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D E C I S I O N

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Swedbank AB
via the Chairman of the Board of Directors
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FI Ref. 18-21044
FI Ref. 19-7504
Notification No.1

This document is not an official translation of the decision. In case of any discrepancies between the Swedish original and this translation, the Swedish original shall prevail.

Warning and administrative fine

Finansinspektionen's decision (to be announced on 19 March 2020 at 5:40 p.m.)

1. Finansinspektionen is issuing Swedbank AB (502017-7753) a warning.

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

2. Swedbank AB shall pay an administrative fine of SEK 4,000,000,000.

   (Chapter 15, section 7 of the Banking and Financing Business Act)

To appeal the decision, see *Appendix 1*.

Summary

Swedbank AB (Swedbank or the bank) is a joint stock banking company authorised to conduct banking business in accordance with the Banking and Financing Business Act (2004:297).

Finansinspektionen has investigated Swedbank's compliance with the rules for governance and control with regard to anti-money laundering measures in the bank's subsidiaries in Estonia, Latvia and Lithuania during the period 2015–Q1 2019. During the course of the investigation, the scope was expanded to also include matters related to the bank's provision of information to Finansinspektionen. Finansinspektionen has also investigated how Swedbank has complied with the anti-money laundering regulatory framework in its business area Swedish Banking.

Finansinspektionen has not investigated the compliance of the Baltic subsidiaries with their local anti-money laundering regulations. Neither has

Finansinspektionen investigated if and to what extent money laundering occurred in the Baltic subsidiary banks.

Finansinspektionen makes the assessment that deficiencies in the Baltic subsidiary banks may have resulted in risks for Swedbank at both group level and institution level and that Swedbank must manage such risks.

Non-resident customers represented a significant share of the business in the Baltic subsidiary banks, particularly in terms of transaction volumes. These transaction volumes rose significantly up to 2016 and then fell sharply. The subsidiary banks themselves classify a large proportion of the volume-driving non-resident customers as high risk. The share of transaction volumes for resident customers with non-resident beneficial owners that the subsidiary banks have classified as high risk have also been significant. Large parts of the Baltic subsidiary banks' operations have been exposed to an elevated risk of money laundering, therefore making the appropriateness of the design of the measures to combat money laundering particularly important.

Finansinspektionen's investigation shows that Swedbank has not had sufficient governance and control of the Baltic subsidiary banks in several aspects of its anti-money laundering work. Furthermore, Swedbank has not identified and managed the elevated compliance and reputational risks that some of these non-resident customers and resident customers with non-resident beneficial owners imposed on the group. In 2015, Swedbank did not identify the deficiencies that were inherent in the subsidiary banks' risk management and thus did not have control of the risks these deficiencies imposed on the group. Starting in 2016, Swedbank's management, CEO and Board of Directors repeatedly received information on deficiencies in the central pillars of the anti-money laundering work in the Baltic subsidiary banks. In addition to the regular reporting, several in-house reviews, special investigations and external reports have indicated serious risks and deficiencies. The investigation furthermore shows that there were insufficient resources and a lack of competence in the subsidiary banks' work to combat money laundering and roles and responsibilities have been unclear. Swedbank repeatedly received reports about these deficiencies but did not take sufficient action. Furthermore, the members of Swedbank's Board of Directors have not been sufficiently knowledgeable about the Baltic operations and associated risks. Swedbank has thus not met the requirements to identify, measure, govern, internally report and have control over the risks associated with its business.

The investigation also shows that Swedbank, both in the current investigation that began in April 2019 and in two previous cases in November 2016 and October 2018, did not fully provide the information that Finansinspektionen requested. In one case in March 2019, Swedbank also provided Finansinspektionen with false information.

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The investigation into the compliance of Swedbank's Swedish operations with the anti-money laundering regulatory framework covers the period 1 April–28 November 2018. The investigation shows that there were deficiencies in the bank's risk assessment of customers and the bank has not validated a model for customer risk classification. The investigation also shows that there were deficiencies in Swedbank's monitoring of ongoing business relationships.

The deficiencies have been of such a nature that Finansinspektionen assesses there to be grounds on which to intervene against Swedbank. The observed violations in the governance and control of the Baltic subsidiary banks' operations and the provision of information to Finansinspektionen are serious. There is therefore cause for Finansinspektionen to consider withdrawing the bank's authorisation. Swedbank, however, has implemented, and continues to implement, extensive changes to rectify the deficiencies. Finansinspektionen currently has no cause to assume anything other than that the violations observed in the investigations will not be repeated and that Swedbank will be able to successfully rectify the deficiencies. Given this background, Finansinspektionen deems it sufficient to issue Swedbank a warning. The warning is accompanied by an administrative fine of SEK 4,000,000,000.

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Contents

1 Background

1.1 The bank, the Group and its operations

Swedbank AB (Swedbank, the bank, or the parent bank) is a Swedish joint stock banking company authorised to conduct banking business under the Banking and Financing Business Act (2004:297). Swedbank is a full-range bank for both private and corporate customers. The bank conducts its business in a matrix organisation that consists of three business areas: Swedish Banking, Baltic Banking, and Large Corporates & Institutions. In addition to these business areas, there are also product areas and Group functions.

Swedbank is also the parent bank in the Swedbank Group and the bank's consolidated situation.[1] Swedbank defines Sweden, Estonia, Latvia and Lithuania as its four home markets.

During the years 1999–2004, Swedbank owned half of the shares in Hansabank AS. In 2005, Swedbank acquired the remaining shares in Hansabank AS and thus became one of the dominant actors on the banking markets in Estonia, Latvia and Lithuania. The operations in the three Baltic countries are managed through three wholly owned subsidiaries: Swedbank AS in Estonia, Swedbank AS in Latvia, and Swedbank AB in Lithuania (the Baltic subsidiary banks). In this decision, Swedbank and the Baltic subsidiary banks are referred to collectively as *the group*. The operations in the Baltic subsidiary banks comprise the business area Baltic Banking, which is the Swedbank Group's second-largest business area with almost as many customers in the Baltic countries as in Sweden. The business area represented approximately 23 per cent of the Group's operating profit in 2019.

In terms of the number of customers, the Baltic subsidiary banks are the largest bank in their respective countries. In 2019, the subsidiary banks' market shares for lending to private customers and corporate customers were 44 and 38 per cent, respectively, in Estonia, 33 per cent and 20 per cent, respectively, in Latvia, and 38 and 20 per cent, respectively, in Lithuania. The market shares for domestic payments were larger – 58 per cent in Estonia, 51 per cent in Latvia, and 50 per cent in Lithuania.

1.2 The investigations

Finansinspektionen's decision includes two investigations it conducted into Swedbank's operations.

[1] The bank's consolidated situation differs from the Group in some respects. For example, the insurance business is not included in the bank's consolidated situation.

