

AS Baltic International Bank (BIB)

January 7th, 2019

Sigma Ratings, Inc.
United States of America
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Rating Approach & Methodology

Overall Ratings Legend

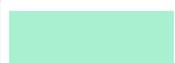
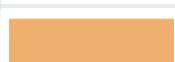
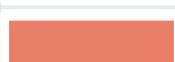
Risk

0 - 40	High
41 - 80	Moderate
81 - 100	Low

Control

100 - 81	Strong
61 - 80	Established
41 - 60	Developed
< 40	Basic

Rating Ceiling

	AAA	100 - 90
	AA	89 - 80
	A	79 - 70
	BBB	69 - 60
	BB	59 - 50
	B	49 - 40
	C	< 40

Industry Leaders

About Sigma Ratings

Sigma Ratings, Inc. ("Sigma") is pioneering a technology-driven approach to understanding non-credit counterparty risk. Sigma issues ratings on company-level financial crime risk posture and utilizes cutting-edge algorithms to generate daily risk approximations on thousands of companies around the world.

Sigma's leadership team includes professionals with more than 100 years of combined experience, including deep domain expertise on counter illicit finance-related matters as senior U.S. Government, legal and development finance experts.

The company is based in the United States of America and operates globally offering unique risk insights to a range of clients including financial institutions and investment firms, multinational companies, insurance firms and governments.

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Rating Approach & Methodology

Rating Approach & Methodology

Sigma Ratings reviewed BIB's inherent risk environment and control effectiveness around FCC. The review included FCC factors specific to AML, CFT, sanctions, and aspects of other non-credit risk issues such as geo-political risk and national-level regulatory proficiency.

This process included a desk review of data and interviews with executive management, compliance, internal audit and front-line staff at AS Baltic International Bank in Riga, Latvia. **Sigma Ratings conducted interviews with the following individuals:** Viktors Bolbats (Chief Executive Officer), Alon Nodelman (Chief Financial Officer), Bogdan Andruschenko (Chief Risk Officer and Chief Compliance Officer), Julija Jurgelevica (MLRO), Uldis Veinbergs (Acting Head of Internal Audit).

In accordance with Sigma Ratings' standard policies and procedures, the evaluation process includes, without limitation, review of: relevant entity policies and procedures; governance documents; and proprietary risk data. Sigma Ratings utilizes a robust methodology and corresponding algorithm, together in consultation with its Rating Committee, to arrive at a final rating decision.

For jurisdictional risk rating, Sigma Ratings utilizes publicly available information provided by FATF, U.S. State Department, Transparency International and a number of other private and public data providers.

Rating Coverage, Disclosures & Validity

This rating is for AS Baltic International Bank and does not cover AS Baltic International Bank's subsidiaries, affiliates or owners.

The rating above was disclosed to AS Baltic International Bank's management with no contestation of/objection to the rating. Unless otherwise triggered, this rating will be valid for one year from its review date.

Interpreting the Rating

Sigma Ratings uses an algorithmic approach to generate inherent risk and control effectiveness scores specific to FCC, which together comprise the Sigma Rating. This approach considers aspects of an entity's operations, business strategy and controls, as well as its culture and business decision making process. This process results in a "rating" from AAA-C, with AAA representing the highest rating possible.

A company's "outlook" speaks to the general direction of an entity regarding its FCC posture and ranges from NEGATIVE, STABLE to POSITIVE.

ENTITY PROFILE

BIB, a privately-owned bank founded in 1993, provides wealth management, private and investment banking products and services. BIB offers its clients financial management, banking, fiduciary, custody, and securities trading services.

