

MAJOR ENHANCEMENTS IN AML/CTF COMPLIANCE
AND OTHER RELEVANT DEVELOPMENTS

OP Corporate Bank plc Latvia branch



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PROFILE OF THE BANK

Brief description of the bank

OP Corporate Bank plc is the most significant subsidiary of Finland's largest financial services group OP Financial Group (OP). Established in 1902, OP Financial Group is a cooperative financial services group formed by independent cooperative banks and the Group's central cooperative with its subsidiaries operating under the principle of joint and several liability. As of 31 December 2016 OP Financial Group consists of 173 independent member cooperative banks owned by 1.7 million owner-

customers and the central cooperative they own, OP Cooperative, with its subsidiaries and affiliates.

OP serves corporate customers by providing an extensive range of financial, investment, cash-management and non-life insurance services. It offers non-life insurance and private banking services to private customers.

OP Corporate Bank plc Latvia branch was opened in September 2012, to extend the range of services provided by the OP in the Baltic States.

OP Corporate Bank plc Latvia branch customer base consists of local large and midsize corporate customers.

Credit rating

OP Corporate Bank plc ratings: Moody's: Aa3; S&P: AA-.
OP Corporate Bank plc Latvia Branch is not rated.

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

OP Corporate Bank plc Latvia branch provided services are: current accounts, payments, FX, short-term and long-term financing.

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

0% – OP Corporate Bank plc Latvia branch does not service shell-companies.

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

Dependence on the transaction (payment) business and changes thereof

OP Corporate Bank plc Latvia branch dependence on the transactions (payment) business is estimated as low (share in the total income from services is: 2015 pmnt

related income comprised 4% from total income; 2016 – 3% and 2017 – 2%).

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

No plans to change business model.

Decrease in turnover (changes) in transactions with shell companies

OP Corporate Bank plc Latvia branch does not service shell-companies.

Activities related to elimination of deficiencies according to requirements set forth by FCMC, if such requirements have been applied

No FCMC requirements received.

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

OP Corporate Bank plc Latvia Branch's business model and customer acceptance policy bear low ML&TF risk therefore no any significant changes are planned resulting decrease in turnover.

CORPORATE GOVERNANCE

Being a part of OP Group, OP Corporate Bank plc Latvia branch AML function is integrated to the group AML function. Local policies and procedures are developed in compliance with local legislative requirements as well as, taking into account OP group approved policies in the appropriate areas.

OP group has approved AML, CTF and sanction policies approved by the executive board. These policies are reviewed yearly.

OP group has started an extensive AML and sanctions development program which will renew all of the AML and sanction related IT systems. As a part of the program all AML, CTF and sanction policies will be reviewed and updated when necessary.

Considerable increase in the amount of personnel working with AML and sanctions areas during 2017.

INTERNAL CONTROLS

Structural changes in the internal control system of the organization

KYC-team has been set up on corporate level. Team supports different lines of business in KYC-related issues.

Changes to KYC / CDD / EDD / PEP / international financial sanctions monitoring

OP has acquired international sanction lists and PEP lists from a reputable international vendor. Automatic process for PEP identification is under development

Changes to a new customer acceptance policies and procedures, including in cooperation with the agents (third parties)

OP group has adopted group level customer acceptance policy in 15th November 2016. No changes to OP Corporate bank plc Latvian Branch' customer acceptance policies. OP Corporate bank plc Latvian Branch does not use agents (third parties) services.

TRAINING OF THE STAFF

AML&TF trainings performed in 2016 and H1 2017

In 2016 all employees involved in AML&TF risk management were trained in external online training provided by Compliance Baltic; 2 employees attended full-time training.

In 2016 and 2017 employees involved in AML&TF risk management attended internal trainings on changes to AML procedure.

Results of the testing and certification

All employees passed the tests successfully (75% and more).

INDEPENDENT TESTING

Results of the checks of independent evaluators (advisers)

None available at the moment. Evaluation is currently in progress. Some gaps have been identified during internal audits. The recommendations of these audits have been implemented or are currently under implementation.

Next steps in the implementation of the performance improvement plan

OP is currently running an extensive AML, Sanction and CTF development program.

Capabilities of the internal audit to carry out independent inspections in the AML&TF field

Internal audits are carried out regularly in the AML and CTF function.

Other external independent inspections (audits), the results thereof

None available at the moment.

AUTOMATED SYSTEMS AND TOOLS

Brief description of the IT systems, changes (developments) in 2016 and H1 2017

OP has made several changes during 2016 for automated sanction screening, transaction monitoring and customer risk scoring. To point some major changes: OP has optimized the algorithm settings for sanction screening. Use of commercial sanction list data has been implemented for some checks and OP continues to increase the use of this data. OP has made improvements to the data quality received from the front end systems in

order to develop more sophisticated detection logic. New AML scenarios have been deployed to production. Alerts to detect system malfunctions have been enhanced.

Software of the main bank's activities: name/supplier

800 + different systems, some developed by OP and some acquired from various suppliers. In Latvia OP uses mainly Banksyst from Tieto and Kundi.

Transaction monitoring system preventing money-laundering and terrorism financing: name/supplier

BAE Systems Norkom AML (currently in production). SAS Institute AML and CDD (parallel to Norkom and in production EOY 2017).

Financial sanctions monitoring system: name / supplier / online 24/7 or T +1 /2/3

Currently BAE Systems Norkom WLM. Upgrade to BAE Systems NetReveal WLM in production EOY 2018.

Other IT tools and solutions

SAS VisualAnalytics to support scenario development (in production EOY 2017).

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

Data quality issues regarding the input data and sanction list data. Check optimization.

DE-RISKING OF CUSTOMERS AND BUSINESS LINES

Business lines exited

OP Corporate Bank plc Latvia branch has not refused from any business line because of the risk minimization.

De-risked customers

Share of the high-risk customers of OP Corporate Bank plc Latvia branch within the reporting period decreased from 4.2% in 2015 till 3.5% in 2017.

Shift in customer base by jurisdiction

No jurisdiction-wise changes in the OP Corporate Bank plc Latvia branch' customer database in the reporting period.

Changes to the number of PEP customers

OP Corporate Bank plc Latvia branch has no PEP customers

Target markets

OP Corporate Bank plc Latvia branch target customers are:

- Local large and midsize corporate customers
- Finnish corporate customers already operating on Latvian market (including other companies of the OP Financial Group)

- Potential new Finnish corporate customers, who are planning to enter the market
- OP Corporate Bank plc Latvia branch does not provide services to private customers.

Tendencies in the structuring of customer assets

No changes are planned to the present OP Corporate Bank plc Latvia branch operational model.