

MAJOR ENHANCEMENTS IN AML/CTF COMPLIANCE
AND OTHER RELEVANT DEVELOPMENTS

SEB bank

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PROFILE OF THE BANK

SEB bank is the third largest bank in Latvia. The Bank's objective is to provide world-class service to its clients. The Bank's ambition is to be the No. 1 bank for large Latvian companies and a strong support for individuals, as well as small/medium-sized enterprises. On a daily basis, the Bank manages nearly 400,000 private individuals and nearly 30,000 businesses. The Bank offers a wide range of financial services by developing its range of remote services and applying it to the Bank's clients. The target market of the Bank are the residents of Latvia.

The Bank's sole shareholder is Skandinaviska Enskilda Banken AG (SEB). SEB is a North European financial institution that provides banking services to 400 thousand businesses and institutional clients, as well as 5 million individuals.

The Bank and its group provide universal banking services in Sweden, Germany and the Baltic States – Latvia, Lithuania and Estonia. SEB is also represented in other Scandinavian countries, Poland, Ukraine and Russia, and is also internationally represented in 10 other countries.

Moody's outlook stable	Short term P-1	Long term Aa3
S&P Outlook stable	Short term A-1	Long term A+

The Bank's positions on the market as of 31.03.2017:

Assets	EUR 3.576 billion	No.3	+0,8% YOY
Capital/reserves	EUR 439.7 million	No.3	
Deposits	EUR 2.279 billion	No.4 (No.2 - in the private segment)	+2.7% YOY
Loans	EUR 2.52 billion	No. 3 (No. 2 in the corporate segment)	+ 4.8% YOY

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

In general, SEB bank continues the historically developed business model – to work with residents of Latvia: individuals and companies. The Bank establishes or continues cooperation with non-residents only in cases where the client has a reasonable relation to Latvia.

The SEB bank's strategy foresees active cooperation with resident clients, accordingly the Bank does not proactively promote growth in the non-resident segment. All the new non-resident clients or residents with a non-resident owner or beneficial owner are confirmed by the operational compliance team before the commencement of cooperation. According to the Bank a reasonable relation to Latvia is, for example, in the case of private individuals – work, studies, in the case of companies – business activity in Latvia or in close connection with Latvia.

98.7% of the Bank's clients are residents in Latvia (both private individuals and legal entities). Income from non-residents (individuals and companies) accounts for less than 2.5% of total Bank's revenues. Consequently, if the bank terminates or is forced to terminate its cooperation with non-residents, it will not significantly affect the sustainability of the bank's business.

CORPORATE GOVERNANCE

The Bank's internal procedures are updated and reviewed annually to ensure both the implementation of SEB Group's and regulatory requirements. At the end of 2016, a new policy – AML/CTF Risk Management Strategy – was developed and implemented in accordance with the requirements of the regulatory enactments.

SEB Bank complies with the sanctions of the UN, the EU, Latvia and OFAC, and an AML policy and other procedures arising from the AML III Directive have been adopted since its implementation. In addition, since the end of 2006, the Bank uses SafeWatch system for screening payments, as well as clients database against sanctions.

At the beginning of 2016/2017, the number of employees at the Group Compliance was increased. The Bank has initiated a process to centralize part of AML monitoring by transferring part of the process to a single competence center, thus improving and unifying monitoring activities across the SEB group, as well as providing the required quality and expertise.

Centralization and automation of the compliance process was an important objective of the SEB Group already in 2013, when a special center of excellence was created for certain operational compliance processes within the existing Shared Service Center in Riga. The next step is to transfer the first level investigation of the FCRM alert messages to the Shared Service Center in Riga in order to facilitate the processing of operational alerts so that existing resources with a higher level of competence can be diverted to examining more complex operational compliance matters.

Concentrating the AML monitoring process in one place will ensure increased efficiency, as the investigation of alert messages will be carried out in the same competence center.

The Bank has established Middle Office (a client service support unit) to assist the branches in centralized client monitoring and client research. This will also ensure a better cooperation between the Protection Line 1 and the Protection Line 2.

For additional process centralization, a project for implementation of the AML/CTF regulatory requirements has been set up, and improvements are being made to IT systems to ensure the introduction of requirements set by the regulator. Measures are also being taken to redistribute/review the division of responsibilities between different units within the Bank, ensuring that the business units take on greater responsibility for managing AML/CTF risk.

Since 2015, the SEB Group has established a committee (SEB Restricted Trade Committee) of 8 committee members who follow the compliance with sanctions and changes made to them throughout the whole SEB Group, also providing information to SEB bank in Latvia. Transactions involving countries and banks listed under the sanctions lists of the EU and OFAC require obtaining approval of the committee certifying that no sanctions are to be directly or indirectly breached within the specific

transaction. Similarly, the branches of the SEB Bank in the Baltic States work closely on compliance matters.

INTERNAL CONTROLS

To improve monitoring, the monitoring processes described in the answers given above are being centralized. Currently, monitoring and research forms are being reviewed to ensure the highest possible quality of the provision of the "Know Your Client" principle.

