18 May 2015

D E C I S I O N

Svenska Handelsbanken AB
through Chair of Board

106 70 STOCKHOLM

FI Ref. 13-1783
Service no. 1

Remark and administrative fine

Finansinspektionen's decision (to be issued on 19 May 2015 at 08.00)

1. Finansinspektionen issues a remark to Svenska Handelsbanken AB (corporate identity number 502007-7862).

   (Chapter 15, Section 1 Banking and Financing Business Act [2004:297])

2. Svenska Handelsbanken AB is to pay an administrative fine of SEK 35 million (35,000,000)

   (Chapter 15, Section 7 Banking and Financing Business Act)

How to appeal; *see Appendix 1.*

Summary

Svenska Handelsbanken AB (hereafter Handelsbanken) is a joint-stock bank which is authorized to conduct banking business in accordance with the Swedish Banking and Finance Business Act (SFS 2004:297).

The Swedish Financial Supervisory Authority (hereafter Finansinspektionen) has investigated how Handelsbanken has fulfilled the anti-money laundering and terrorism financing regulations, especially with regard to particularly risky categories of customers and business areas. Finansinspektionen has also investigated Handelsbanken's internal governance and control from this perspective.

Finansinspektionen's investigation shows that Handelsbanken has failed to comply with the anti-money laundering and terrorism financing regulations and that the deficiencies have been extensive and of a systematic nature. It is Finansinspektionen's assessment that, taken together, the deficiencies mean that Handelsbanken has not had a risk based approach. Handelsbanken has therefore failed in its responsibility to maintain satisfactory internal governance and control.

These deficiencies result in Finansinspektionen issuing a remark towards Handelsbanken as well as an administrative fine of 35 million Swedish crowns.

1 Background

1.1 The firm's operation

Svenska Handelsbanken AB (hereafter referred to as 'Handelsbanken' or 'the Bank') has been granted authorisation to, among other things, conduct banking business under the Banking and Financing Business Act (2004:297 – LBF) and securities business under the Securities Market Act (2007:528). Handelsbanken is the parent company of the Handelsbanken Group and it is shown by the Bank's Annual Report for 2014 that the Group has a balance sheet total of SEK 2,817 billion. The Group had a market value of approximately SEK 267 billion at the end of February 2015. The average number of employees in 2014 was approximately 11,700. The Group is one of the larger finance groups in the Nordic countries.

1.2 The matter

Finansinspektionen has investigated Handelsbanken's compliance with the Act on Measures against Money Laundering and Terrorist Financing (2009:62) ('the Anti-Money Laundering Act') and Finansinspektionen's Regulations and General Guidelines (2009:1) governing Measures against Money Laundering and Terrorist Financing ('the Anti-Money Laundering Regulations'). The areas investigated are the handling of customers residing outside Sweden who are regarded as politically exposed persons, correspondent banking relationships, private banking customers and customers that are legal persons with a tax domicile outside the Nordic countries. Finansinspektionen examined within the framework of the investigation ten random samples relating to politically exposed persons, 30 random samples relating to respondent banks (ten of the samples related to respondent banks with a domicile within the EEA and 20 related to respondent banks with a domicile outside the EEA), 30 random samples relating to private banking customers and 30 random samples relating to customers that are legal persons with a tax domicile outside the Nordic countries.

The investigation was carried out through Finansinspektionen requesting material from Handelsbanken (desk analysis) with two supplementary on-site visits. Handelsbanken has been afforded an opportunity to express its views on Finansinspektionen's preliminary assessments that the Bank has neglected its obligations. The Bank has subsequently submitted a statement of views to Finansinspektionen. Finansinspektionen also had meetings with Handelsbanken on 23 October 2014 and 3 March 2015.

Finansinspektionen has also investigated within the framework of this matter how Handelsbanken's internal governance and control has functioned as regards complying with the anti-money laundering framework for the period January 2011 up to mid-July 2014. Finansinspektionen has had access to the minutes of the Board of Directors as well as minutes from the Board of Director's Audit and Risk Committee. Furthermore Finansinspektionen has had access to reports from the control functions (risk control, compliance and internal audit) addressed to

this committee and to the CEO. Finansinspektionen has also had access to the internal audit function's monitoring reports relating to the anti-money laundering framework and also open remarks and observations from and including 2010.

This supplementary investigation was performed in the form of an on-site visit. Handelsbanken has been afforded an opportunity to express its views on Finansinspektionen's preliminary assessments that the Bank has neglected its obligations. The Bank has subsequently submitted a statement of views to Finansinspektionen.

1.3 Starting points for the investigation

Finansinspektionen has investigated how Handelsbanken deals with particularly risky customer groups and areas from the perspective of money laundering and terrorist financing. Handelsbanken's size, complexity and international presence means that it is extremely important that the Bank deals with the risks of money laundering and terrorist financing in an adequate way.

Banks are to identify, measure, govern, internally report and have control of the risks associated with their activities, such as the risk of the bank being used for money laundering and terrorist financing. This means that banks are to maintain satisfactory internal control. It is ultimately the task of the board of directors to establish and continually evaluate the efficiency of the bank's internal control.

1.3.1 The risk-based approach in the anti-money laundering framework

The purpose of the anti-money laundering framework is to prevent a financial activity being used for money laundering or terrorist financing, and to make it difficult for criminals to misuse the financial system for this kind of activity. A bank must manage risks related to money laundering and terrorist financing in an appropriate way. If this is not done, this may lead to a lack of confidence in the individual bank and eventually in the entire Swedish financial market, both among Swedish consumers and among stakeholders in other countries that do business with or via Swedish financial institutions. It may also result in Sweden being increasingly used as a transit country for cross-border transactions linked to criminal activity; something that in its turn may ultimately lead to the impairment of Sweden's reputation.

The anti-money laundering framework imposes requirements on banks to apply measures commensurate with the risks of money laundering and terrorist financing to which they are exposed. This is usually expressed as banks needing to have a risk-based approach. For a bank to be able to manage the risks of money laundering and terrorist financing, it must conduct an appropriate risk assessment adapted to its activity. The individual bank must thus identify, understand and assess the risks of the activity being used for money laundering or terrorist financing.