1.2.1 Compliance with anti-money laundering regulatory framework in the bank's business area Swedish Banking (FI Ref. 18-21044)

In November 2018, Finansinspektionen opened an investigation into Swedbank's compliance with the Anti Money Laundering and Terrorist Financing Act (2017:630) (Anti-Money Laundering Act) and Finansinspektionen's regulations (FFFS 2017:11) regarding measures against money laundering and terrorist financing (anti-money laundering regulations).

The investigation included the bank's business area Swedish Banking and was limited to customers considered politically exposed persons (PEP customers) and natural persons who are customers in what is commonly called *private banking*, which includes asset management. The investigation included Swedbank's general risk assessment, customer risk assessment, procedures and guidelines for customer due diligence, monitoring and reporting, and customer due diligence for these customer categories. As part of the investigation, Finansinspektionen reviewed 30 random PEP customers and 30 random private banking customers (natural persons).

Finansinspektionen also reviewed the information Swedbank's compliance function submitted to the head of the business area Swedish Banking, the CEO and the Board of Directors.

The investigation covers the period 1 April–28 November 2018.

On 1 April 2019, Finansinspektionen held a meeting with Swedbank, at which the bank was asked additional questions.

Finansinspektionen then sent a verification latter[2] to Swedbank on 14 June 2019. The bank responded on 16 September 2019.

1.2.2 Governance and control of anti-money laundering measures in the Baltic subsidiary banks (FI Ref. 19-7504)

Finansinspektionen opened an investigation on 1 April 2019 into Swedbank's governance and control of anti-money laundering measures in the Baltic subsidiaries. During the course of the investigation, the scope was expanded to also include matters related to the bank's provision of information to Finansinspektionen.

The investigation has not considered the compliance of the Baltic subsidiaries with local anti-money laundering regulations since the respective supervisory authorities in Estonia, Latvia and Lithuania are responsible for this supervision.

[2] A verification letter is a written document that Finansinspektionen sends to a firm under investigation to verify facts.

The investigation also has not considered if and to what extent money laundering has occurred in the Baltic subsidiaries or if there are any grounds to suspect that money laundering has occurred. Such matters do not fall within Finansinspektionen's area of responsibility, and the authority cannot investigate such matters in other countries.

The investigation originally covered the period 2007–Q1 2019. This period was then limited to 2015–Q1 2019 (the period under investigation). The assessment Finansinspektionen makes in this decision, in other words, applies only to the latter period.

As part of the investigation, Finansinspektionen conducted an onsite visit at Swedbank. This visit started on 23 April 2019 and ended on 7 June 2019. Finansinspektionen also carried out investigative actions at the bank in the autumn of 2019. Finansinspektionen conducted a total of fourteen interviews as well with representatives from the bank's control functions, management, and Board, as well as former employees.

Finansinspektionen sent two verification letters to Swedbank on 15 July 2019. The first referred to the bank's governance and control of anti-money laundering measures in the Baltic subsidiary banks. The second requested verification of data that Finansinspektionen had requested and received as part of the investigation. The bank responded to the verification letters on 16 September 2019 and 4 October 2019, respectively.

The investigation is one of several supervisory activities that have been conducted as a cooperation between the supervisory authorities in Sweden, Estonia, Latvia and Lithuania.

Finansinspektionen has not investigated the governance, risk management, and control of measures to combat terrorist financing. Finansinspektionen has also not investigated compliance with the EU's sanctions regulations.

1.2.3 Common for both investigations

On 27 November 2019, Finansinspektionen sent a request for statement to Swedbank in each matter. The bank was thus given the opportunity to submit a statement regarding Finansinspektionen's observations and preliminary assessments and its considerations to intervene against the bank. Swedbank submitted its statement to Finansinspektionen on 20 December 2019. Finansinspektionen thereafter requested additional information from the bank and gave the bank an additional opportunity to submit a statement on certain issues.

1.3 Structure of the decision

In addition to this background section, the decision contains six main sections.

Section 2 presents a brief overview of the provisions Finansinspektionen applies in the decision. The applicable provisions themselves are presented in Appendix 2.

Section 3 presents a number of points of departure that can make reading and understanding the decision easier. These positions also are of importance for Finansinspektionen's assessments in the following sections.

Sections 4–6 present the observations Finansinspektionen made and its assessments of these observations. Sections 4 and 5 present the observations and assessments related to the investigation into the governance and control of anti-money laundering measures in the Baltic subsidiary banks, including the provision of information to Finansinspektionen (FI Ref. no. 19-7504). Section 6 then presents the observations and assessments related to the investigation into compliance with anti-money laundering regulations in Swedbank's business area Swedish Banking (FI ref. no. 18-21044). Each section also presents Swedbank's position and concludes with a summary assessment.

Section 7 concludes with a presentation of Finansinspektionen's considerations regarding intervention against Swedbank as a result of the observed violations.

2 Applicable provisions

In the investigations, Finansinspektionen applies provisions regarding governance and control, regulations regarding the provision of information to Finansinspektionen, and the anti-money laundering regulatory framework.

A more detailed description of the applicable provisions is set out in *Appendix 2*. Section 7 presents applicable provisions regarding intervention.

3 Points of departure

3.1 Risk-based approach in the anti-money laundering regulatory framework

Swedbank falls under the term "undertaking" in the Anti-Money Laundering Act and the term "firm" in the anti-money laundering regulations. In order to simplify the presentation, the following provisions that apply under the anti-money laundering regulatory framework are presented as applying to a bank, even if they also apply to other undertakings and firms.

Money laundering is a criminal activity where perpetrators misuse banks and other financial firms to move illicit proceeds, thus making the proceeds available for consumption and investments.

The anti-money laundering regulatory framework aims to prevent the misuse of financial operations for money laundering and terrorist financing and make it difficult for criminals to exploit the financial system for such activities. A bank must appropriately manage risks related to money laundering and terrorist financing. A failure to do so could not only make it possible for criminals to launder money but also negatively impact the confidence both Swedish consumers and actors in other countries doing business with or via Swedish financial institutions have in the bank itself and, by extension, the entire Swedish financial market. This in turn could have a negative impact on Sweden's reputation. The regulatory framework uses a risk-based approach, which means that banks must take measures that are proportionate to the risks of money laundering and terrorist financing to which they are exposed.

In order for a bank to be able to manage its risks, it must assess how the products and services provided by the business could be misused for money laundering and terrorist financing and how large the risk is that this would actually occur (general risk assessment). In their assessments, the banks must consider in particular their customers, distribution channels, and any geographical risk factors. Each bank must identify, understand, and assess the risks associated with the operations being misused for money laundering or terrorist financing. The general risk assessment must be designed such that it can serve as a basis for the bank's procedures, guidelines and other measures to combat money laundering. An insufficient risk assessment has a negative impact on how a bank prioritises its resources and designs its procedures for, for example, customer due diligence and transaction monitoring. These different steps are therefore linked to one another, so deficiencies in one could lead to deficiencies in another. In addition to its general risk assessment, that bank must also assess the risk associated with individual customers and the business relationship (the customer's risk profile).