Identifier Information

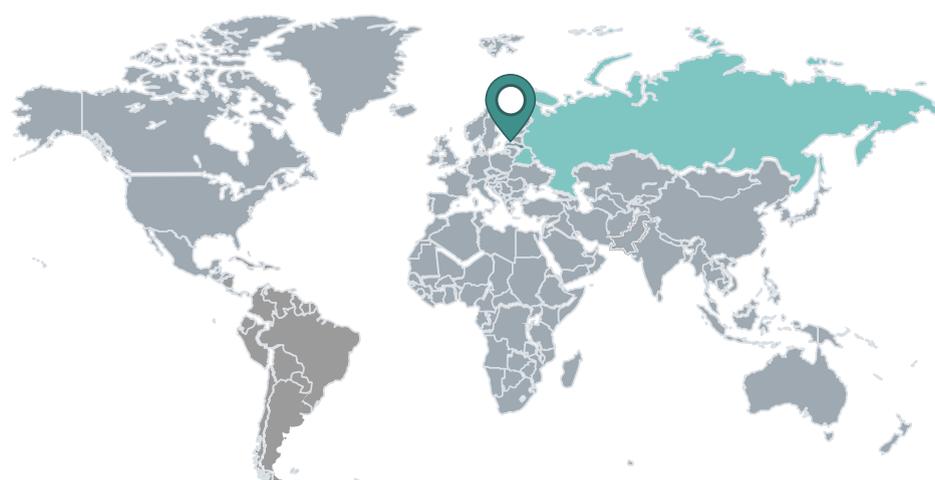
Swift Identifier BLIBLV22XXX
Classification: < USD 500 mln assets

AS Baltic International Bank

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LV-1050, Latvia
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<https://www.bib.eu>

Sigma Ratings Insight Financial Crime Exposure Map

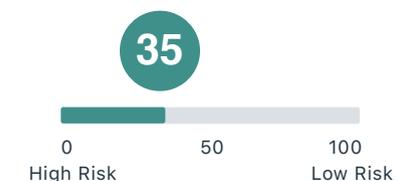
Exposure to high-risk customers & flow of funds



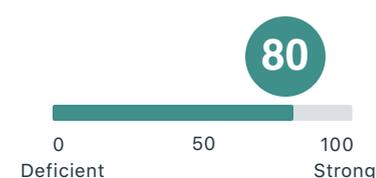
COUNTRY PROFILE

- Financial sector constitutes 4% of GDP
- 14 licensed banks and 6 branches of foreign banks
- Money laundered in Latvia is primarily derived from tax evasion, organized crime, and corruption, but also include to a lesser degree counterfeiting, white-collar crime, extortion, stolen cars, contraband smuggling, and prostitution

Risk Environment Score



Control Effectiveness Score



KEY STRENGTHS & VULNERABILITIES

Key Strengths

- Increased investment in compliance, both in headcount and technology.
- Weekly Management Board meetings focused on financial crime risk and compliance.
- Sophisticated transaction monitoring system with a comprehensive list of detection scenario rules.
- Targeted training to all employees, who are aware of the importance of financial crime compliance.

Key Vulnerabilities

- High-risk customer base and service, which may pose increased financial crime and/or reputational risk.
- Limited assessment by Internal Audit into the financial crime compliance function.

Factors That May Increase or Decrease a Rating

Factors that May Increase a Rating:

- Decrease in customers from countries that are perceived as high-risk for financial crime and/or corruption.
- Additional headcount in the Internal Audit department would improve the capacity of the overall function.
- Increase in compliance certifications by employees in the compliance function.
- Decrease in the value of international wires remitted to countries that are perceived as high-risk for financial crime and/or corruption.

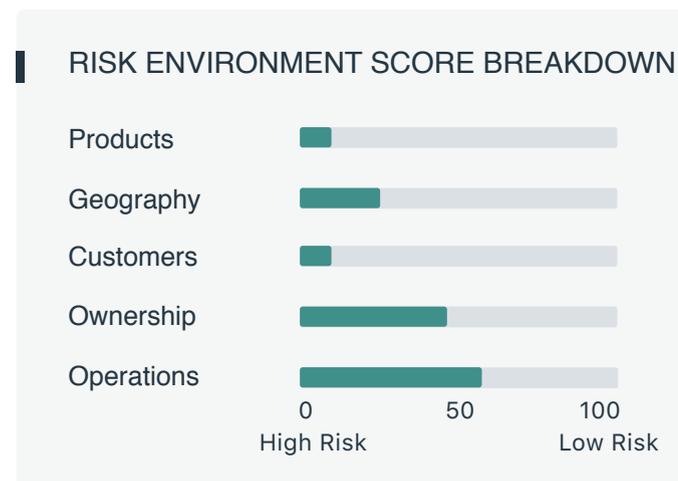
Factors that May Decrease a Rating:

- Increase in number of correspondents that have de-risked from their relationship with BIB.
- Adverse media surrounding financial crime and/or corruption that may implicate the bank and/or its clients.
- A deteriorating overall financial position, expansion into additional higher risk areas of business and/or a reduction in compliance staffing, training, prioritization and associated spend may impact the rating.
- Decrease in the use of compliance committees to discuss financial crime risks BIB may be exposed to.

Risk Environment Score

Risk Overview

BIB's risk is primarily concentrated around the non-resident accounts, which the bank is in the process of scaling back the segment. Furthermore, BIB is exiting clients from the Commonwealth of Independent States (CIS) as the bank's risk appetite has changed. As a result of the changes, the Latvian and Western European markets will be of greater focus to the bank. Currently, foreign customers account for approximately half of BIB's customer base. Notably, a majority of remittances are received by beneficiaries in countries considered high-risk by Sigma Ratings. Additionally, the majority of BIB's revenues are derived from low-risk products and services.



Products and Services

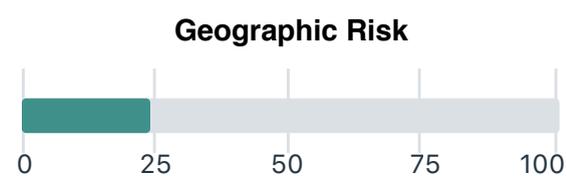
- ! Private Banking
- ! Wealth Management
- ! Investment Banking
- Loans and Financing
- Treasury
- Domestic Transfers
- ! International Transfers
- ! Payment Cards
- FX Transactions

! Higher-Risk Products



Geography

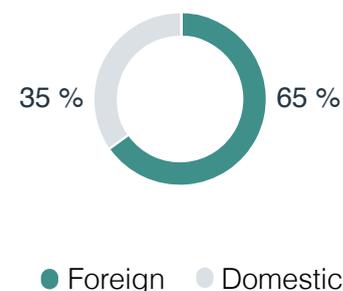
BIB's operations are centered in Latvia, with a representative office in Kiev. However, BIB's exposure to geographic risk is primarily due to its large foreign customer base. A significant portion of BIB's remittances are received by beneficiaries in high-risk jurisdictions, with Russia representing more than half of total international wire activity. Belarus and Austria represent a little less than a quarter of the total international wire activity.



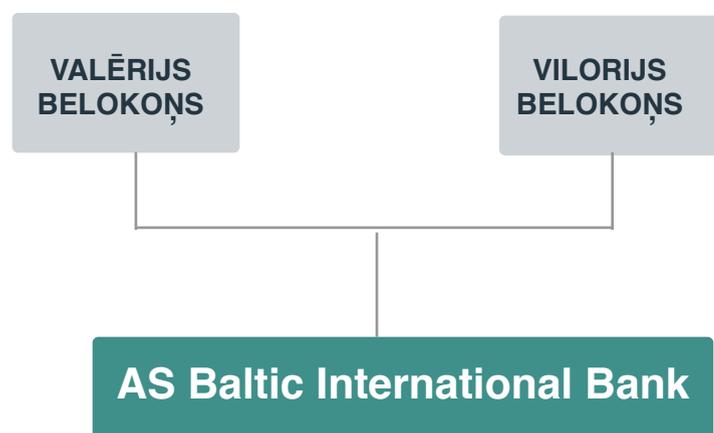
Risk Environment Score

Customers

BIB's customer base is significantly comprised of high net worth individuals. Local customers comprise approximately 35% of the client base. Germany, Great Britain, and Ukraine account for approximately half of the total foreign customers by country of registration. Ukraine, Germany, and Russia account for approximately 65% of the total foreign customers by country of ultimate beneficial ownership. PEP and PEP-related clients comprise of 2.5% of total customers, who are predominately of Latvian and Ukrainian origins.