There must be a clear link between the risk assessment and the measures applied by a bank to prevent the risks of money laundering and terrorist financing identified. Although a number of requirements are specified in the anti-money laundering framework, such as certain customer due diligence measures, the extent of the customer due diligence and monitoring measures that a bank should apply are not normally specified in detail. Instead the individual bank is responsible for determining which measures are deemed appropriate considering the risk based on its risk assessment. A bank must apply enhanced measures in the event of a high risk of money laundering and terrorist financing. Procedures and processes, adapted to the bank's own activity and based on the individual bank's risk assessment, should be produced to prevent the risks identified. The risk assessment and procedures must be reviewed on an ongoing basis and revised if necessary.

It is consequently a fundamental requirement that a bank conducts an appropriate risk assessment adapted to its activity to be able to manage the risks of money laundering and terrorist financing. A deficient risk assessment has negative consequences for the individual bank's prioritisation of resources and structuring of procedures for, among others, customer due diligence and the monitoring of transactions. For this reason it is not possible to view the various components as independent as they are dependent on each other.

The scope and emphasis of a bank's measures will also vary depending on the money laundering and terrorist financing risks with which the individual bank's activity is associated. A large bank with many customers may, for example, need to buy in or develop a relatively advanced transaction monitoring system to ensure that the obligation to monitor transactions to identify suspicious transactions is addressed in a satisfactory way.

As indicated above, this investigation of Handelsbanken's measures against money laundering and terrorist financing has focused on the areas of politically exposed persons, correspondent banking relationships, private banking customers and customers that are legal persons with a tax domicile outside the Nordic countries.

Both politically exposed persons and correspondent banking relationships are presumed to pose a high risk of money laundering and terrorist financing under the Anti-Money Laundering Act. Private banking is often also generally deemed to involve a high risk of money laundering. One of the reasons is that these customers may have a complex account structure spread across several countries and institutions, which makes it more difficult for a bank to assess the purpose and nature of the business relationship and also the reasonableness of the transactions carried out. For these customers it may, for instance, be difficult for a bank to differentiate tax violations from tax planning.

Risk management for legal persons differs from risk management for private individuals. For example, for legal persons a bank must investigate and understand the ownership and control structure of the customer and also verify

the identity of the beneficial owner. There is a risk that the beneficial owner and the origin of the assets may be concealed behind a complex control structure that is difficult to understand. Another risk indicator for legal persons with a tax domicile outside the Nordic countries, and with businesses in Sweden, may be rapid transfers of large amounts between several different jurisdictions, if these are unusual transactions for the individual bank in question. The risk of money laundering also typically increases for certain customer types, for instance companies in tax havens and customers from high risk countries.

Finansinspektionen's investigation has thus covered customer categories and business relationships where the risk of money laundering and terrorist financing may generally be expected to be high.

2 Applicable provisions

See *Appendix 2* for an account of the applicable provisions.

3 Finansinspektionen's assessment

This section provides an account of Finansinspektionen's observations and assessments as regards Handelsbanken's compliance with the anti-money laundering framework. In Sub-sections 3.1 to 3.4 a detailed description is provided of the Bank's deficient risk assessment of customers, the Bank's deficient customer due diligence, the Bank's deficiencies in its monitoring obligation and the Bank's deficiencies in its documentation obligation. Deficiencies in the Bank's internal governance and control of the money laundering area are dealt with in more detail in Sub-section 3.5.

3.1 Deficient risk assessment of customers

Measures in respect of customer due diligence and monitoring applied by a bank are to be based on the risk of money laundering and terrorist financing posed by the customer based on the individual bank's risk assessment of the customer's activities. In order to be able to apply adequate measures for a specific customer, it is vital that an assessment be made of the risks posed by the customer in question. Various factors must be considered when assessing the risk of a specific customer such as, for example, geographical area, products and services requested, the customer's control and ownership structure and transaction volumes.

There is no indication from the random samples examined for private banking customers and customers that are legal persons with a tax domicile outside the Nordic countries that Handelsbanken has conducted any assessment or analysis of the risk of money laundering and terrorist financing for the customers in question. Handelsbanken stated during the investigation that the Bank does not apply any risk categorisation for customers, but proceeds on the basis of the individual characteristics of the customer. The Bank stated during Finansinspektionen's on-site visit that there is no wish to provide any guidelines

centrally about what employees are to take particular account of when assessing the customer's risk from a money laundering and terrorist financing perspective. However, the Bank stated in a subsequent statement of views to Finansinspektionen that such guidelines do actually exist. The Bank has stated that the point of departure for these guidelines is that abnormal behaviour and characteristics are to be regarded as warning signals. However, it is indicated by the samples for private banking customers and customers with a tax domicile outside the Nordic countries that the Bank takes no consideration in practice of the risk that the customers in question pose to the operation considering, among other things, customer category, products and services requested, transaction volumes and geographical area. It may be mentioned as an example of this that the investigation showed that two of the private banking customers examined and all but three of the customers examined that are legal persons with a tax domicile outside the Nordic countries reside or have a tax domicile in countries that were assessed by Handelsbanken to pose a high risk of money laundering or terrorist financing. There has not been any analysis of how this affects the risk posed by the customers in question. One consequence of this is that the Bank has not applied any more extensive measures for these customers compared with the other customers reviewed. The random samples therefore clearly show that the central guidelines that the Bank states that it has do not function in practice.

Finansinspektionen considers that it is a significant deficiency that Handelsbanken has not conducted any assessment or analysis of the risk of money laundering and terrorist financing for any of the private banking customers examined or for customers that are legal persons with a tax domicile outside the Nordic countries. It is decisive that these assessments and analyses are conducted, as an assessment of the specific customer's risk is essential for being able to apply adequate customer due diligence and monitoring measures. Handelsbanken's deficient analysis has resulted in customers posing a high risk not being kept separate and treated differently than, for example, a low-risk customer in terms of the measures that the Bank is to apply to manage the risk.

