

MAJOR ENHANCEMENTS IN AML/CTF COMPLIANCE  
AND OTHER RELEVANT DEVELOPMENTS

# Swedbank AS

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## PROFILE OF THE BANK

### Brief description of the bank

The public limited company Swedbank (“Swedbank”) is the largest bank in Latvia which provides universal banking services to local people and businesses and has been chosen as their partner in finances by nearly 1 million people in Latvia and over 71’000 local companies. As Swedbank focuses on serving Latvian customers, the share of international clients in the portfolio historically has never exceeded 1%.

Swedbank is a key driving force behind the country’s economic and regional development which ensures continuous availability of financial services, offering clients support with modern digital self-service tools, the biggest contact centre and ATM network in each region of Latvia, as well as branches in every town of national and regional importance.

Swedbank is a customer-centric bank with a strategy based on four basic principles: an accessible full-service bank; a customer-centric offering; high cost efficiency; low risk.

### Credit rating

The credit ratings of Swedbank's parent company Swedbank AB (Sweden) as of 30 June 2017 (long-term) are:

- Moody's: Aa3
- Standard & Poors: AA-
- Fitch: AA-

### Shareholder structure

Swedbank is a credit institution registered in Latvia with subsidiaries Swedbank Līzings SIA, Swedbank Atklātais Pensiju Fonds AS, Swedbank Īpašumi SIA and HL Līzings SIA. Swedbank AS Latvia is a subsidiary fully owned by the Swedish Swedbank AB (publ).

### Swedbank AB shareholders

As of 30 June 2017

### Ten largest shareholders (grouped according to Euroclear\*)

	A-shares	Holdings %
Sparbanks-Gruppen - Members**	107 240 591	9.47
Folksam	79 371 743	7.01
ALECTA PENSIONS-FÖRSÄKRING	54 698 300	4.83
AMF - Försäkring och Fonder	51 726 488	4.57
Sparbankstiftelser - Not Sparbanks-Gruppen	45 647 480	4.03
Swedbank Robur fonder	43 851 765	3.87
SEB Investment Management	20 525 864	1.90
JPM CHASE NA	20 638 284	1.82
CBNY-NORGES BANK	18 592 585	1.64
SWEDBANK AB	18 376 207	1.62
<b>10 largest shareholders</b>	<b>461 669 307</b>	<b>40.78</b>
<b>Total</b>	<b>1 132 005 722</b>	

## Number of shareholders

297 567

\* The grouped owners are designated with lower-case letters, while ungrouped owners are designated with upper-case letters.

\*\* Companies of the Sparbanks-Gruppen are available here: [www.foreningensparbanksintressenter.se/](http://www.foreningensparbanksintressenter.se/) (in Swedish).

## BUSINESS MODEL DESCRIPTION

### Share of transactions in revenues

In its almost 200 years of existence, Swedbank has always been a universal banking institution for people and businesses, hence transactions represent one of the components in the revenue structure. The income structure in Latvia has been steady in recent years – net payment fees account for ~8% of the total income.

<b>Thousand EUR</b>	<b>2015</b>	<b>2016</b>	<b>H1 2017</b>
Net payment fees	14 124	14 540	7 629
% of fee income	21%	22%	23%
% of total income	8%	8%	8%
Net fee income	67 178	66 951	33 102
% of total income	36%	36%	37%
<b>Total income</b>	<b>185 168</b>	<b>186 583</b>	<b>89 698</b>

## **Focus on local customers**

There are no shell companies among Swedbank customers<sup>1</sup>. International clients in Swedbank's customer portfolio have historically do not exceed 1% of the total number of customers, which is also the current figure. Non-resident banking has not been developed as a dedicated line of business, moreover, revision of its business strategy resulted in Swedbank discontinuing the provision of services to all international customers which are registered outside the European Economic Area (EEA) or in countries with non-transparent beneficial owner information and have no links to Latvia.

Hence, the share of non-resident deposits in Swedbank's overall deposit structure has dropped from 11% as of 30 June 2016 to 4% as of 30 June 2017. At the same time, the total amount of deposits at the bank during the same time period has grown by 1% as a result of higher savings in the households of Latvia.

## **Improvements in internal control following FCMC's guidance**

In 2016, FCMC (Finance and Capital Market Commission) performed an inspection of the efficiency of Swedbank's internal controls system in prevention of money laundering. Based on the result of inspection, FCMC and Swedbank concluded the administrative agreement which, inter alia, includes measures for remedying the identified deficiencies and for improvement and enhancement of the internal control system during 2017. The changes are introduced according the plan.