Ownership



Operations

BIB has recently experienced significant changes in their operations as a result of exiting 30% of their client base, which were primarily high-risk customers and entities identified as shell companies. The exit was offset by the onboarding of an equal number of clients that were risk-rated as low or medium by their internal system and policies. As a result, BIB experienced an 86% decrease in USD payments and an overall decrease of 14% in total payments. Euro payments experienced an increase as a result of the new client base. USD payments comprise a negligible portion of total payments processed by BIB. Furthermore, BIB is in the process of derisking clients from the Commonwealth of Independent States (CIS).

OPERATIONAL FACTS

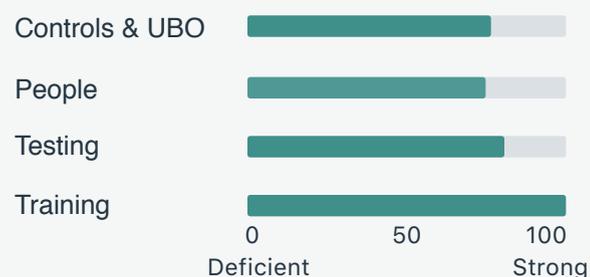
- 1:1 front-line to compliance employee ratio
- Representative Office in Kiev, Ukraine
- Decrease in USD payments and Increase in Euro payments

Control Effectiveness Score

Control Overview

BIB has advanced controls in place in order to mitigate against financial crime. The transaction monitoring system utilized is in the maturity phase. Furthermore, extensive investments were made in the past year in order to implement the FICO sanctions screening system. BIB employees feel empowered to introduce and recommend enhancements to the controls in place by the bank, which is highly encouraged by senior management. BIB's Management Board acts proactively with respect to financial crime compliance with weekly meetings.

CONTROL EFFECTIVENESS SCORE BREAKDOWN



MONITORING



Transaction Monitoring

BIB has made significant investments in their transaction monitoring system (TMS), which utilizes real-time screening and post-transaction monitoring. The TMS includes approximately fifteen sophisticated detection scenario (DS) rules. A refresh of a customer's CDD/EDD file is incorporated into the TMS, which ensures that all their transactions are continuously monitored until a refresh is executed. In addition to the standard single threshold amount DS, BIB employs a range of DS rules that encompasses structuring through account turnover thresholds set at several time intervals. BIB has also incorporated numerous key-words into their TMS that detects every transaction that utilizes a certain phrase. Furthermore, BIB's TMS is configured to alert for every USD transaction and all transactions associated by countries classified as high-risk by BIB. BIB did not have a backlog of TMS alerts during Sigma Rating's review.



Sanctions Screening

BIB utilizes Dow Jones in their sanctions screening system, which includes a comprehensive collection of over 1,000 lists. Additionally, BIB conducts a thorough risk assessment of their sanctions screening on an annual basis. BIB's sanctions screening filter alerted on 100% of exact name matches of U.S.-sanctioned entities, including names and SWIFT codes provided by Sigma Ratings. The sanctions screening filter alerted on 100% of misspelled names and concatenated names in testing conducted by Sigma Ratings.

POLICIES & PROCEDURES

POLICIES & PROCEDURES	EXISTENCE	DATE OF LAST UPDATE
AML/CFT Policies	✓	October 2018
KYC & EDD Policies	✓	March 2018
Sanctions Policy	✓	October 2018
Cybersecurity Policy	✓	February 2018
Anti-Bribery & Corruption Policy	✓	N/A (part of Code of Ethics)
Whistleblowing Policy	X	N/A*

