

Norvik Banka, AS

October 11, 2018

Sigma Ratings, Inc.

United States of America
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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.

Rating Approach & Methodology

Sigma Business Integrity Ratings™ are based on a sophisticated methodology that highlights real-world financial crime risks and critically important compliance controls. Ratings are driven by this methodology, system testing, field interviews, and documentary reviews. Each rating is supported and critically-evaluated by a network of advisors with deep experience in managing risk. The objective of the rating is to approximate an institution’s overall compliance posture in light of its risks and its control effectiveness.

Overall Ratings Legend



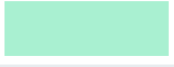




Risk

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

Control

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

Rating Scale

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

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ENTITY PROFILE

Norvik Banka, AS (“Norvik”) is a Latvia-based retail and commercial bank with total assets of approximately \$911 million as of December 2017. The financial institution is privately owned. It is regulated by Latvia’s Financial and Capital Markets Commission.

Identifier Information

Swift Identifier LATBLV22

Classification: < USD 5 bln assets

Norvik

Birznieka-Upisa 21, 1011

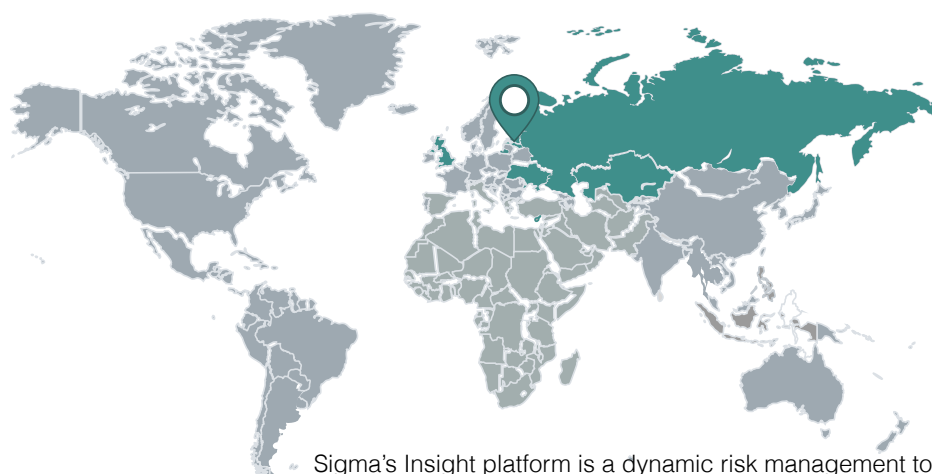
Latvia, European Union

+3767041100

<https://www.norvik.eu/en/>

Sigma Ratings Insight Financial Crime Exposure Map

Exposure to high-risk customers & flow of funds



Sigma’s Insight platform is a dynamic risk management tool that includes country and entity risk approximations.

COUNTRY PROFILE



Financial sector constitutes 5% of GDP



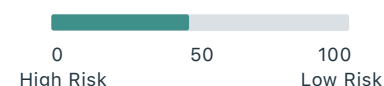
23 licensed banks



Latvia is a major gateway between Western Europe and former Soviet states. The majority of its banking sector is focused on servicing foreign customers, mainly from former Soviet states, including the provision of investment services and management.

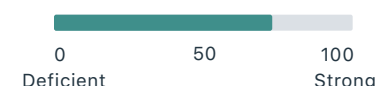
Norvik Risk Environment Score

47



Norvik Control Effectiveness Score

72



KEY STRENGTHS & RISKS

Key Strengths

- Executive management is committed to ensuring a strong compliance function and has taken steps to increase the profile of its supervisory board.
- Investments have been made in new compliance tools and many higher risk clients have been de-risked in the last two years.

Key Risks

- Exposed to higher-risk markets and client types.
- Dependency on higher-risk clients, coupled with compliance areas needed for improvement, weigh on the bank.