## **Continuing as a universal bank for local customers**

Swedbank will continue pursuing its strategy of universal banking which is based on the bank's vision to provide people, businesses and the society with growth opportunities, at the same time as promoting a sound and sustainable financial situation. In the light of the rapidly changing environment of daily financial services, the bank's internal digitalization is ongoing and customers continue to prefer to do their banking in digital channels. Accordingly, the focus in development is on digitalization

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<sup>1</sup>Paragraph 1.8 of FCMC's "Normative Regulations on Enhanced Customer Due Diligence for Credit Institutions and Licenced Payment and Electronic Money Institutions" defines shell companies as follows:

1.8. a shell company – a company that possesses one or several of the following characteristics:

1.8.1. no provable link of the company to actual economic activity and the operations of the company creates insignificant economic value or none at all, and the credit institution is not in possession of documentary proof to the contrary;

1.8.2. the company does not prepare and does not file with the competent supervisory authorities any annual financial reports on its operations;

1.8.3. the company does not have a physical place of business, only a mailbox or an address for communication.

of products and their distribution channels, as well as ensuring the stability of IT systems. Also, employee competence is being strengthened to enable them to provide customers with high-added value support, at the same time as being capable of assessing all risk and development factors.

## **CORPORATE GOVERNANCE**

Swedbank regularly updates its internal control system procedures to ensure compliance with changes in the regulatory framework and industry developments.

### **Strengthening of the monitoring and compliance function**

Significant activities have been undertaken in this field also in 2016 and 2017, inter alia, introduction of new processes, controls and more than doubling the number of employees in the Customer Transaction Monitoring Department and the Know Your Customer Department. The requirements for qualification of monitoring and compliance employees have been considerably

heightened. Also, Know Your Customer Committee has been set up in 2017 which in some cases decides on establishing or terminating business relationship with certain customer groups.

The compliance function has been strengthened, inter alia, by updating Swedbank's procedures and internal control procedures with AML/CFT requirements introduced in 2016 in the Credit Institutions Law and other regulations.

### **UN, EU sanction compliance policy**

Swedbank ensures compliance with the UN and EU sanctions and also considers OFAC sanctions to be binding. An internal policy for ensuring compliance with the sanction regime has been developed at Swedbank Group level. Furthermore, a dedicated Sanction Officer function is in place in Swedbank Group which is responsible for informing on changes in sanctions, providing guidance in case of uncertainties, as well as participating in development of Swedbank Group level policies for ensuring compliance with sanctions.

## **INTERNAL CONTROLS**

### **Developments in assessment of customer ML/TF risk**

Taking care of the reputation of the brand, Swedbank

has been purposefully strengthening its activities, competences and resources in the field of ML/TF risk prevention.

In 2016, Swedbank adopted the AML/CFT strategy and set the permissible risk exposure limits which accurately define various low risk level indicators. In 2017, Swedbank has considerably revised the customer risk assessment principles according to developments in the AML/CFT field. A new numeric model for assessing customer's ML/TF risk has been developed which takes into account both the criteria set forth in FCMC's regulations and the criteria defined by the bank itself.

### **Enhanced due diligence principles**

The principles which determine how enhanced due diligence is performed have been revised in the 1st quarter of 2017. To ensure that enhanced due diligence is conducted in standardized manner, a unified form has been developed where the outcome and conclusions must be documented.

To facilitate a uniform understanding, training has been ensured in 2017 for employees whose duties involve conducting enhanced due diligence.

### **Assessment of new customers**

Swedbank has supplemented customer evaluation procedures by requiring additional steps to be taken in

cases when customers who possess high ML/TF risk wish to become customers, as well as laying down cases when

a foreign citizen may become a Swedbank customer and the exceptional cases when a company registered abroad may become a Swedbank customer.

Swedbank does not use and does not plan to use services of third parties (agents) for customer identification.

### **TRAINING OF THE STAFF**

To effectively ensure compliance with Latvian regulatory requirements and fulfilment of the bank's internal procedures, regulations and processes in respect of ML/TF risk prevention and management, Swedbank has made a significant investment in 2016 and 2017 in AML/CFT training of employees. A number of internal and external training courses have been held. Also, practical experience has been shared regularly by Swedbank Group's leading and most experienced AML/CFT employees.

According to the plan for 2017, all Swedbank employees will undergo training according to their job duties. A

special focus is on training of employees whose daily direct job duties require a deeper understanding of the AML/CFT field, as well as employees that conduct enhanced due diligence and employee whose direct job duties involve ML/TF risk assessment and control.

