

LPB Bank

MAJOR ENHANCEMENTS IN AML/CTF COMPLIANCE
AND OTHER RELEVANT DEVELOPMENTS



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PROFILE OF THE BANK

JSC “LPB” (the Bank) is a joint stock company registered in the Republic of Latvia, operating in accordance with the laws and regulations of the Republic of Latvia and a licence issued on 12th September of 2008 by the Financial and Capital Market Commission. Legal address of JSC “LPB”: 54 Brīvības Street (Brīvības iela), Rīga, LV-1011, Latvia.

The Bank implements the following strategy:

- As a priority, offers its services to legal entities, forming a client portfolio based on provision of personalized services
- Similar to legal entities, the Bank offers personalized services to private individuals with high and ultra-high income.

Regions of the Bank’s operation - Latvia, Russia, other CIS countries, EEA countries.

Priority directions of the Bank's operation:

- Issuing and acquiring of payment cards on the Internet and in POS terminals, and in cooperation with such well-known organizations as MasterCard, Visa, Tieto, First Data, Global Payments
- Placement of attracted funds in financial instruments
- Lending to legal entities with moderately conservative risk approach, especially when granting loans for current assets and trade flows.

Shareholders of the bank: SIA "Mono" (Latvia)

Number of shares with voting rights: 13,000,000

Interest in paid-up share capital (%): 100%

Paid-up share capital, EUR thsd.: 13,000

Equity, EUR thsd.: 29,664

The Bank's operation is characterized by the following ratios:

Ratio	31.12. 2014	31.12. 2015	31.12. 2016	30.06. 2017
Return on Equity (ROE) (in percentage)	18%	27%	43%	29%
Return on Assets (ROA) (in percentage)	2%	2%	5%	4%

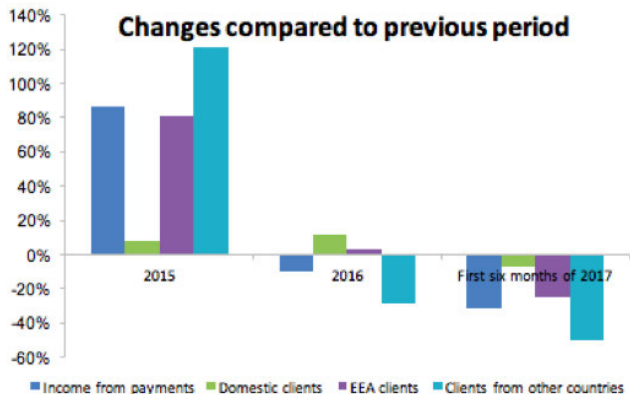
Ratio of expenses to income (in percentage, per annum)	64%	50%	32%	51%
Liquidity ratio (in percentage)	81%	92%	92%	100%
Capital adequacy ratio (in percentage)	18%	19%	23%	20%

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

Taking into account the successful business model of the Bank (acquiring of payment cards on the Internet), future prospective of the e-commerce development, including in Latvia, the Bank is not planning to change its development model.

Business model of the Bank is increasingly based on provision of services of acquiring the payment cards on the Internet, thus, the Bank does not experience dependency on transaction (payment) business, and changes in this position do not have any significant effect on the Bank.

Proportion of transaction business in total income

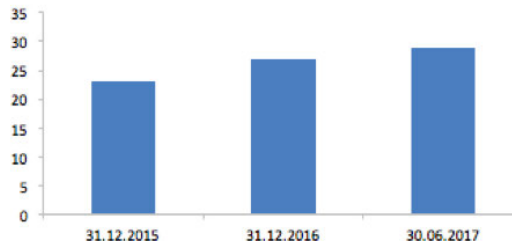


In 2016, the Bank has achieved an optimum risk profile for the Bank’s client portfolio by implementing de-risking measures. As of 2017, the Bank’s client portfolio contained approximately 10% of clients with assessed rating bands “high” or “very high”.

CORPORATE GOVERNANCE

Since the end of 2015, the number of internal control system staff in the Bank has increased by approximately 27% (for a comparison, the total number of employees in the Bank during the same period has increased by approximately 9%).