As regards those customers examined who are politically exposed persons and respondent banks, the investigation shows that Handelsbanken has ascribed a risk categorisation for these. As regards the respondent banks, Handelsbanken has chosen to assess the risk of these banks using a three-tier risk categorisation scale, where 1 constitutes a low risk and 3 a high risk. The investigation shows that seven of the respondent banks with a domicile outside the EEA were assigned risk category 2. There was no detailed explanation provided of how Handelsbanken decided on the risk category in question. Three of the respondent banks have a domicile in countries that, at the time of Finansinspektionen's request for information, were on the list of jurisdictions with strategic deficiencies in the area of money laundering and terrorist financing produced by the international body Financial Action Task Forces (FATF),[1] but had drawn up an action plan in cooperation with FATF. It is also noted that at the time of

[1] International body that produces international standards to combat money laundering, terrorist financing and the financing and proliferation of weapons of mass destruction.

Finansinspektionen's request for information FATF had noted that one of these countries had not made sufficient progress and therefore was at risk of ending up on FATF's list of non-cooperative countries and territories if further progress was not made. In view of this information, Finansinspektionen considers that there are grounds to question Handelsbanken's chosen risk category for these respondent banks. Handelsbanken also submitted a list of country risk assessments. Nor do the risk category assessments appear to be justified from a risk assessment perspective, considering these country risk assessments. This applies particularly in light of correspondent banking relationships outside the EEA being presumed to pose a high risk under the Anti-Money Laundering Act and Handelsbanken not having justified the chosen risk category in more detail.

Even if a risk categorisation has been ascribed for the respondent banks and customers that are politically exposed persons, the random samples examined show that Handelsbanken did not consider the risk that these customers pose in the course of its practical processing when the Bank applies customer due diligence and monitoring measures. One example of this is that Handelsbanken, regardless of the risk category assigned to a respondent bank, basically obtained all of its information from the Bankers Almanac system. In this system, the banks themselves choose what information should be available about them. The samples show that in the customer files examined Handelsbanken has not received sufficient information about those respondent banks outside the EEA. Just relying on the information available in the Bankers Almanac therefore poses a risk of relevant information not being brought to light by the Bank. Nor had any analysis been made of the customer due diligence information obtained in the files examined.

Handelsbanken stated in its statement of views on 20 October 2014, among other things, that the Bank had assessed the risk of customers, but that the Bank's procedure had not been sufficient to identify and prevent risks of the Bank being used for money laundering and terrorist financing, and that nor does it correspond to the applicable rules.

In light of the above, Finansinspektionen considers that Handelsbanken has failed in its assessment and analysis of the risks posed by customers so that the Bank could have been used for money laundering and terrorist financing. This means that Handelsbanken has not satisfied the requirements of Chapter 5, Section 1 and Chapter 2, Section 1 of the Anti-Money Laundering Act and Chapter 2, Section 3 and Chapter 3, Section 2, second paragraph of the Anti-Money Laundering Regulations.

3.2 Deficient customer due diligence

Under the Anti-Money Laundering Act, a bank shall apply measures to ensure customer due diligence. These measures are to be adapted to the risk of money laundering and terrorist financing that the individual bank considers are posed by a customer. Basic measures are to be applied if the risk is considered to be low to normal. Basic measures to ensure customer due diligence include checking the

customer's identity, checking the beneficial owner's identity and obtaining information about the purpose and nature of the business relationship.

Enhanced customer due diligence measures are to be applied in the event of a high risk of money laundering or terrorist financing. These measures are to be more comprehensive than the basic measures. A bank shall also continuously monitor ongoing business relationships by checking and documenting that the transactions carried out correspond with the knowledge that the party engaged in activities has concerning customers, their business and risk profiles and, if necessary, where the customer's financial resources come from.

In the course of its examination Finansinspektionen observed deficiencies of a systematic nature in the customer due diligence measures applied by Handelsbanken. Finansinspektionen also observed that Handelsbanken does not adapt its measures for ensuring customer due diligence to the risk posed by customers.

Deficiencies in basic measures for customer due diligence

As regards Handelsbanken's basic customer due diligence information, the investigation shows, for example, that the Bank did not obtain information about the nature of the business relationship in 88 of 90 random samples relevant in this context. There is no or inadequate information about the purpose of the business relationship in almost two thirds of the random samples examined. It is also necessary to obtain information about the purpose and nature of the business relationship to enable a bank to follow up the business relationship on an ongoing basis and monitor transactions in a satisfactory manner.

Furthermore, there are also no checks, or there are deficiencies in checks, of the customer's identity in just over a third of the total number of random samples examined. This is particularly apparent within the area 'customers that are legal persons with a tax domicile outside the Nordic countries', where there is no documentation at all verifying that an identity check has been made for around half of the customers examined. Nor have the requirements for verification of identity imposed by Chapter 4 of the Anti-Money Laundering Regulations been satisfied in the majority of the other customer files within this area. It is, for example, insufficient to just check the identity of a customer that is a legal person through a registration certificate or corresponding document, which was what was done by Handelsbanken; the identity of the person(s) representing the company must also be checked. It is also insufficient to only check the identity of a parent company. The Bank must also check the identity of the company embraced by the business relationship in question. Finansinspektionen therefore concludes that Handelsbanken has not been capable of satisfying the requirement to identify its customers.

Other examples showing that Handelsbanken has not been capable of satisfying the basic requirements for customer due diligence is that there was no adequate check of the beneficial owner in a third of the random samples for customers that are legal persons with a tax domicile outside the Nordic countries. The same applies for respondent banks outside the EEA, where the random samples indicate that no investigation had been carried out in three cases regarding the identity of the beneficial owner. Handelsbanken's investigation only shows which other legal persons own the respondent banks. There is thus no information about who ultimately own or controls the bank. When checking the identity of the beneficial owner, the undertaking is to investigate which natural person either directly or indirectly controls the customer. The undertaking must also investigate the customer's ownership and control structure. It is necessary to check whether the beneficial owner is to be regarded as a politically exposed person in order for the undertaking to correctly assess the risk in question for the business relationship. Handelsbanken has not satisfied its obligations under the anti-money laundering framework as the Bank has not been capable of identifying the beneficial owner correctly, either for respondent banks or for customers that are legal persons with a tax domicile outside the Nordic countries. Without correctly identifying the beneficial owner, nor has the Bank been able to correctly assess the risk of money laundering or the terrorist financing associated with the customer in question.

In summary, Finansinspektionen can conclude that it is a significant deficiency that Handelsbanken has not been capable of satisfying the basic requirements for customer due diligence under the Anti-Money Laundering Act within any of the four areas investigated.