Factors That May Increase or Decrease a Rating

Norvik has made significant investments in its compliance program, including implementation of a new sanctions screening tool, enhanced transaction monitoring platform, 39% increase in compliance staffing, and engagement of qualified third-parties to conduct multiple independent reviews to identify compliance enhancements. Most identified compliance issues were addressed throughout 2018.

Based on our methodology and fieldwork, we believe that Norvik is exposed to a fair amount of risk, yet is working to manage it through a range of efforts detailed herein. The rating of BB+ represents a relatively strong compliance posture. Our outlook for the bank is currently stable.

Factors that May Increase a Rating:

- Further improvement in the control environment and/or a reduction in higher-risk customer types may improve the rating.
- A dedicated compliance technology testing and tuning process, rather than ad hoc processes based on new system implementation may improve the rating.
- Demonstrated compliance maturity and further development of newly instituted controls may influence the rating.

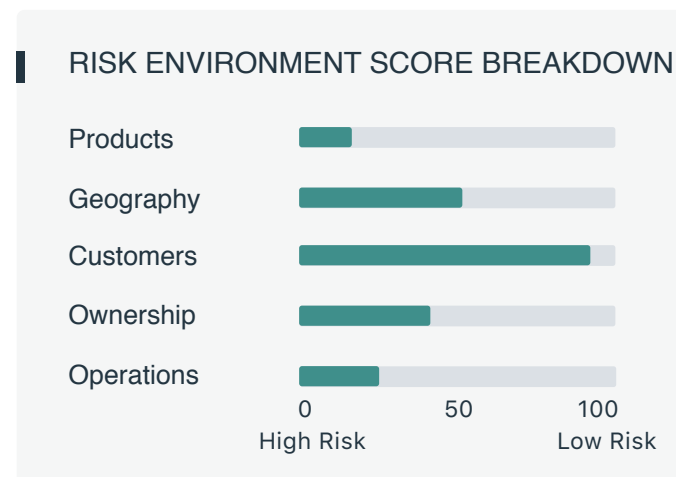
Factors that May Decrease a Rating:

- 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.
- Unaddressed internal audit observations, especially around data integrity and compliance technology, may influence the rating.
- Excessive compliance staff turnover, particularly around client onboarding and monitoring, may influence the rating.
- Continued pressure, including another major U.S. or E.U.-initiated regulatory action against a financial institution in Latvia could cause downward pressure on country risk.

Risk Environment Score

Risk Overview

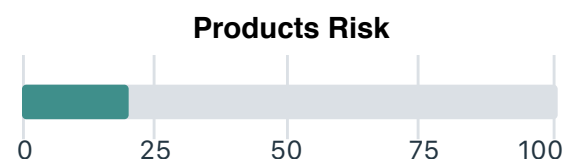
Norvik's foreign account holders, while approximately 4% of the total customer base, are the principal drivers of its risk exposure. Those customers are based in countries associated with higher levels of money laundering and international sanctions risk and make use of the bank's higher risk products, including international funds transfer and trade finance.



PRODUCTS

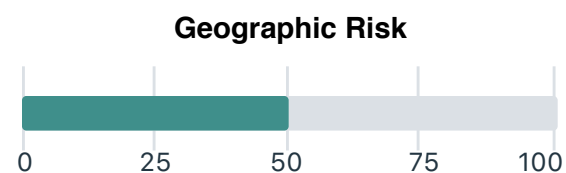
- Retail Banking
- Lending
- Investment Services
- ! International Funds Transfer
- ! Foreign Exchange
- ! Trade Finance

! High Risk Products



GEOGRAPHY

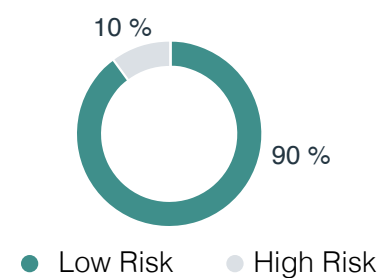
The majority of Norvik's business comes from England, Kazakhstan, Russia, Ukraine, Uzbekistan, and Latvia. More than half of its incoming and outgoing international wires (SWIFT series 100 and series 200 payment messages) involved countries rated as high risk for financial crime exposure by Sigma Ratings, based on the top ten countries involved in payment flows.