In order to have good knowledge about their customers, banks must implement measures to perform customer due diligence when establishing a business relationship. The term *business relationship* refers to a commercial relationship that is expected at the time it is established to have a certain permanence, but it can also arise through the actual actions of the parties. A bank may not establish or maintain a business relationship or carry out a single transaction if the bank does not have sufficient knowledge about the customer to be able to manage the risk of money laundering that can be associated with the relationship. If there is a high risk of money laundering or terrorist financing, the bank must apply enhanced measures in its customer due diligence. The documents obtained and the information about the measures taken to achieve customer due diligence must be stored securely at the banks.

Banks must also monitor their business relationships and transactions in order to be able to identify activities and transactions that can be suspected to constitute money laundering or terrorist financing. If suspicions remain following more in-depth analysis, the information about all of the circumstances that could indicate money laundering or terrorist financing must be submitted without delay to the Financial Intelligence Unit of the Swedish Police, which is responsible for intelligence activities in this area.

3.2 Risks

3.2.1 Several risk-related terms

The risk that is regulated by the Anti-Money Laundering Act is the risk that the bank will be misused for money laundering. This risk is also called *money laundering risk*. In order to combat money laundering, acts and regulations require financial firms, among others, to assess, mitigate and monitor their money laundering risks.

The banks are required to identify, measure, govern, internally report and exercise control over the risks associated with their business according to Chapter 6, section 2 of the Banking and Financing Business Act. Risk refers to the probability that an undesired event will occur (Bill 2002/03:139 p. 278). For a bank, there can be a general risk that the bank will incur financial losses.

Deficiencies in a bank's anti-money laundering work can lead to *compliance risks*. These risks are associated with the bank not complying with applicable regulations and any resulting consequences, for example sanctions and other penalties from authorities such as a ban on conducting certain activities or withdrawn authorisation for all or parts of the business. Banks must manage the compliance risks through their risk management systems (see more in section 3.3).

Another example of such a risk is *reputational risk*. Reputational risk refers to a risk that can be assumed to lead to a drop in confidence in the bank and, by extension, financial damages. If reputational risk materialises, in other words if the bank's good reputation is actually damaged, this can, for example, cause the bank's share price to fall or the bank to lose customers, partners and staff and find it difficult to replace them. Reputational risk can also affect the bank's operations or parts of them. Depending on its causes, reputational risk could make the bank's funding more expensive and, in a worst-case scenario, the bank may find it difficult to raise funds in the market. A bank that is being misused or is suspected of being misused for money laundering runs the risk of customers and other stakeholders, as well as the general public, losing confidence in it. Such a scenario could arise without a concrete suspicion that the bank is being misused for money laundering; the money laundering risk

could rise simply if there is evidence of deficiencies in the bank's anti-money laundering work. The bank must manage reputational risk within its risk management system in the same way as it manages all other risks associated with its business.

There is often a link between compliance risks and reputational risks in that a bank which is non-compliant and becomes the object of an investigation, and perhaps an intervention, by an authority also suffers a loss of reputation.

3.2.2 Money laundering risks

According to Article 8(1) of the EU's Fourth Anti-Money Laundering Directive [3], banks must take appropriate measures to identify and assess the risks of money laundering and terrorist financing. The banks should take into account risk factors relating to their customers, countries or geographic areas, products, services, transactions or distribution channels. These measures should be proportionate to the nature and size of the business. In Sweden, the provision has been implemented through Chapter 2, section 1 of the Anti-Money Laundering Act.

Regional money laundering risks

Banks and other firms subject to the anti-money laundering regulatory framework are responsible for identifying and managing the money laundering risks to which they are exposed. Several Swedish banks are large in the Nordic region and the Baltic countries, and Sweden is a regional financial hub. The Financial Action Task Force (FATF)[4] highlights this in particular as a vulnerability for money laundering risks.[5] This means that both Swedish authorities and firms must understand and take into account the regional money laundering risks in Sweden and its neighbouring countries.

The Baltic states, much like Sweden and many other countries, are exposed to money laundering risks linked to other countries. This applies in particular to exposures attributable to neighbouring countries in the region, including the

[3] Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, amending Regulation (EU) No 648/2012 of the European Parliament and of the Council, and repealing Directive 2005/60/EC of the European Parliament and of the Council and Commission Directive 2006/70/EC.
[4] The Financial Action Task Force (FATF) is an intergovernmental body that is tasked with establishing international standards and promoting the effective implementation of legislation, other regulations, and operational measures to combat money laundering, terrorist financing and other related threats to the integrity of the international financial system.
[5] FATF, Anti-money laundering and counter-terrorist financing measures, Mutual Evaluation Report Sweden, April 2017.

members of the Commonwealth of Independent States (CIS)[6], which according to the Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL) are vulnerable to economic crime, e.g. corruption. For example, MONEYVAL's evaluation of Latvia asserts that Latvia's geographical location and the country's membership in the EU combined with the Latvian financial firms' ability to offer services in Russian make it particularly attractive for non-resident customers from neighbouring countries in the region.[7] According to MONEYVAL's evaluation of Estonia from 2014, risk assessments from the Estonian supervisory authority and the Estonian Financial Intelligence Unit highlight that financial firms conducting business with customers from certain neighbouring countries are considered to pose one of the largest money laundering risks in the country.[8]

Non-resident customers could mean greater money laundering risk

Both the Fourth Anti-Money Laundering Directive and the European supervisory authorities' joint guidelines for risk factors[9] provide examples of risk-enhancing factors that banks must take into account in their risk assessments. Countries that have significant corruption or other crime, as well as countries that are subject to sanctions, embargoes, or similar measures, are included as situations that potentially entail an elevated risk.[10] Business relationships with no personal contact, customers who do not reside in the country, and customers who live in or receive money from operations in jurisdictions associated with elevated risk for money laundering are examples of additional factors that can increase the risk.[11]

Article 13 of the Fourth Money Laundering Directive states that banks must take measures to comply with the requirements on customer due diligence, in part by determining the purpose of the business relationship. In Sweden, the provision has been implemented through Chapter 3, section 12 of the Anti-Money Laundering Act. This is particularly relevant for non-resident customers who do not have a clear link to the banks' local markets since they, as mentioned, can represent an elevated risk of money laundering. *Non-resident*

[6] The Commonwealth of Independent States mainly consists of the previous Soviet republics.
[7] MONEYVAL, 2018, Fifth Round Mutual Evaluation Report, Anti-money laundering and counter-terrorist financing measures, Latvia, p. 8.
[8] MONEYVAL, 2014, Report on Fourth Assessment Visit, Anti-Money Laundering and Combating the Financing of Terrorism, Estonia, pp. 9, 18 and 105.
[9] Joint Guidelines under Articles 17 and 18(4) of Directive (EU) 2015/849 on simplified and enhanced due diligence and the factors credit and financial institutions should consider when assessing the money laundering and terrorist financing risk associated with individual business relationships and occasional transactions, 2018-01-04.
[10] See Article 18(3) and Annex III(3)(b) and (c) of the Anti-Money Laundering Directive.
[11] The joint guidelines for risk factors, pp. 104, 147 and 148.

customers refers here to private individuals who reside in, or firms registered in, a different country than where the bank is established.