SEB Bank has introduced an Adoption Committee, which together with the Group Compliance evaluates the establishment/continuation of cooperation with high-risk clients.

TRAINING OF THE STAFF

In 2016, all employees were provided with e-training prepared by the SEB Group, as well as additionally the following internal training provided by the employees of Group Compliance took place:

- Over the year, the Large Corporates & Institutions service unit was provided with several trainings in relation to high-risk clients with complex structures
- All the units of the Bank working with clients were provided with training on changes in the identification of politically exposed persons
- The branch network was trained to conduct in-depth research and monitoring of high-risk clients.

In 2016, 2 financial transaction supervisors acquired the e-training course "Anti-Money Laundering and Counter-Terrorism Financing (AML&CTF) for bank specialists" provided by "Compliance Baltic" Ltd. and an on-site seminar.

In 2016, the Group Compliance employees attended the trainings organized by the Office for Prevention of Laundering of Proceeds Derived from Criminal Activity (FIU Latvia) and PwC on various AML/CTF issues; FIU Latvia trainings related to reports to the FIU Latvia.

In the first half of 2017, external training was provided for the following staff members:

- The head of Financial Transaction Supervisory Unit (the person responsible for the compliance with MLTFP requirements) has over-gone training with the participation of foreign experts and obtained the CAMS Certificate
- The Financial Transaction Supervisor has completed the training course on fraud and corruption matters offered by the international professional association "Institute of Internal Auditors"
- The MLTFP Project Manager has acquired the e-training course "Anti-Money Laundering and Counter-Terrorism Financing (AML&CTF) for bank specialists" provided by "Compliance Baltic" Ltd.
- In May 2017, 2 financial transaction supervisory

experts participated in an open lecture on AML organized by Riga Graduate School of Law with the participation of a guest lecturer from the USA

- In March 2017, internal on-the-job training for all the employees of the Client Service Center on topical issues of AML was provided
- internal / external training.

All new employees are provided with e-training on AML/CTF, as well as on-the-job training at least quarterly. Similarly, all existing bank employees are required to regularly attend e-training on AML/CTF.

In addition, in 2017, a staff training plan was approved.

Members of the Board:

- Every 3 years they acquire the AML e-training program
- Once a year, the board member responsible for AML is involved in external training with the participation of a foreign AML expert
- They are regularly informed about current developments in the field of AML in the Board meetings.

Employees of Group Compliance working in the area of AML:

- Every 3 years they acquire the AML e-training program
- Every 3 years they acquire an external training program

- Once a year, the person responsible for compliance with the AML requirements is involved in external training with the participation of a foreign AML expert.

Internal Audit employees:

- Every 3 years they acquire the AML e-training program
- Every 3 years they acquire an external training program
- Once a year, the head of Internal Audit or the auditor, whose duties include conduction of audits in the area of AML, participates in external trainings with the participation of a foreign AML expert.

Employees who are directly involved in client service:

- Once a year, they acquire the AML e-training program
- Every 3 years they acquire internal on-the-job training in area of AML
- They are regularly informed about current developments in the field of AML (SEB Intranet, SEB Knowledge Base, Service Messages)
- AML issues are included in the knowledge and awareness test "Rīta rosme".

Employees who are not directly involved in client service:

- Every 3 years they acquire the AML e-training program.

Additional trainings for the categories of employees providing services or are otherwise related to increased risk of money laundering are developed and organized as necessary in accordance with the risk assessment.

Employee testing and certification results
All employees who have taken part in the training have successfully passed the knowledge test.

INDEPENDENT TESTING

Internal Audit carries out inspections in accordance with the plan approved by the Supervisory Council. Audits are included in the plan based on the results of risk assessment, as well as in accordance with the requirements of laws and other regulatory enactments. The latest inspection in the field of MLTFP took place in the second quarter of 2016, while the next is planned in the third quarter of 2017. MLTFP controls are also often assessed in other inspections.

AUTOMATED SYSTEMS AND TOOLS

In February 2017, the Bank introduced a new core system and client service system.

Core banking system: name / supplier

NBSX/SEB internal system

AML/CTF monitoring system: name / supplier

FCRM, supplier - FISERV Inc.

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

SafeWatch, supplier - Eastnet, online 24/7

Other IT tools and solutions

- WorldCompliance, supplier - LexisNexis
- NBSF SEB internal system
- CRM - SEB internal.

DE-RISKING OF CUSTOMERS AND BUSINESS LINES

The share of SEB bank's high-risk clients is below 3%, which has not changed significantly over the last years. It should be noted that since the second quarter of 2017 SEB bank has applied more stringent requirements than prescribed by the regulatory enactments regarding the identification of high risk clients.

Following the amendments to the regulatory enactments, the number of PEP clients has increased with respect to local PEPs. The number of foreign PEP clients has changed from 19 PEPs in 2015 to 21 PEPs in 2017.

SEB bank has not had such number of high-risk clients, to take actions to significantly reduce the share of them. Any existing and potential high-risk client is assessed in accordance with internal and external requirements.