CUSTOMERS

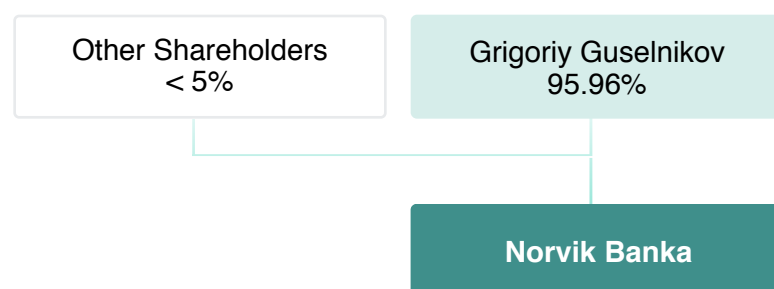
Norvik rates less than 10% of its customer base as high risk. The bank holds accounts for several hundred foreign and local Politically Exposed Persons (PEPs) and a limited number of higher risk entities, including about 100 shipping firms, a handful of precious metal dealers, a payment processor and a single gambling-related business.

Norvik Customer Risk Rating



Risk Environment Score

OWNERSHIP



Norvik faces certain key man risk, however, its owner is not a PEP or SDN listed individual and the bank has taken governance steps to manage this exposure, including the introduction of high-profile supervisory board members.

OPERATIONS

Norvik Banka's operations are based in Latvia. The bank operates a representative office in London and maintains a number of agents in target countries who identify non-resident business for the bank. These introductory agents introduced around 200 new clients in the last year. These links are important, as 80% of Norvik's revenue is generated from non-resident accounts, which underscores its dependence on these customers as a source of revenue. Furthermore, Norvik's revenue and profit have been mixed, with a loss posted for 2017. Norvik has severed relationships with almost 10,000 non-resident account holders since 2016 and projects a further decrease.

OPERATIONAL FACTS

45 retail branches in Latvia

The bank has a 26 person compliance team, making up nearly 5% of total bank employees

<10% front-line and second line staff turnover (within industry average)

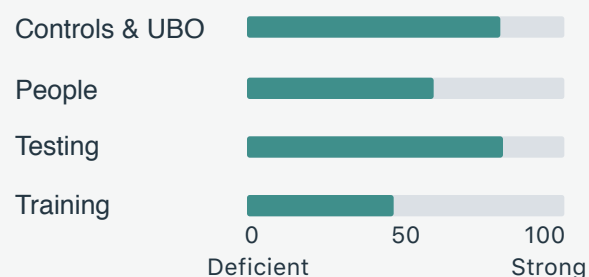
Manageable transaction monitoring alert volumes, considering current compliance staffing (backlog exists)

Control Effectiveness Score

Control Overview

Norvik's leadership holds routine meetings with bank employees on a variety of topics including compliance matters and holds weekly or bi-weekly financial crime compliance-related governance meetings to discuss risk issues or compliance enhancement progress. The bank has made considerable investment in its transaction monitoring, however, some gaps remain. Furthermore, sanctions screening controls are robust and include rejection of activity involving U.S.-sanctioned entities.

CONTROL EFFECTIVENESS SCORE BREAKDOWN



CONTROLS

Monitoring



Transaction Monitoring

Norvik implemented the FICO Siron AML transaction monitoring system and performed several rounds of tuning on pre-programmed scenarios and thresholds. Notably, the system does not include scenarios to cover all business lines (trade finance and lending are not covered, for example) and focuses principally on retail activity and international funds transfer. Customers are segmented into residents and non-residents and activity is monitored through a robust set of monthly and daily scenarios. Almost 20% of transaction monitoring investigations are converted into Suspicious Activity Reporting (SAR).