Just like non-resident customers, *domestic customers with non-resident beneficial owners* can also constitute an elevated risk of money laundering. Through local establishment in the country where the bank relationship is desired, it can appear that a non-resident customer is a resident customer. When a beneficial owner in another country exercises control over the firm, through direct ownership or a chain of firms, the firm represents a risk similar to if the firm had been registered in the same country as the beneficial owner. According to the FATF, criminal activities commonly register, own and operate firms in several different countries, thus complicating transparency and control.[12]

Large volumes can mean elevated money laundering risk

The joint guidelines for risk factors also state that the large volumes of transactions and business relationships at retail banks make their operations vulnerable to money laundering. The large volume of transactions and business relationships can make it particularly challenging to identify risks for money laundering that are related to individual business relationships and detect suspicious transactions. The guidelines furthermore state that unusually large volumes or transaction values can increase the risk of money laundering.[13]

3.3 Parent bank and money laundering risks in a subsidiary

3.3.1 Parent bank's responsibility to govern its subsidiary banks

A credit institution is required to identify, measure, govern, internally report and exercise control over the risks associated with its business according to Chapter 6, section 2, first paragraph of the Banking and Financing Business Act. The institution must also ensure that it has satisfactory internal control.

As set out in section 3.2.1, a risk for a bank is said to be the probability that an undesirable event occurs, and for a bank a general risk can be said to be the danger of financial loss. With this definition of risk, there are many risks in a bank's various operations. The preparatory works for the Banking and Financing Business Act state that the business rules should aim to limit total risk-taking and that the main ambition of the rules should be that the institutions build up functional systems for risk management. This means identifying which risks are present, directing the business's development, and actively taking advantage of risk-mitigating opportunities. A fundamental component of a good risk management system is functional information channels (Bill 2002/03:139 p. 278).

[12] FATF Guidance "Transparency and Beneficial Ownership", p. 6, October 2014.
[13] The joint guidelines for risk factors, Chapter 2, points 96–98 and others.

The provision in Chapter 6, section 2, first paragraph of the Banking and Financing Business Act provides the framework that is then in several respects specified in more detail in Finansinspektionen's regulations and general guidelines (FFFS 2014:1) regarding governance, risk management and control in credit institutions (hereafter referred to as FFFS 2014:1).

These regulations contain provisions regarding, for example,

- general organisational requirements (Chapter 2),
- the responsibility of the board of directors and the managing director (Chapter 3),
- risk management and risk reporting (Chapter 5),
- independent control functions and their reporting obligations and the board of directors' and the managing director's obligation to take measures ensuing from the control functions' report (Chapter 6), and
- compliance (Chapter 8).

Chapter 3, section 4 of the Special Supervision at Credit Institutions and Securities Companies Act (2014:968) (the Supervision Act) states that parent undertakings or subsidiaries that are subject to supervision under the act must meet the requirements set out in Chapter 6, section 2, first paragraph of the Banking and Financing Business Act at a group or subgroup level. Correspondingly, Chapter 1, section 1, fourth paragraph of FFFS 2014:1 states that the regulations, in accordance with that set out in Chapter 3, section 4 of the Supervision Act, must be applied at group or subgroup level.

Section 1.1 specifies that Swedbank is the parent bank in the Swedbank Group and the bank's consolidated situation. The parent bank and the Baltic subsidiary banks, of which the parent bank owns 100 per cent, are part of both the Group and the consolidated situation. Since Chapter 6, section 2, first paragraph of the Banking and Financing Business Act and FFFS 2014:1 apply at the group level, the parent bank is responsible for the risk management at the group level, including governance and control. The parent bank is also responsible for ensuring that the bank and the Group are organised as required for them to be able on an ongoing basis to govern and exercise control over the risks the bank is or can be exposed to at the group level through ownership of the subsidiary banks.

Swedbank has stated that money laundering risk on its own does not constitute a risk covered by Chapter 6, section 2, first paragraph of the Banking and Financing Business Act. Finansinspektionen considers a suspicion or occurrence of deficiencies in anti-money laundering work in a subsidiary to potentially give rise to compliance and reputational risks that the parent bank must manage pursuant to Chapter 6, section 2 of the Banking and Financing Business Act. This responsibility entails, for example, that the parent bank must identify the risks in the subsidiary banks and ensure that the subsidiary

banks, in turn, take measures to manage their risks and deficiencies. If the parent bank receives reports about deficiencies in the subsidiary banks, the parent bank must react and may not remain passive. For example, if the parent bank establishes a group control function, the reporting channels must be clear and effective. If the control function reports deficiencies in the subsidiary bank, for example, the report must be handled by the board of directors and the managing director of the parent bank.

Swedbank has primarily asserted the following with regard to the application of Chapter 6, section 2, first paragraph of the Banking and Financing Business Act, FFFFS 2014:1, and Chapter 3, section 4 of the Supervision Act. The framework provision set out in Chapter 6, section 2, first paragraph of the Banking and Financing Business Act applies to a credit institution's management of the risks associated with each institution's own business, i.e. the business operated by the specific legal entity. The Banking and Financing Business Act prescribes no obligation to a credit institution to ensure that its subsidiaries are applying the framework provision. The provision set out in Chapter 3, section 4 of the Supervision Act corresponds to Article 109(2) of the Capital Requirements Directive (CRD)[14], which prescribes that parent undertakings and subsidiaries subject to the Directive must fulfil the requirements on governance arrangements, risk management and internal control on a consolidated and sub-consolidated basis. According to the article, the competent authorities must require that the parent undertaking fulfil the requirement in some parts of the Directive on a consolidated basis to ensure that the parent undertaking's and its subsidiaries' governance arrangements, processes and mechanisms are consistent and well-integrated.

Swedbank has further asserted the following. The Act and the Directive express an obligation for a parent undertaking to ensure that subsidiaries implement arrangements, processes and mechanisms that make it possible to identify, measure, govern, internally report, and exercise control over the risks associated with the parent undertaking's business through the ownership of the subsidiaries, i.e. internal rules that are easily accessible to the parent undertaking and facilitate the supervision on a consolidated basis. The preparatory works for the provision clarify that "unlike what applies with regard to the Directive's requirements on an internal process for assessing capital requirements, there is no assumption that a certain institution in the group is formally responsible for ensuring that the group fulfils the requirements [...]. Instead, the supervisory authority must require that the parent undertakings and the subsidiaries fulfil the requirement on a consolidated and sub-consolidated basis." A consolidated situation, like a group, is not a legal entity with legal capacity, but rather a collective that