Deficiencies in enhanced measures for customer due diligence

As regards respondent banks outside the EEA and politically exposed persons who reside outside Sweden, the investigation shows that Handelsbanken has not applied the enhanced measures specified in the Anti-Money Laundering Act. For example, none of the customer files for respondent banks contain any documentation demonstrating that Handelsbanken has assessed the quality of the supervision exercised over the respondent bank. One example for customers who are politically exposed persons is that the customer files examined did not contain any detailed investigation or verification of where the assets managed within the framework of the business relationship have come from. Finansinspektionen considers that it is absolutely necessary for a bank to get adequate information about the origin of funds and apply risk-based measures to verify this information. It is important that the Bank is able to satisfy the requirements of the Anti-Money Laundering Act by taking appropriate measures to establish where the assets managed within the framework of the business relationship have come from. This kind of information is required to be able to determine the risk of being used for money laundering or terrorist financing when a business relationship is established or individual transactions carried out with a politically exposed person. In the opinion of Finansinspektionen, it is a

significant deficiency that Handelsbanken has regularly lacked this kind of information.

As regards private banking customers, Handelsbanken has stated in the investigation that the Bank applies enhanced measures to ensure customer due diligence for these customers, as private banking customers are typically deemed to pose a high risk of money laundering. Handelsbanken has stated that information about the origin of funds is always obtained, and in most cases is also verified. Handelsbanken has also stated that the origin of funds is such a risk factor that the Bank takes into account when assessing the risk of a customer. Despite this, it transpired during Finansinspektionen's review that there is no information about the origin of funds in around half of the customer files reviewed. According to Finansinspektionen, it is remarkable that other customer files only contain scanty supporting documentation in respect of this information. Nor has there been any verification of the information obtained.

As regards legal persons with a tax domicile outside the Nordic countries, the random samples show that all of the customers except three have a tax domicile in countries that have been assessed by Handelsbanken to pose a high risk of money laundering. Handelsbanken stated during the investigation that one of the factors forming the basis of the assessment of whether customers pose a higher risk is whether the customer has a tax domicile in a high risk country. Despite this, Finansinspektionen cannot see that Handelsbanken has applied enhanced measures to ensure customer due diligence for any of these customers.

In the opinion of Finansinspektionen, it is a significant deficiency that Handelsbanken has not been capable of applying adequate enhanced measures to ensure customer due diligence within any of the four areas examined.

Deficiencies in ongoing follow-up

In addition to the initial customer due diligence measures, a bank is to continuously monitor ongoing business relationships by, among other things, keeping documents, data and information about the customer up-to-date. It is indicated by the investigation that there was no information about Handelsbanken having done this in 79 of 90 of the random samples relevant in this context. Customer due diligence information not having been kept current and updated has further increased the risks of the Bank being used for money laundering or terrorist financing. Finansinspektionen considers that it is a significant deficiency that Handelsbanken has failed to continuously follow up ongoing business relationships.

Handelsbanken's statement of views

Handelsbanken stated in its statement of views of 20 October 2014 that the Bank has no objections to the observations of a general nature made regarding the Bank's compliance with the Anti-Money Laundering Act and the Anti-Money Laundering Regulations.

Overall assessment

Handelsbanken has demonstrated deficiencies of a systematic nature in terms of the collection of customer due diligence and ongoing follow-up. Finansinspektionen therefore considers that the Bank has not satisfied the requirements to take risk-based customer due diligence measures. Handelsbanken has failed in its obligation under Chapter 2, Section 3 of the Anti-Money Laundering Act, to apply basic measures to ensure customer due diligence. The Bank has also failed in its obligation under Chapter 2, Section 6 of the Anti-Money Laundering Act, to apply enhanced measures to ensure customer due diligence. Furthermore, Handelsbanken has failed in its obligation under Chapter 2, Section 10 of the Anti-Money Laundering Act, in respect of the ongoing follow up of business relationships.

3.3 Deficiencies in the monitoring obligation

A bank is to monitor transactions to identify such transactions that they suspect or have reasonable grounds to suspect constitute a step in money laundering or terrorist financing. The individual bank is to also document measures and decisions when monitoring suspicious transactions. A precondition for a bank to deal with the monitoring and reporting obligation is that other measures have been applied correctly, for example that a risk assessment of the bank's activity has been conducted and appropriate measures to ensure customer due diligence applied. The monitoring of transactions is to be adapted to the assessed risk in the same way as procedures to ensure customer due diligence. Consequently, for example, customers and products posing a high risk of money laundering or terrorist financing should be monitored more carefully than those posing a low risk. Functional monitoring and reporting of suspicious transactions to the Financial Intelligence Section within the Police Authority[2] is important for achieving the purpose of the anti-money laundering framework, that is, to prevent money laundering and terrorist financing and also to maintain confidence in and the integrity of the financial system.

It is indicated by Finansinspektionen's investigation that Handelsbanken's automatic transaction monitoring system was unable to take account of the customer's level of risk (that is, the risk posed by the customer) even in those

[2] 'Financial Intelligence Unit (FIU)' prior to January 2015, a section of the Criminal Intelligence & Investigation Division at the National Bureau of Investigation (NIB), which in its turn belonged to the Swedish National Police Board (RPS)

cases where the Bank has ascribed the customer such a risk level. This has meant that the Bank in its monitoring scenarios and in its parameter setting for these scenarios only captured the customers considered to pose a high risk of money laundering or terrorist financing to a limited extent, as customers with different risk categories are not differentiated from each other in the transaction monitoring system. This has meant that high-risk transactions or transactions carried out by customers posing a high risk are not monitored more carefully than, for example, low risk transactions carried out for customers posing a low risk. As the purpose of monitoring is to identify suspicious transactions, a lack of parameters that take account of the customer risk category involves a potential risk of not noticing transactions that could constitute money laundering or terrorist financing.

That Handelsbanken's monitoring of transactions has not been adapted to the risk has also been demonstrated by the Bank stating during the investigation that transactions carried out within the framework of correspondent banking relationships are only monitored manually. According to Finansinspektionen, such monitoring is insufficient considering the quantity and complexity of Handelsbanken's correspondent banking relationships.