*BIB has a dedicated Whistleblowing Channel

Control Effectiveness Score

KYC PROCESS & UBO

KYC Process

As part of the KYC process, an in-person meeting is scheduled with the prospective client, in which information and documents are collected. The customer is required to disclose their economic activities and financial status and provide the underlying supporting documentation. Customers are also asked to list business associates in the KYC form. Furthermore, a meeting with the ultimate beneficial owner is required as part of the process. As a policy, an account may only be opened once a face-to-face meeting has occurred. KYC information is refreshed annually for all customers or when changes in the customer profile occurs. BIB has indicated the following: to identify the UBOs of high-risk customers, BIB will apply a more stringent requirement and will collect information about the UBOs whose ownership interest starts from 10% in the relevant entity. Furthermore, in order to on-board a PEP, approval must be obtained from the Chief Compliance Officer (a management board member).

Stated UBO Requirement

25%

GOVERNANCE

Tone from the Top

BIB's Board and Management have made compliance a demonstrable focus, with extensive investments.

Management



Committees

BIB's Board of Directors, named the Supervisory Board, consists of four members, including BIB's owner who serves as the Chairman. The Supervisory Board includes individuals with extensive international experience, specifically in the realm of financial crime compliance. BIB's Management Board, chaired by the CEO, consists of five members. The Management Board meets once a week in order to discuss financial crime compliance issues. Sigma Ratings has reviewed the Management Board meeting minutes, which highlight the discussions centered around financial crime risk and compliance. The minutes appear to indicate a proactive management approach with respect to financial crime compliance.

People

MLRO Bio

BIB's MLRO possesses 12 years of local FCC experience, 2.5 of which has been with BIB. Prior to joining BIB, the MLRO previously served in a senior compliance role with JSC Rietumu Banka in Latvia. MLRO serves as a point of contact between the compliance function and the compliance committee.



11% Compliance Turnover



7% ACAMS Certified Compliance Staff

Control Effectiveness Score

Overview of Compliance

BIB's compliance function is currently comprised of 27 employees, a three-fold increase, which reflects BIB's overall investments into compliance. The compliance function is divided into the following three units: (1) Initial Customer Due Diligence Division, (2) Customer Transaction Monitoring Division, and (3) Customer Supervision and Due Diligence Division. The Initial Customer Due Diligence Division, comprised of four employees, is responsible for reviewing information and documents collected as part of the on-boarding process and conducting open source research into prospective clients. The Customer Transaction Monitoring Division, comprised of five employees (which includes the sanctions officer), is tasked with real-time and post-transaction monitoring. Each analyst is tasked with reviewing approximately 30-40 daily alerts on average, which is subjected to 4-eye review. The Customer Supervision and Due Diligence Division, comprised of the majority of employees, is responsible for the monthly monitoring of BIB's clients.

% of Compliance Staff

6.08%

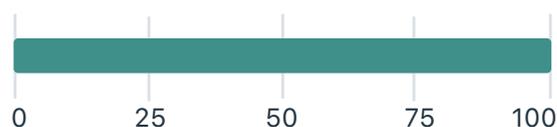
Testing

The audit function is comprised of three employees, the Head of Internal Audit and two junior auditors. BIB's Head of Internal Audit has been employed with the institution for approximately 14 years, and is well-versed in financial crime compliance having served as BIB's Head of AML Compliance Division for half their tenure. BIB's Internal Audit conducts audits of compliance on an annual basis, as the department is considered a high-risk function to the bank. The audit period usually spans six months, with the most recent audit concluded in September 2018. The audit revealed that the initial customer due diligence process was satisfactory; however, the audit identified areas of improvement with respect to the enhanced due diligence process. Furthermore, BIB has conducted independent testing of their FCC program by an international firm, which suggested numerous recommendations and internal control implementations. BIB has fulfilled all of the recommendations, as assessed by the independent firm.

Training

BIB mandates that all employees undergo AML training, which includes both on-site and off-site training, and an assessment. Furthermore, BIB's employees routinely undergo FCC assessments throughout the year. Sigma Ratings selected (using open-source information) a sample of employees from the three lines of defense and requested to see their training files. BIB was able to provide the majority of training records requested.

Required % of Staff Trained



Random Sample of Staff Training Records



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