[14] Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

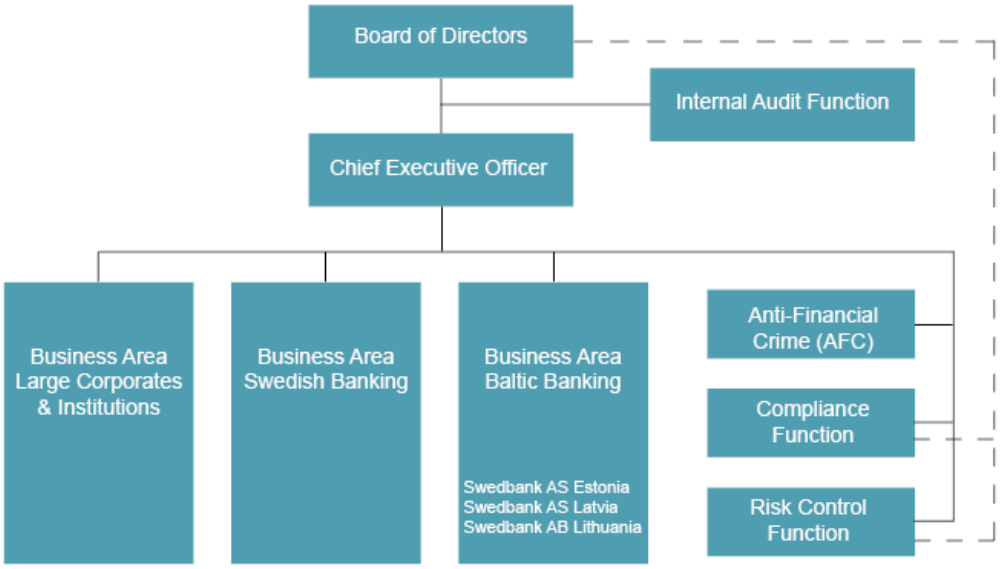
consists of a number of separate and legally independent legal entities, each with its own decision-making body, which in some cases are also subject to foreign law, which can deviate from Swedish law. Every company in the Swedbank Group has an individual and independent responsibility to follow the laws and ordinances that apply in the countries where each company is present. Limiting the legal responsibility for a single legal entity's obligations to that legal entity and not allowing closely related legal entities to become "infected" is a cornerstone of Swedish law – and of many other jurisdictions – that may only be deviated from under very special circumstances, which – with the occasional exception – are stipulated by law. In its role as a shareholder, the parent bank has the ability to choose the subsidiary banks' boards and issue general directives and instructions. A board of directors in a subsidiary bank, however, is not legally obligated to follow the directives and instructions of the parent bank but must place them in relation to the subsidiary bank's own legal responsibility and applicable local laws and regulations. The board of directors in a wholly owned subsidiary bank is not only legally responsible to the subsidiary's shareholders (i.e. the parent bank) but also to other stakeholders, such as the subsidiary bank's supervisory authority, employees, creditors and society at large. From a strictly legal perspective, the parent bank is not automatically entitled to decide over the administration of a subsidiary bank's matters, but can only do so indirectly by appointing board members and issuing general directives and instructions as part of the exercise of its rights as the owner. A parent company's responsibility in terms of opportunities to govern and intervene in its subsidiary's operations on commercial grounds can legally not extend further than that which follows from applicable association law.

According to Swedbank, the term *governance and control* in Chapter 6, section 2 of the Banking and Financing Business Act has no link to a parent undertaking's general possibilities for influencing the focus of a subsidiary's operations, i.e. such governance and control that is related to corporate governance, which is something else.

As indicated by Swedbank, the subsidiary banks are independent legal entities in relation to the parent bank and have their own boards of directors and management, which naturally have a responsibility to protect not only the interests of the parent bank but also other interests such as those of creditors, the fact that the parent bank and the subsidiary banks are active on different markets, and that they are subject to the supervision of different authorities. Finansinspektionen makes the assessment, though, that a parent undertaking's responsibility is particularly important in wholly owned subsidiaries since the parent undertaking's interests in such cases should normally be the same as the subsidiary's interests, and risks and deficiencies in a subsidiary can have an impact on the parent undertaking. It is obvious in any case that the parent bank and a subsidiary bank cannot have conflicting interests when it comes to combating money laundering and terrorist financing. A parent undertaking bears a responsibility in relation to its subsidiaries within the same group, particularly in matters that are important for determining the financial

circumstances within the subsidiaries. This is also supported by legal precedence (see the Supreme Administrative Court's ruling in case HFD 2013 ref. 74).

The Swedbank Group's legal structure consists of a large number of legal entities, including the three Baltic subsidiary banks. According to Swedbank, an effective operational structure is key for the governance of the Group. The Group structure provides the frameworks for roles, functions, and reporting channels. The Group structure is divided into business areas, product areas, and Group units and functions, i.e. a so-called matrix organisation. Relevant parts of Swedbank's matrix organisation are presented in simplified form in the following picture.[15]



According to Swedbank, the matrix organisation was created to enable the parent bank to exercise general governance, control, and risk management in the Group's operations. To safeguard Swedbank's governance of the subsidiary banks, there are processes, procedures and controls established within the group. This provides the parent bank with assurance that the subsidiary banks are following the Group regulatory framework.

Where the group consists of different legal entities, according to Swedbank the direct owner responsibility is exercised by appointing competent employees from the parent bank in the Baltic subsidiary banks' boards of directors and by

[15] Anti-Financial Crime (AFC) is a Group unit established by the bank in April 2019. AFC is working to combat economic crime. The head of the AFC reports directly to the CEO and is part of Group management. Before the AFC was established, there was a Group unit called Group Security Investigations (GSI) that was established in 2017. GSI worked to combat financial crime and money laundering. The head of the GSI reported directly to the CEO and was not part of Group management.

issuing instructions. According to Swedbank, the parent bank's governance and control is further safeguarded through Group functions and the subsidiary banks' access to the parent bank's resources and expertise. The subsidiary banks, for example, in consultation with the parent bank, submit requests regarding their need for resources to be able to meet regulatory requirements and other requirements originating from the bank's internal targets. The subsidiary banks follow up that they have received the resources. There is also an escalation model if the requirements cannot be met. Finansinspektionen notes, however, that in reality the parent bank decides which resources the subsidiary banks receive. Finansinspektionen therefore makes the assessment that if the subsidiary banks are not allocated resources, it is ultimately the parent bank's responsibility since the parent bank governs the matrix organisation.

Swedbank governs, through the matrix organisation, its Baltic subsidiary banks in the Baltic Banking business area. The head of the business area is part of Group management and reports to the CEO of the parent bank. During the period under investigation, the head of the business area was also the chair of the board of directors in each Baltic subsidiary bank. Swedbank also has a Group function for compliance. The head of the compliance function is part of Group management and reports to the CEO of the parent bank (refer also to section 4.2.1). It is also inherent in the matrix organisation that there are double reporting channels: in the legal structure and in the Group's matrix structure, for example. One example of this in the Swedbank Group is that the head of the compliance function for each of the Baltic subsidiary banks reports to both the Group compliance function and the head of the Baltic subsidiary bank.