The fact that Handelsbanken has not had risk-adapted monitoring is also indicated by the Bank's foreign currency transactions only having been included in the ongoing automatic monitoring of transactions in operations of the Swedish offices since 12 February 2015. This means that foreign currency transactions from or to high risk countries were generally not included in the automatic transaction monitoring system for several years. This deficiency had already been established by the Internal Audit in 2009. According to Finansinspektionen, it is a particularly significant deficiency that these transactions were not included in the automatic transaction monitoring system. Handelsbanken has been aware of this for some time, but despite this has not remedied the deficiency until recently, which meant that the Bank has permitted itself to run a major risk of being used for money laundering and terrorist financing.

Under the Anti-Money Laundering Regulations, an undertaking is to document measures and decisions when monitoring suspicious transactions. It is indicated by the investigation that alarms generated by the monitoring system have been dismissed without any detailed documented analysis or justification. It may be mentioned as an example that private banking customer files examined show that twelve customer transactions generated an alarm in the automatic transaction monitoring system in 2013. Eleven of these had been examined at the time of Finansinspektionen's request for information. All of these alarms had been dismissed by Handelsbanken. The Bank has not documented any detailed reason for why these alarms were dismissed, which means that it was not subsequently possible to evaluate the assessment of the alarms made. This failure makes it difficult for Handelsbanken, among other things, to identify abnormal behaviour and patterns and also future suspicious transactions. In the assessment of Finansinspektionen, this deficiency is significant.

Handelsbanken stated during the investigation that transactions carried out by, among others, governmental authorities, municipal authorities and county councils are exempt from monitoring. However, according to Chapter 2, Section 5 of the Anti-Money Laundering Act, these groups are only exempt from some of the customer due diligence measures described in the provision. Handelsbanken is also obliged to monitor the transactions carried out by these groups. Handelsbanken's management therefore has not satisfied the monitoring obligation under Chapter 3, Section 1 of the Anti-Money Laundering Act.

Handelsbanken stated in its statement of views of 20 October 2014 that the Bank has no objections to the observations of a general nature made regarding the Bank's compliance with the Anti-Money Laundering Act and the Anti-Money Laundering Regulations.

It has been concluded, in the opinion of Finansinspektionen, that the Bank did not have a risk-adapted monitoring in light of Handelsbanken not having monitored customers and products that pose a high risk of money laundering or terrorist financing more carefully than those posing a low risk. Handelsbanken therefore does not satisfy the requirements under Chapter 3, Section 1, first paragraph and Chapter 5, Section 1 of the Anti-Money Laundering Act. Handelsbanken has also been deficient in documenting measures and decisions when monitoring suspicious transactions under Chapter 5, Section 3 of the Anti-Money Laundering Regulations.

3.4 Deficiencies in the documentation obligation

A bank shall, for a period of at least five years, keep documents and information about the measures applied to ensure customer due diligence. This period shall be counted from when the measures were performed or, in those cases where a business relationship was established, the business relationship ceased. The documents and information are to be kept in a safe manner, electronically or on paper. The individual bank shall ensure that the documents and information are easy to produce and identify.

It is demonstrated by Handelsbanken's answer on 13 May 2014 that the Bank's current archiving procedure means that information about customers is only archived at the local offices in chronological order, without the option to search for information about a specific business relationship. This archiving system has meant that the Bank has been unable to provide all of the information requested by Finansinspektionen and nor has it been able to demonstrate whether the necessary measures to ensure customer due diligence have been applied.

Handelsbanken stated in its statement of views of 20 October 2014 that the Bank has no objections to the observations of a general nature made regarding the Bank's compliance with the Anti-Money Laundering Act and the Anti-Money Laundering Regulations.

In the opinion of Finansinspektionen, documents and information cannot be deemed to have been easy for Handelsbanken to identify and produce. Handelsbanken therefore has not satisfied the requirement of Chapter 4, Section 20 of the Anti-Money Laundering Regulations, whereby an undertaking shall ensure that the documents and information are easy to produce and identify. This deficiency means that the Bank has been unable to work actively with the customer due diligence information obtained, either during the ongoing follow-up or during monitoring. This has also made Finansinspektionen's supervision activities difficult and may also have impeded the Bank's obligations to submit information about suspected money laundering or terrorist financing under Chapter 3, Section 1, second paragraph of the Anti-Money Laundering Act.

3.5 Deficiencies in the Bank's internal governance and control as regards compliance in the area of money laundering and terrorist financing

A bank is obliged to identify, measure, govern, internally report and have control of the risks associated with its business. The individual bank shall thereby ensure that its internal control is satisfactory. It is the task of the board of directors to establish and continually evaluate the efficiency of a bank's internal control. The board of directors is also responsible for a bank complying with the applicable framework. In order to establish good internal control, a bank should have a risk control function, a compliance function and an independent monitoring function (internal audit).

It is indicated by Finansinspektionen's investigation that, among other things, Handelsbanken's independent control of compliance with the anti-money laundering framework comprised a compliance function, a risk control function, and an internal audit function. The compliance and internal audit functions reported to the Board of Director's Audit Committee in 2011 and 2012 about a limited number of deficiencies in respect of the Bank's work to prevent money laundering and terrorist financing. Despite this, the reporting from both functions from 2013 indicates that the deficiencies in compliance with the anti-money laundering framework were more significant than had been stated at the start of the period examined. At the same time, reports about operational risks sent to the Board of Directors in 2013 indicate that a general assessment had been made that the Bank's preparedness as regards the risk of deficient compliance in the area of money laundering and terrorist financing was adequate.

Handelsbanken has, among other things, stated the following. The Bank's control functions have identified deficiencies in the Bank's handling of money laundering and terrorist financing issues and these functions have reported these deficiencies to the Board of Director's committee. The Board of Directors received adequate and correct information about both the deficiencies and the measures taken, among other things through reports back from the Committee and also the CEO's statements. That the measures taken have not had the desired result within a reasonable time has not been due to the Board of Directors not having received complete information. When describing the risk control function, Handelsbanken states that it is the Bank's compliance function that is

responsible for controlling, identifying and reporting these risks. Handelsbanken has also described measures taken from 2013 and beyond.