Number of internal control employees



The Bank has designed an AML/CFT risk management strategy with a goal to implement a stringent risk-based approach for ensuring of the Bank conformity, including, in improvement of procedures, in the area of compliance with international sanctions.

In 2017/2018, the Bank continues enhancing and improving internal normative documentation of the Bank in accordance with the laws and regulations of the Republic of Latvia and the best practice.

Internal control system of the Bank ensures conformity of the Bank to the OFAC requirements.

A list of countries has been compiled with the residents of which the Bank does not do any business, as well as a list of countries with increased AML/CFT risk.

Measures of self-control and self-assessment of the Bank's financial and non-financial risks are implemented through an early warning system on a regular basis, including, among other, AML/CFT risk level control.

INTERNAL CONTROLS

In 2016, the Bank designed and introduced a client scoring system, ensuring compliance of the Bank in client scoring and management.

In 2017, the Bank has made changes to the AML organizational structure, specifying and improving the client, client transaction monitoring processes in KYC, CDD, EDD and monitoring implementation area.

At the end of 2016, the Bank performed a self-assessment concerning the conformity of the Bank's AML/CTF risk management system to the Bank Secrecy Act Anti-Money Laundering Examination Manual requirements; as a result, a plan was designed for elimination of the established internal non-compliance and, by the end of 2016, actions were taken for the elimination of non-conformity.

TRAINING OF THE STAFF

The Bank has improved and designed a process/plan of staff training, ensuring the Bank's conformity to the requirements of the FCMC normative documents. Both internal and external training is carried out in the Bank. The number of internal/external trainings performed in 2016 is 42/23. The number of internal/external trainings performed in 2017 is 18/27.

External training is planned at the end of 2017/at the beginning of 2018, by engaging specialists from the audit firm Deloitte, including foreign experts.

Currently the Bank employs 2 internal control system employees, having CAMS (Certified Anti-Money Laundering Specialist) certificates. It is planned to increase the number of such employees to 4 in 2017.

INDEPENDENT TESTING

Internal audit of the Bank regularly (pursuant to the audit plan) performs inspection of the Bank's operations, including in the area of AML/CFT, in compliance with the requirements of the laws and regulations of the Republic of Latvia and according to best practice. AML/CFT risk

management strategy of the Bank provides for performing independent external audit at least once every 18 months.

Currently auditors of Deloitte Latvija are carrying out such independent inspections in the Bank:

1. In AML/CFT area, assessing conformity of the Bank to the requirements of the FCMC regulations No. 219 Regulations regarding Provision of Information Technology for Money Laundering and Terrorist Financing Risk Management
2. Inspection of conformity of the client AML risk assessment system to the requirements of the FCMC regulations No. 234 Regulatory provisions for credit institutions and licensed payment and electronic money institutions on enhanced customer due diligence
3. Efficiency assessment of the internal control for AML/CTF risk management.

AUTOMATED SYSTEMS AND TOOLS

In the summer of 2016, the Bank purchased from Tonbeller AG – Fair Isaac Germany GmbH (FICO) and is currently improving SIRON/AML, SIRON/KYC and SIRON/EMBARGO module application, ensuring a more efficient monitoring of the customers and customer transactions both at on-boarding and when doing business.

Core banking system:

In-house system designed by the Bank

AML/CTF monitoring system:

In-house system designed by the Bank

Sanctions screening system:

In-house system designed by the Bank
Accuity Compliance Link – AML/CTF monitoring system
(24/7 verification against PEP and sanction lists)

Other IT tools and solutions:

MinFraud Alerts/ MaxMind, Inc
G2 Persistent Merchant Monitoring & G2 Global Boarding/
G2 Web Services LLC
Shield Onboarding & Monitoring/Web Shield Limited
SPARK/Interfax
Lursoft/SIA Lursoft IT
The use of the Dow Jones Risk and Compliance (Dow Jones Inc.) database is planned from the end of 2017.

DE-RISKING OF CUSTOMERS AND BUSINESS LINES

At the end of 2016, as a result of de-risking measures, the number of the Bank's clients with high risk rating declined by approximately 14%; at the end of 2016, the Bank's client structure was adequately balanced and acceptable for the

Bank's development model, both in terms of the client's jurisdiction and the form

Breakdown of clients by countries at the end of 2016.