Swedbank has reported that the bank's corporate governance model has not functioned as the bank intended in all respects and that it will therefore review the model.

The Estonian Supervisory Authority has in its inspection registered remarks regarding the governance exercised by Swedbank, and has considered that the subsidiary bank in Estonia has not been permitted to act independently and acted mostly as a branch, whilst the parent bank has not provided the support needed to the subsidiary bank.

Swedbank has chosen to have and exercise the ultimate responsibility for compliance by establishing a matrix organisation that basically does not allow the subsidiary banks any possibility in practice to combat money laundering effectively on its own. Furthermore, both the head of the compliance function and the head of the internal audit function report directly to both the CEO and the Board of Directors of Swedbank regarding deficiencies in the Baltic subsidiary banks' anti-money laundering work. As described in section 4.2.1, several in-house reviews and special investigations of the work to combat money laundering in the Baltic subsidiary banks and an action program to

rectify deficiencies in this work report directly to Swedbank's CEO. Given this background, Finansinspektionen notes in summary that deficiencies in the subsidiary banks can lead to compliance and reputational risks at the group level, which the parent bank is responsible for managing in order to meet the requirement on internal governance and control set out in Chapter 6, section 2, of the Banking and Financing Business Act, in conjunction with Chapter 3, section 4 of the Supervision Act and in accordance with the applicable provisions in FFFS 2014:1 together with Chapter 1, section 1, fourth paragraph of the same regulations. If Swedbank were hindered by association law to maintain the required effective governance and control, the solution is not for the bank to disregard the requirements imposed by law but rather to choose some other form of organisation or association that would offer the possibility of ensuring that it is not in violation of the regulations. Finansinspektionen rejects Swedbank's assertion that the scope of responsibility for regulatory violations in the subsidiary banks is so narrow that this in reality would mean that the Swedbank Group cannot effectively combat money laundering.

In the following, where the assessment is made that Swedbank has not fulfilled its obligation to manage the risks in this way, Finansinspektionen expresses this by stating that the bank has not fulfilled at the group level the requirements set out in applicable provisions.

3.3.2 Parent bank's obligation to manage risks at the institutional level

In addition to the risks that must be managed at the group level in accordance with that set out above, risks in a subsidiary bank can also lead to risks in the parent bank at the institution level. The risks in the parent bank can arise in different ways. Realised compliance and reputational risks in the subsidiary bank can affect, for example, the subsidiary bank's value or earnings and thus the parent bank's balance sheet and profit and loss statement. Furthermore, the risks in the subsidiary bank can result directly in compliance and reputational risks in the parent bank. The parent bank must manage both of these types of risks according to Chapter 6, section 2 of the Banking and Financing Business Act in accordance with applicable provisions in FFFS 2014:1. In the following, where the assessment is made that Swedbank has not complied with these provisions, Finansinspektionen expresses this by stating that the bank has not fulfilled at the institution level the requirements set out in applicable provisions.

4 Governance and control

4.1 Exposures to risks linked to certain groups of customers and transactions

As part of its investigation, Finansinspektionen received information (data) about the Baltic subsidiary banks' operations, including information about the

subsidiary banks' exposures and transaction volumes for various customer groups.

4.1.1 Subsidiary banks' transaction volumes and exposures to non-resident customers

At the end of 2018, there were approximately 2.1 million customers in the Lithuanian subsidiary bank and 1.3 million customers each in both the Estonian subsidiary bank and the Latvian subsidiary bank.[16] Most of these customers were resident private and corporate customers. Non-resident customers (i.e. private individuals residing in, or firms registered in, a country other than each subsidiary bank's respective home market) represented only about 1 per cent of all customers during the years 2007–2018.

Even though the non-resident customers represented a small share of the total number of customers, they represented a significant share of the deposits and transaction volumes in both the Estonian and the Latvian subsidiary banks (see Diagrams 1 and 2). Among non-resident customers, corporate customers dominated the transaction volumes and represented on average around 95 per cent of the total non-resident volumes.

As presented in Section 3.2.2, non-resident customers and resident customers with non-resident beneficial owners may represent an elevated money laundering risk, as do large volumes of transactions and business relationships and high-value transactions. At the same time, it is also natural for there to be fully legitimate reasons for a non-resident customer or a resident customer with a non-resident beneficial owner to conduct business transactions through local banks. Firms conducting legitimate operations and business-related transactions are also in all likelihood included in the data on customers and transaction volumes.

[16] The data includes all customers in the Baltic subsidiary banks, including so-called temporary customers. Therefore, the number of customers is higher than the figures stated in Swedbank's annual report.

Diagram 1. Non-resident customers' share of total deposits.

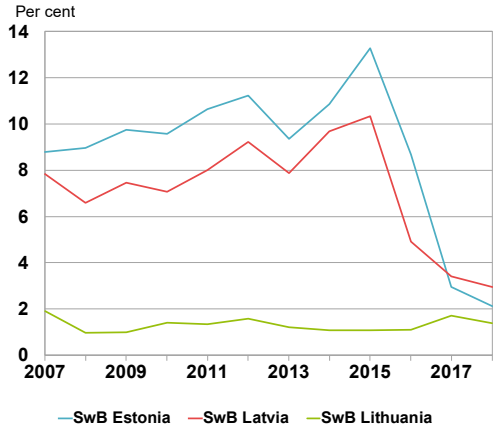
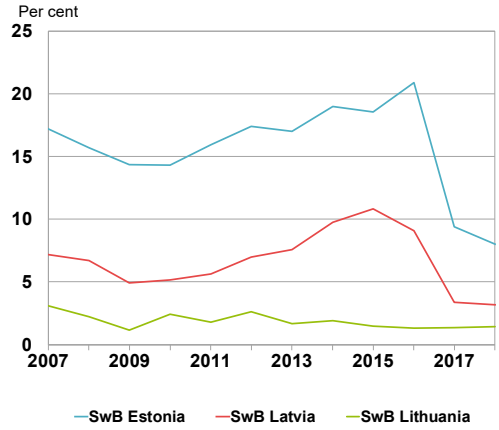


Diagram 2. Non-resident customers' share of total transaction volumes.



In the Estonian subsidiary bank, non-resident customers represented at the most 13 per cent of total deposits and roughly 20 per cent of the subsidiary bank's total annual transaction volume. The subsidiary bank's exposure to non-resident corporates increased during the period 2011–2016. The total transaction volumes in the subsidiary bank increased by almost 25 per cent, and non-resident customers represented around half of the volume increase in absolute figures. During the period, Swedbank made the assessment that at least 30 per cent of the non-resident customers' transaction volumes in the Estonian subsidiary bank went to or from several of the countries the bank itself classified as high-risk countries (Belarus, Cyprus, Russia and Turkey).[17]

The Latvian subsidiary bank's exposure to non-resident customers demonstrated a similar trend to the Estonian subsidiary bank's, but at lower levels. Prior to 2016, non-resident customers represented at the most just over 10 per cent of both deposits and the transaction volumes in the Latvian subsidiary bank.