As stated in Sub–sections 3.1 to 3.4, Finansinspektionen considers that Handelsbanken was shown as having significant deficiencies in its compliance with the anti-money laundering framework. Handelsbanken has stated that the Bank's Board of Directors received adequate and correct information about both the deficiencies and the measures taken. Finansinspektionen questions whether this has been the case in light of Finansinspektionen's observations. However, it is clear that Handelsbanken does not live up to the requirements of the anti-money laundering framework regardless of whether the Board of Directors received adequate and correct information in this respect. The documentation to which Finansinspektionen has had access does not indicate how the Board of Directors has acted in view of the information received by the Board of Directors concerning the deficiencies found in compliance with the anti-money laundering framework. Handelsbanken also described measures taken from 2013 and beyond in its statement of views. In light of the deficiencies observed by the Bank in terms of complying with the anti-money laundering framework – a framework that had already entered into force by 2009 and that is of key importance to the Bank's activities – Handelsbanken's Board of Directors cannot be deemed to have done enough within a reasonable timeframe to remedy the Bank's deficiencies in this respect. Handelsbanken has thus breached its obligation to maintain satisfactory internal governance and control under Chapter 6, Section 2 LBF.

4 Consideration of intervention

4.1 Applicable provisions

New rules about sanctions entered into force on 2 August 2014 (Swedish Code of Statutes – SFS 2014:982). The new rules mean, among other things, that Finansinspektionen may decide on a significantly higher administrative fine than previously. According to a transitional provision to the new rules, however, older provisions shall apply to breaches that took place prior to entry into force. As the breaches reported above occurred before the statutory amendments, the provisions were applied with their former wording, with the exception of a provision that may result in a more moderate assessment. These provisions are described below. References to the provisions contained in Chapter 15 LBF in this section thus refer to its wording prior to 2 August 2014.

Finansinspektionen shall, under Chapter 15, Section 1 LBF, intervene when a credit institution has neglected its obligations under this Act, other statutory provisions that regulate the institution's activity, the articles of association of the institution, statutes, by-laws or internal instructions based on statutory provisions that regulate the institution's activity. According to the same provision, Finansinspektionen may intervene, among other things, by ordering a credit institution to take action to address a certain situation or by issuing a remark to the credit institution. If the violation is serious, the credit institution's

authorisation shall be revoked or, if sufficient, a warning issued. In Chapter 15, Section 1 LBF it is also prescribed that Finansinspektionen may refrain from intervention if a breach is petty or excusable, if the institution undertakes rectification or if another public authority has applied measures against the institution and these measures are considered to be sufficient.

Finansinspektionen may combine a remark or warning with an administrative fine under Chapter 15, Section 7 LBF. Under Chapter 15, Section 8 of the same Act, the administrative fine is to be set at a minimum of SEK 5,000 and at most SEK 50 million. The fine may not exceed ten per cent of the institution's turnover for the immediately preceding financial year. Nor may the fine be so large that the institution thereafter does not fulfil the requirements for solvency and liquidity under Chapter 6, Section 1 LBF. Under Chapter 15, Section 9 LBF, special consideration shall be taken of how serious the breach is that has led to the remark or warning and how long the breach has lasted.

Chapter 15, Section 1 b LBF includes a provision involving a more moderate assessment. It is stated in the second paragraph that consideration shall be taken when choosing a sanction of whether the credit institution has significantly facilitated Finansinspektionen's investigation through active cooperation and quickly ceased the breach after it was reported to or drawn attention to by Finansinspektionen.

4.2 The Bank's measures

It is indicated by Handelsbanken's statement of views of 20 October 2014 among other things, that the Bank has started extensive work as regards measures to prevent money laundering and terrorist financing. The work focuses first on remedying the deficiencies already observed and that have been noted by Finansinspektionen, second developing an action plan to ensure that the Bank works in accordance with applicable rules, both now and in the future. Handelsbanken reorganised its Anti-Money Laundering Department, appointed new managers and increased staffing when the Bank realised the extent of its deficiencies.

The action plan submitted by Handelsbanken relates to measures in several different areas. However, Finansinspektionen has identified certain deficiencies in this action plan. It does not show, for example, how Handelsbanken is to ensure that certain customer due diligence information is available for pre-existing customers. The action plan also has no time schedules in certain respects.

Furthermore, Handelsbanken reported on the progress of the work relating to the action plan at the meetings with Finansinspektionen on 23 October 2014 and 3 March 2015.

4.3 Assessment of breaches

Finansinspektionen's investigation shows that Handelsbanken has had significant deficiencies of a systematic nature in implementing the anti-money laundering framework in its activities. The point of departure for the anti-money laundering framework is the risk-based approach, which is crucial for effectively preventing financial activities being used for money laundering or terrorist financing. The risk-based approach means that a bank is to apply measures commensurate with the risks of money laundering and terrorist financing to which they are exposed. There must be a clear link between the risk assessment and the measures applied by a bank to prevent the risks identified.

The investigation shows that Handelsbanken has not applied measures commensurate with the risks of money laundering and terrorist financing to which the Bank is exposed. The customer due diligence and monitoring measures applied by Handelsbanken have not been based on the risk posed by customers. Nor has Handelsbanken conducted any risk assessment for specific customers for the private banking customers and customers that are legal persons with a tax domicile outside the Nordic countries examined. As regards customers who are politically exposed persons and respondent banks, Handelsbanken has actually ascribed a risk categorisation for these but has still not adapted its customer due diligence and monitoring measures to the customer's risk. It may also be questioned whether Handelsbanken has assessed the risk of some of the respondent banks correctly. As regards Handelsbanken's customer due diligence measures, the investigation shows that the Bank has had deficiencies of a systematic nature in the measures applied by the Bank, both in respect of basic and enhanced measures. Handelsbanken has also had deficiencies of a systematic nature in its ongoing follow-up of the business relationships. Furthermore, Handelsbanken has not reviewed customers and products that pose a high risk more carefully than those posing a low risk; for example, the Bank's foreign currency transactions were not included in the automatic monitoring of transactions within the operations of the Swedish offices for many years. This has meant that foreign currency transactions to and from high risk countries were not monitored at all. Finally, Handelsbanken's sub-standard archiving procedure has made both Finansinspektionen's supervision and the Bank's own work more difficult, as it has not been possible to find customer information.