Sanctions Screening

Norvik rejects activity involving U.S.-sanctioned entities (and has done so on 8 occasions since January 2018). Norvik screens transactions real-time before settlement to identify exposure to sanctioned entities and jurisdictions using the Siron Embargo vendor system. Norvik screens against OFAC, UN, EU, local Latvian lists and internal lists. Alert volumes are high for the 3 staff members assigned to sanctions screening alert clearing, but no backlog exists.

Norvik's sanctions filter missed 30% of misspelled names and 100% of concatenated names in testing conducted by Sigma. Norvik successfully identified 100% of all exact name U.S.-sanctioned entities, including names, cities, and SWIFT codes, provided by Sigma Ratings. Norvik (as of 10/18) is exploring a sanctions screening system upgrade.

Policies and Procedures

POLICIES & PROCEDURES	EXISTENCE	DATE OF LAST UPDATE
AML/CFT Policies	✓	December 2017
KYC & EDD Policies	✓	March 2017
Sanctions Policy	✓	N/A (part of AML/CFT)
Cybersecurity Policy	✓	July 2018
Anti-Bribery & Corruption Policy	✓	Ethics Jan. 2017
Whistleblowing Policy	✓	Ethics Jan. 2017

Control Effectiveness Score

KYC Process & UBO

KYC Process

As part of the KYC process, Norvik currently asks customers for identifying information and conducts UBO checks down to 25%. Specifically, Norvik seeks to determine a customer's background and business or personal activity to appropriately risk rate and apply necessary monitoring and client data refresh schedules.

Stated UBO Requirement

25%

Governance

Tone from the Top

Norvik has demonstrated a strong commitment to robust governance around financial crime compliance. This has been evidenced in Sigma's discussions with its chairman and its decision to increase the strength of its supervisory board. Moreover, Norvik conducts regular meetings to proactively review and manage emergent compliance risk.

Management



Committees

Norvik has a compliance committee that is led by the bank's chairman.

PEOPLE

MLRO Bio

The current MLRO, Irina Rutka, has fifteen years of experience in banking and risk management. Ten years of this experience is from work at Norvik Banka.



< 5% Compliance Turnover,
Past 12 Months



7% ACAMS Certified
Compliance Staff

Relationship between Compliance & Employees

Senior business line and relationship managers were able to cite to Sigma Ratings examples of proactive rejection of customers in high-risk jurisdictions because those accounts would not pass compliance approval for onboarding. This knowledge and understanding was further evidenced regarding onboarding of customers locally.

% of Compliance Staff

5%

Control Effectiveness Score

TESTING

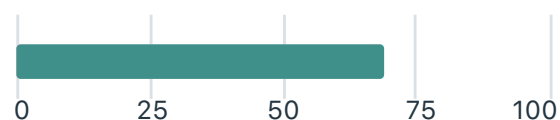
Norvik's Sigma-led Business Integrity Rating was in part based on a July 2018 site visit. The bank provided wide access to its senior leadership, audit, compliance, and business line teams for interviews. All requested documents and information were provided in a timely manner and the bank was transparent in discussions about its risk profile and compliance needs.

Norvik also employs an internal audit team that reviews compliance effectiveness and makes recommendations that are actioned by management via the governance structure outlined herein. Furthermore, Norvik underwent external reviews by Navigant in 2016 and by PwC in 2017.

TRAINING

Sigma tested the training capabilities of Norvik by reviewing training files. On a sample of employees identified, there was a lack of training completion records for 60% of employees. Norvik noted a commitment to improving this aspect of their program and will have Sigma re-test this aspect of their program in early 2019.

Required % of Staff Trained



Random Sample of Staff Training Records



Rating Approach & Methodology

Rating Approach & Methodology

Sigma Ratings reviewed Norvik'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 meetings with executive management, compliance, internal audit and front-line staff at Norvik Banka in Riga, Latvia.

In accordance with standard policies and procedures of Sigma Ratings, 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 Norvik Banka and does not cover Norvik Banka's subsidiaries, affiliates or owners.

The ratings above were disclosed to Norvik Banka's management with no contestation of/objection to the ratings. 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 and POSITIVE.

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