Swedbank has adopted a procedure that governs training of employees, laying down:

- The competence and knowledge level required for job roles
- Frequency of training
- Knowledge test types
- The rights and obligations of employees in case of failing to pass the training.

In 2017, Swedbank reviewed and updated employee training in line with changes in Latvian regulatory framework and internal processes.

## **INDEPENDENT TESTING**

Consultants independent testing outcome

In 2017, Swedbank conducted an independent inspection of the internal control system in the field of AML/CFT by engaging an external auditor. Following the independent inspection, the bank has developed an action plan for implementing the recommendations provided.

### **Internal audit function ability to carry on independent testing in the field of AML/CTF**

The Internal Audit is a third line of defence control function which is independent from the units it controls. Internal Audit Latvia is part of Swedbank Group Internal

Audit ("GIA") and is organized and operates according to applicable regulatory requirements. The audit of Swedbank's obligations in relation to AML/CTF regulations is a mandatory part of the audit annual plan, which is one of the GIA's focus and its resource prioritization areas. GIA activities in AML area cover all aspects of the regulation, such as Know Your Customer, including the identification of Beneficial Owners and Politically Exposed Persons, AML Country based Risk Assessment, AML/CTF related risk strategy, screening against sanction lists, as well as client categorisation and monitoring of transactions.

GIA evaluates if Swedbank in its AML related processes has designed and implemented sufficient governance, risk management and internal control to ensure that Swedbank is not used for money laundering, including tax evasion and terrorist financing.

During the years, following the risk based and cyclical approach, GIA has planned and performed a number of audit engagements related to the AML/CFT processes in different parts of the Group. The results of performed audit activities in AML/CFT area are always reported through the GIA Quarterly Reporting to the Council and the Management Board of Swedbank AS, Latvia as well as to the Audit Committee and the Board of Directors of Swedbank AB (publ).



GIA possesses resources with competence, experience, skills and know-how in AML/CTF area which are continuously developed and improved to tackle audit engagements in this field. All Internal Audit employees in Latvia are responsible for audit operations to cover ML/TF related risks in Swedbank.

A host of audit activities in AML/CTF area are scheduled in the annual risk assessment and audit plan for 2017. A customer due diligence process audit, payment monitoring audit and other audits have been performed in 2016.

## **AUTOMATED SYSTEMS AND TOOLS**

New software programs have been introduced in 2016 and 2017 for monitoring of payments (Proscan, developed by Tieto) and customer base (Watch List Filtering, developed by Nice Actimize) and for screening thereof against customer lists.

Implementation of a new transaction monitoring system (Suspicious Activity Monitoring, developed by Nice Actimize) has been started in 2017 which will improve identification of potentially suspicious transactions.

The software implemented for payment monitoring and screening against sanction lists enables transaction analysis online.

The new software will replace the internally developed solutions and provide increased efficiency.

## **DE-RISKING OF CUSTOMERS AND BUSINESS LINES**

### **Business lines exited**

International clients in Swedbank's customer portfolio do not exceed 1% of the total number of customers. In 2016, a decision was adopted to discontinue serving businesses that are based outside the European Economic Area and don't have direct economic operations or other economic ties with Latvia. Income from this customer segment accounted for a small fraction in the total income also before such a decision was made.

### **Enhanced risk assessment**

As required under FCMC regulations, Swedbank has introduced customer ML/TF risk assessment that determines which customers are treated as high-risk customers. After implementation of these requirements, certain customer groups, such as non-residents and politically exposed persons (PEPs), are subject to stricter requirements.

### **Shift in customer base by jurisdiction**

In 2016, a decision was made to altogether discontinue banking with international customers who pose a high ML/TF risk to the bank. Those are business entities which are registered outside the EEA or in countries with non-transparent beneficial owner information and have no links to Latvia.

### **Changes in number of PEP customers**

After the 2016 amendments in the regulatory framework in Latvia and the expansion of the definition of a politically exposed person (PEP), the number of persons who are to be treated as PEPs has increased, as a result of which also the number of PEP customers has increased among the customers of the bank. The total number of Swedbank customers confirmed as PEPs is under 1500 which accounts for less than 1% of the customer base.

### **A decrease in ML/TF risk level (scoring) among customers**

As the target customers of Swedbank Latvia are residents of Latvia, Swedbank generally works with low-risk customers. As a universal bank with good infrastructure, Swedbank customer portfolio has various acceptable risk levels in various risk parameters, however all in all only a fractional group of customers is in the high-risk category.

### **Target markets**

Swedbank focuses on providing banking services to the residents of Latvia to help them both in management of finances and in business development.