The Board of Directors bears the responsibility for the Bank complying with the applicable framework. Finansinspektionen's assessment is that the deficiencies on the whole mean that Handelsbanken has not had a risk-based approach, which has resulted in the Bank not having taken adequate measures to prevent the operation from being used for money laundering and terrorist financing. In light of this, it has been established, in the opinion of Finansinspektionen, that Handelsbanken has run a significant risk of being used for money laundering and terrorist financing. The fact that Handelsbanken's measures to prevent money laundering and terrorist financing have been deficient may affect confidence in the bank as well as its stability in the long run. According to Finansinspektionen,

Handelsbanken's breaches are remarkable and there is therefore reason to intervene against the Bank.

4.4 Choice of intervention

Handelsbanken has thus failed to comply with the anti-money laundering framework. The Bank has taken a number of measures to address the deficiencies and has also submitted an action plan to Finansinspektionen. However, the action plan does not show how Handelsbanken is to address all of the deficiencies observed, for example it does not show how the Bank will ensure that it has certain customer due diligence information. The action plan also has no time schedules in certain respects.

Finansinspektionen may refrain from intervening if the breach is petty or excusable or if the undertaking undertakes rectification. Finansinspektionen cannot assess the breaches as petty, as Finansinspektionen's assessment is that Handelsbanken has not had a risk-based approach, which is the basis for the application of the anti-money laundering framework. Nor have any circumstances transpired whereby the breaches may be deemed to be excusable. Furthermore, there are, according to Finansinspektionen and considering the Bank's action plan, still deficiencies in the money laundering area.

If a breach is serious, the credit institution's authorisation shall be revoked or, if sufficient, a warning issued. Finansinspektionen may also intervene by issuing a remark to the credit institution.

Finansinspektionen does not consider that Handelsbanken's breaches of the anti-money laundering framework are so serious that there is reason to revoke the Bank's authorisation to conduct banking business. As Finansinspektionen is of the opinion that there is no reason to revoke the Bank's authorisation to conduct banking business, nor are there thus any grounds to issue the Bank with a warning. However, Handelsbanken has failed to adapt to a framework that has been in force for more than five years, which is remarkable. For a bank of Handelsbanken's size, complexity and international presence, this entails special risks of being used for money laundering and terrorist financing. Finansinspektionen therefore considers that the breaches are of such a nature that Handelsbanken is to be issued with a remark combined with an administrative fine.

The fact that a bank has significantly facilitated Finansinspektionen's investigation through active cooperation or has rapidly ceased the breach after it was reported to or drawn attention to by Finansinspektionen are, according to Chapter 15, Section 1 b LBF, such ameliorating circumstances that are to be taken into account when choosing a sanction. According to the *travaux préparatoires* (Government Bill 2013/14:228, p. 241) this means that the institution provides important information of its own accord that Finansinspektionen itself has not already had at its disposal or can easily obtain. In the opinion of Finansinspektionen, Handelsbanken's cooperation has not been

more active than it is reasonable to expect from an undertaking subject to supervision. It has thus not been of such a nature that Handelsbanken could be deemed to have significantly facilitated Finansinspektionen's investigation through active cooperation. Nor has the Bank quickly ceased the breach since it was reported to or drawn attention to by Finansinspektionen. There are therefore no ameliorating circumstances that should, according to Chapter 15, Section 1 b LBF, be taken into account when choosing a sanction.

The remark that Finansinspektionen issues to Handelsbanken is to be combined with an administrative fine. The administrative fine may be determined at between SEK 5,000 and SEK 50 million. However, the fine may amount to no more than ten per cent of the Bank's turnover for the immediately preceding year and nor may it be so large that the institution cannot subsequently fulfil its solvency and liquidity requirements according to Chapter 6, Section 1 LBF.

According to the Annual Report for 2014, Handelsbanken's annual turnover amounts to approximately SEK 49 billion. When assessing the size of the administrative fine, special consideration should be taken of how serious the breach is that resulted in the remark. When assessing the size of the administrative fine, there is in this case reason to consider, as concluded above, that Handelsbanken's breaches are both extensive and of a systematic nature. In light of this, the administrative fine is to be set at a relatively high amount. Finansinspektionen sets the administrative fine at SEK 35 million. This administrative fine falls below ten per cent of Handelsbanken's annual turnover for 2014 and is not large enough to jeopardise the Bank's solvency and liquidity requirements according to Chapter 6, Section 1 LBF.

The administrative fine passes to the State and will be invoiced by Finansinspektionen after the decision has entered into final legal force.

FINANSINSPEKTIONEN

Sven-Erik Österberg
Chair of Board of Directors

Marielle Halvarsson
Legal Counsellor
Large Banks Banking Law

A decision in this matter has been made by Finansinspektionen's Board of Directors (Sven-Erik Österberg, Chair, Sonja Daltung, Astri Muren, Hans Nyman, Anna Pettersson Westerberg, Gustaf Sjöberg and Martin Noréus, Director General) after reporting by Marielle Halvarsson (Legal Counsellor). Per Håkansson (Chief Legal Counsel), Martina Jäderlund (Director), Cecilia Ekenbäck and Mattias Olander (Heads of Division), Maris Ritums (Supervisor), Liselott Alström (Senior Legal Counsellor) and Carin Carlsson (Legal Counsellor) participated in the final processing.

Appendices
Appendix 1 – How to appeal
Appendix 2 – Applicable provisions

Copy: Handelsbanken's CEO

A C K N O W L E D G E M E N T O F S E R V I C E

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FI Ref. 13-1783
Service no. 1

Remark and administrative fine

Document:

Decision regarding remark and administrative fine of **18 May 2015** for Svenska Handelsbanken Bank AB

I have received this document on this date.

. . . . .	. . . . .
DATE	SIGNATURE
	. . . . .
	PRINT NAME
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	NEW ADDRESS, IF APPLICABLE
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This acknowledgement shall be returned to Finansinspektionen **immediately**. If the acknowledgement is not returned, service may be effected by other means, e.g. via a bailiff.

Postage is free if you use the enclosed envelope.

Do not forget to **state the date of receipt**.