In the Lithuanian subsidiary bank, non-resident customers had low deposits and transaction volumes, both in comparison to the Estonian and Latvian subsidiary banks and in relation to the Lithuanian subsidiary bank's total transaction volume

4.1.2 Swedbank classified a large portion of the non-resident customers as high risk

The Estonian and the Latvian subsidiary banks have themselves classified a large portion of the non-resident customers with large transaction volumes as constituting a high risk of money laundering. Finansinspektionen has used the

[17] Finansinspektionen received data for the ten largest counterparty countries for the period 2007–2018, which includes Belarus, Cyprus, Russia and Turkey. These countries are part of the category of countries the bank has classified as high risk.

subsidiary banks' own definitions of what constitutes a high risk for money laundering, and these definitions have differed depending on the period and subsidiary bank in question. This section, therefore, does not attempt to provide an exact representation of the data but rather aims to only provide a general overview to assess whether there were any risk factors that Swedbank should have considered in particular.

In the Estonian subsidiary bank, non-resident customers classified by the subsidiary bank as high risk represented 10 per cent of the subsidiary bank's total deposits (Diagram 3). Through 2016, between 70 and 90 per cent of non-resident customers' transaction volumes were attributable to customers classified as high risk, predominantly corporate customers. These customers represented just over 0.5 per cent of the subsidiary bank's total corporate customers but at the most for around 15 per cent of the Estonian subsidiary bank's total transaction volumes (Diagram 4). In the Latvian subsidiary bank, the volumes attributable to customers classified as high risk by the subsidiary bank were lower. Through 2016, these customers were responsible for between 60 and 75 per cent of non-resident customers' transaction volumes.

Diagram 3. Percentage of total deposits linked to non-resident customers classified as high risk.

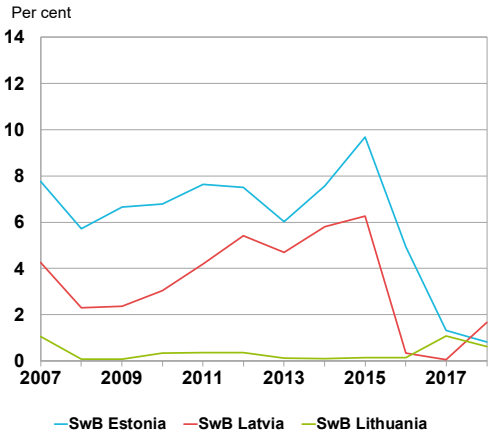
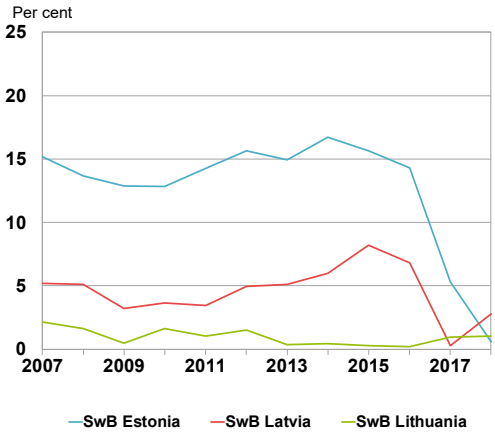


Diagram 4. Percentage of total transaction volume linked to non-resident customers classified as high risk.



During the years 2016–2018, the exposures to non-resident customers in the Latvian and the Estonian subsidiary banks decreased. In 2017, non-resident customers' transaction volumes fell by more than half, largely among customers classified as high risk. A new risk classification system was introduced within the group in 2017, and it was implemented in the Estonian subsidiary bank in the same year. Customers were then classified in accordance with the new internal rules, which resulted in more customers being classified as high risk. Despite this, deposit and transaction volumes from customers classified as high risk continued to decrease during the period. In the Lithuanian and the Latvian subsidiary banks, the group's new risk classification system was introduced in 2017 and 2018, respectively. Because a

larger number of customers were classified as high risk, the deposit and transaction volumes from these customers increased slightly in conjunction with the implementation.

4.1.3 Resident customers with non-resident beneficial owners

Just like non-resident customers, resident customers with non-resident beneficial owners can be associated with elevated risks of money laundering, although this customer group also undeniably conducts legitimate business. The potential risks are related to the beneficial owner's geographical domicile and the nature of the business. Swedbank has stated that for the years 2007–2015 the subsidiary banks have not had access to data about customers' beneficial owners in a machine-readable format. For the period in question, the subsidiary banks only had access to such information in the form of scanned PDF documents or paper documents. Therefore, Finansinspektionen only received aggregate data regarding resident customers with one or several non-resident beneficial owners for the years 2016–2018 for the subsidiary banks in Estonia and Latvia and for the years 2017–2018 for the subsidiary bank in Lithuania. Swedbank has not been able to describe its exposures prior to this.

The existing data for the years 2016–2018 shows that the Baltic subsidiary banks have had significant exposures in terms of transaction volumes to resident customers with at least one non-resident beneficial owner. These corporate customers represented on average 25 per cent of the total transaction volumes in the Estonian subsidiary bank and around 15 per cent in both the Latvian and the Lithuanian subsidiary banks.

In the Latvian and the Lithuanian subsidiary banks, around 60 per cent of the transaction volumes from resident customers with non-resident beneficial owners in 2018 can be attributed to customers that subsidiary banks have classified as high risk, according to the new risk classification system that the Baltic subsidiary banks introduced in the years 2017 and 2018. In the Estonian subsidiary bank, the corresponding figure is just over 30 per cent for 2018.

4.1.4 Finansinspektionen's assessment

The description of non-resident customers and their respective shares of deposits and transaction volumes shows that, at least in parts of the Baltic business area, they are responsible for a significant portion of the subsidiary banks' business volumes, particularly with regard to transaction volumes. The description also shows that these transaction volumes increased sharply up to 2016 and thereafter fell sharply. The subsidiary banks themselves classify a large proportion of the volume-driving non-resident customers as high risk. For resident customers with non-resident beneficial owners, there is no data available prior to 2016 or 2017. This means it is not possible to comment on any trend. This also means that the bank has had minimal opportunities to

analyse its exposures to non-resident beneficial owners. However, it is clear that the transaction volumes for resident customers with non-resident beneficial owners that the bank has classified as high risk have been significant.

Given this, Finansinspektionen considers large parts of Swedbank's subsidiary banks' operations to have been exposed to an elevated risk of money laundering. The subsidiary banks themselves have classified a strikingly large share of their non-resident corporate customers and resident corporate customers with beneficial owners as high risk. Subsequently, it has been of key importance for the Swedbank Group to design appropriate anti-money laundering measures.

