote training and testing are widely used at the bank. At present, upon entry into force of the new FCMC regulations on the personnel training in the field of AML/CTF, the bank has approved a new procedure and training plans according to which the employees were trained in 2017.

INDEPENDENT TESTING

US consultants independent testing outcome

According to independent US auditors' report the Bank received three "High" ratings and two "Low" ratings with an overall rating of "Moderate to Low". 80% of recommendations given by the US independent auditor have been implemented, those remaining have not come to the term for implementation.

Level of implementation of independent testing recommended elements

94% of recommendations given by the Bank's Internal Audit Division during the period from 2013 to 2016 have been implemented.

Further plans for validation of implementation of remediation plans

The Bank's Internal Audit function plan to perform validation of implementation of the remediation plan in Q3-2017.

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

Once per annum testing conducted by the Bank's Internal Audit function.

Other external audits, outcomes

The FCMC external audit in October 2016. There is no FCMC audit results till 30.06.2017. Also according to the FCMC requirements, the bank should perform an independent external audit on its AML IT systems and AML process once every 18 months, i.e. the next external audit is expected in March 2018.

AUTOMATED SYSTEMS AND TOOLS

Concise description of IT systems, changes (upgrades)

In October 2016 the bank signed an agreement on the implementation of the Siron® system from FICO-Tonbeller, a global leader in the development of modern technology solutions for financial institutions aimed at monitoring suspicious transactions and fraud.

Core banking system: name/ supplier

ABS Norvik/in-house system.

AML/CTF monitoring system: name/ supplier

Siron AML, Siron KYC / FICO-Tonbeller, Siron® Embargo system

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

In 2017 Siron® Embargo system from FICO-Tonbeller

Other databases

Accuity and "SPARK Information Resource" Search Engine from Interfax.

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

Introduction of the external automated system Siron® Embargo from FICO-Tonbeller.

DE-RISKING OF CUSTOMERS AND BUSINESS LINES

Business lines exited

During the previous year requirements for cooperation with certain categories of clients and for servicing of certain types of activity became stricter. The bank does not and never have serviced clients engaged in arms trading, gambling and betting, etc. e-commerce, trust and

fiduciary contracts and similar deals could be serviced only with approval granted by the AML Committee and provided that enhanced monitoring is applied.

De-risked customers

The quantity of the de-risked clients for the period of 6m'17 is 212. It is 43,89% to all de-risked clients in 2016.

Shift in customer base by jurisdiction

Compared to 2016, the number of international customers decreased by approximately 30%. The main decrease is related to offshore jurisdiction (shell companies) customers (-40%). Compared 2016 and 6m'17 the main decrease is related to offshore jurisdiction (shell companies) customers (-30%).

Changes in number of PEP customers

Due to changes in the Latvian law the number of PEPs among Latvian residents has increased significantly. The total number at present is 205 persons.

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

According to the information as at the end of 2016, very high - 2, high – 2,099, medium – 7,743, low – 108,829.

According to the information as at the 6m'17 - very high - 0, high – 8542, medium – 4371, low – 104252

Target markets

Regional Development: St. Petersburg, Ukraine.
New Regions – UAE, China, Cyprus, Kazakhstan, Azerbaijan.

Trends in customers' structuring of their assets (for example shift from short term assets to longer term assets, move from transactions to placement of longer term assets for management etc.)

The major part of customers keep their personal savings with the Bank, and use either investment services or deposits. Also, such customers invest in long-term investment products because the higher yields offered are most attractive to them. The second, smaller category of customers uses their current account for servicing their operational activities.