Appendix 1

How to appeal

You can appeal in writing to the administrative court if you consider this decision to be incorrect. Address the appeal to Stockholm Administrative Court, but send or submit it to Finansinspektionen, Box 7821, SE-103 97 Stockholm, Sweden.

State the following in the appeal:

- Name and address
- The decision you are appealing against and the number of the matter
- Why you consider the decision to be incorrect
- The change sought and why you consider that the decision should be changed.

Remember to sign the document.

The appeal must have been received by Finansinspektionen within three weeks of the date on which you received the decision.

If the appeal is received on time and Finansinspektionen does not itself decide to amend the decision in the manner requested, Finansinspektionen will forward the appeal to Stockholm Administrative Court.

Appendix 2

Applicable provisions

Deficient risk assessment of customers

Under Chapter 2, Section 3 of the Anti-Money Laundering Regulations, an undertaking shall assess the risk of the operation being used for money laundering and terrorist financing. The risk assessment shall be made in an appropriate manner taking into consideration the undertaking's size and complexity. It shall contain an analysis of the undertaking's customers, products, services and other relevant factors for the operations, such as distribution channels and geographical areas. Furthermore it is prescribed by Chapter 5, Section 1 of the Anti-Money Laundering Act that a party engaged in activities shall have risk-based procedures to prevent the operation being used for money laundering or terrorist financing. Under Chapter 2, Section 1 of the Anti-Money Laundering Act, a party engaged in activities shall apply measures to ensure customer due diligence. The scope of these measures shall be adapted according to the risk of money laundering and terrorist financing. It is stated in Chapter 3, Section 2, first paragraph of the Anti-Money Laundering Regulations that an undertaking shall have procedures for, among other things, customer due diligence and monitoring. It is stated in the second paragraph of the same section that the undertaking's procedures shall be based on its operations and risk assessment.

Deficient customer due diligence

It is stated in Chapter 5, Section 1 of the Anti-Money Laundering Act that a party engaged in activities shall have risk-based procedures to prevent the operation being used for money laundering or terrorist financing. Under Chapter 3, Section 2, first paragraph of the Anti-Money Laundering Regulations, an undertaking shall have procedures for, among other things, customer due diligence. It is stated in the second paragraph of the same section that the undertaking's procedures shall be based on its operations and risk assessment. It is prescribed by Chapter 2, Section 3 of the Anti-Money Laundering Act that 'basic measures to ensure customer due diligence' means checking a customer's identity, checking the identity of a beneficial owner and obtaining information about the purpose and nature of the business relationship. Enhanced customer due diligence measures shall be applied under Chapter 2, Section 6 of the Anti-Money Laundering Act if there is a high risk of money laundering or terrorist financing. Such measures shall be more comprehensive than the measures contained in Chapter 2, Section 3 of the Anti-Money Laundering Act. A high risk of money laundering or terrorist financing is presumed to exist, for example, when a business relationship is established with a politically exposed person who resides outside Sweden and for relationships with a credit institution with a domicile outside the EEA. The enhanced measures to be applied in these cases are set out in Chapter 2, Sections 7 and 8 of the Anti-Money Laundering Act.

Under Chapter 2, Section 10 of the Anti-Money Laundering Act, a party engaged in activities shall continuously monitor ongoing business relationships by checking and documenting that the transactions carried out correspond with the knowledge that the party engaged in activities has concerning customers, their business and risk profiles and, if necessary, where the customer's financial resources come from. Documents, data and information concerning checks shall be kept up-to-date. Chapter 4 of the Anti-Money Laundering Regulations includes provisions concerning customer due diligence, among other things how a customer's identity should be verified.

Deficiencies in monitoring obligation

It is prescribed by Chapter 3, Section 1, first and second paragraphs of the Anti-Money Laundering Act, a party engaged in activities shall monitor transactions in order to be able to identify such transactions that they suspect or have reasonable grounds to suspect constitute a step in money laundering or terrorist financing. If, the suspicion remains following closer analysis, information about all circumstances that may indicate money laundering or terrorist financing shall be submitted to the Financial Intelligence Section within the Police Authority without delay (prior to 1 January 2015, the 'Financial Intelligence Unit (FIU)', a section at the Police Criminal Intelligence & Investigation Division at the National Bureau of Investigation (NIB), which in its turn belonged to the Swedish National Police Board (RPS)). Under Chapter 5, Section 3 of the Anti-Money Laundering Regulations, an undertaking shall document measures and decisions when monitoring suspicious transactions under Chapter 3, Section 1, first and second paragraphs of the Anti-Money Laundering Act. Furthermore it is prescribed by Chapter 5, Section 1 of the Anti-Money Laundering Act that a party engaged in activities shall have risk-based procedures to prevent the operation being used for money laundering or terrorist financing. Under Chapter 3, Section 2, item 4 of the Anti-Money Laundering Regulations, an undertaking shall have a system or procedure for the monitoring obligation pursuant to Chapter 3, Section 1 of the Anti-Money Laundering Act and Chapter 5, Section 1 of the Anti-Money Laundering Regulations.

Deficiencies in documentation obligation

Under Chapter 2, Section 13 of the Anti-Money Laundering Act, a party engaged in activities shall, for a period of at least five years, keep documents and information about the measures taken to ensure customer due diligence. This period shall be counted from when the measures were performed or, in those cases where a business relationship was established, the business relationship ceased. It is stated in Chapter 4, Section 20 of the Anti-Money Laundering Regulations that an undertaking shall keep documents and information pursuant to Chapter 2, Section 13 of the Anti-Money Laundering Act, in a safe manner, electronically or on paper. The undertaking shall ensure that the documents and information are easy to produce and identify.

Internal governance of risk management and control

Under Chapter 6, Section 2, first paragraph LBF, a credit institution is to identify, measure, govern, internally report and have control over the risks associated with its business. The institution shall thereby ensure that its internal control is satisfactory.

Under Chapter 6, Section 4 b LBF it is the board of a credit institution that is responsible for satisfying the requirement of Chapter 6, Section 2 LBF.

The undertaking should, have certain control functions in order to satisfy Chapter 6, Section 2 LBF. It is indicated by Chapters 4 to 6 of the General Guidelines (FFFS 2005:1) concerning Governance and Control of Financial Undertakings that this involves a risk control function, a compliance function and an independent monitoring function.