4.2 Governance and control of the Baltic subsidiary banks

As outlined in section 4.1, the Baltic subsidiary banks had a relatively small share of non-resident customers in relation to total customers during the years 2007–2018. However, up to 2016–2017, the non-resident customers represented a relatively large, and increasing, share of the total transaction volumes in the subsidiary banks in Estonia and Latvia. All else equal, such exposures in the subsidiary banks increase the risk of money laundering, even if the individual customers do not necessarily entail a high risk of money laundering. Customers that the subsidiary banks themselves classified as high risk have also represented the majority of the non-resident customers' transaction volumes. The transaction volumes for resident customers with non-resident beneficial owners that the bank has classified as high risk have also been significant. During its investigations, Finansinspektionen has not been able to identify whether Swedbank has had a risk strategy for the group that includes the risk of money laundering. Finansinspektionen has also not been able to determine in its investigation whether Swedbank has had a special strategy for how the group should manage non-resident customers or resident customers with non-resident beneficial owners. Banks may have customers, products and services that are classified as having a high risk of money laundering, but this places high demands on the banks' risk management. For a bank with greater exposure to potential money laundering risks, any deficiencies in its work to combat money laundering could have more severe consequences than for a bank with a lower risk exposure. It is therefore particularly important for a bank with such a risk exposure to take measures to analyse and manage the risk of being misused for money laundering and have effective procedures and processes for risk identification, risk management and control. The anti-money laundering regulatory framework rests on three central pillars: risk assessment, customer due diligence, and monitoring and reporting. According to the framework, banks must assess, mitigate and monitor their risks. They must also work actively to identify and report suspicious activity. In order to govern and exercise control over the risks that the parent bank is or can be exposed to at the group level through its ownership of subsidiary banks, the parent bank must ensure, for example, that there are clear reporting

channels, procedures for rectifying any deficiencies, resources and expertise, systems, and a clear distribution of roles and responsibility.

Deficiencies in a subsidiary bank, as described in section 3.3.1, can give rise to compliance and reputational risks at the group level. The parent bank is responsible for managing these risks and fulfilling the requirement on internal governance and control set forth in Chapter 6, section 2 of the Banking and Financing Business Act, in conjunction with Chapter 3, section 4 of the Supervision Act, and in accordance with applicable provisions in FFFS 2014:1, together with Chapter 1, section 1, fourth paragraph of the same regulations. The same section also describes how risks in a subsidiary bank can also give rise to elevated risks in the parent bank at the institutional level and that the parent bank must manage these risks.

4.2.1 Finansinspektionen's observations

Organisation and reporting

The provisions set out in FFFS 2014:1 on how banks should organise their operations are based on the principles of three so-called lines of defence that were developed by the Committee of Sponsoring Organizations of the Treadway Commissions (COSO).[18] *The first line of defence* is composed of the business activities that perform the day-to-day risk management, i.e. the first line of defence owns and manages risks. *The second line of defence* should be independent and comprises the risk control function and the compliance function, which should, for example, conduct oversight of, control and report on the bank's risks and how the bank complies with internal and external regulations. *The third line of defence* consists of an independent internal audit function that reports directly to the board of directors, and, among other things, must conduct regular audits of both management's and the bank's internal controls, the work of the control functions, and the bank's risk management. The internal audit function's work also aims to contribute to consistent improvements within the organisation.

Swedbank has established centralised Group functions within all three lines of defence (see the matrix organisation in section 3.3.1). Within the first line of defence, Swedbank established during the period under investigation the Group unit GSI (Group Security Investigations), of which one of its duties was to combat financial crime and money laundering.

Within the second line of defence, the Group control functions perform activities related to the business units. Swedbank has a Group compliance function that is run by the head of the compliance function. This role reports directly to the CEO. Within the Group compliance function, there was a

[18] See Decision Memorandum, FI Ref. 11-5610, particularly pp. 10 and 41.

compliance function for Baltic Banking. This function existed during the period under investigation until 2018. The head of the compliance function for this business area reported directly to the head of the Group compliance function. Within the compliance function, there were also compliance functions for each subsidiary bank. The head of each subsidiary bank's compliance function reported directly to the head of the compliance function for Baltic Banking. The Group compliance function was reorganised in 2018, and the head of each subsidiary bank's compliance function began to report directly to the head of the Group compliance function. The local compliance function also reported to the local Head and Board of Directors of the subsidiary. Swedbank also has a Group function for independent risk control that is headed by the Chief Risk Officer. The Chief Risk Officer also reports directly to the CEO. During the period under investigation, the control functions' regular reporting to the bank's CEO and Board of Directors occurred at least quarterly.

Swedbank has also established a Group internal audit function within the third line of defence, which organisationally is placed directly under the bank's Board of Directors. The head of the internal audit function reports directly to the Board of Directors. During the period under investigation, the regular reporting from the internal audit function to the bank's Board of Directors occurred quarterly.

Both the head of the compliance function and the head of the Baltic Banking business area were part of Swedbank's Group management during the period under investigation.

The following table shows the resources (number of full-time employees, FTEs) the group allocated within the first and second lines of defence to the Baltic subsidiary banks for their work to combat money laundering.

Resources allocated to the work to combat money laundering in the years 2015–2019

First line of defence (Local business units and group unit)	2015	2016	2017	2018	2019
Swedbank Estonia	0	4	13	42	66
Swedbank Latvia	0	0	15	55	75
Swedbank Lithuania	0	0	5	43	76
Total	*0*	*4*	*33*	*140*	*217*

Second line of defence (Group function)	2015	2016	2017	2018	2019
Group AML Compliance*	0	0	0	3	3
Swedbank Estonia	5	5	5	5	3
Swedbank Latvia	7	14	15	4	4
Swedbank Lithuania	5	5	5	5	4
Total	*17*	*24*	*25*	*17*	*14*
Total first and second line of defence	***17***	***28***	***58***	***157***	***231***

*Allocated to business area Baltic Banking

The table shows that prior to 2016 there were no employees dedicated to the work to combat money laundering within the first line of defence in the Baltic subsidiary banks. The total number of FTEs within the first and second lines of defence dedicated to the Baltic operations increased from 17 in 2015 to 231 in Q1 2019.

During the period under investigation, all three lines of defence reported repeatedly to Group management (management), the CEO or the Board of Directors in the parent bank on deficiencies in the Baltic subsidiary banks' work to combat money laundering. In addition to the regular reporting from the three lines of defence, Swedbank also conducted several in-house reviews and special investigations specifically due to concerns that the subsidiary banks may have been misused for money laundering. Swedbank also received information about risks and deficiencies in the subsidiaries' work to combat money laundering from external parties, such as supervisory authorities, correspondent banks, and the media.

2015

Regular reports on deficiencies from the first, second, and third lines of defence to Swedbank's management, CEO and Board

In 2015, neither the first nor the second line of defence reported to the management, CEO, or Board of the parent bank any deficiencies in the Baltic subsidiary banks' work to combat money laundering. The lines of defence also did not report insufficient resources and lack of expertise or ambiguities with regard to roles and responsibilities in the Baltic subsidiary banks' work to combat money laundering.

As presented below, in 2016, extensive deficiencies were reported in these areas. The deficiencies that were reported at that time, however, already existed prior to 2016 but were not reported.

In June 2015, the internal audit function audited how the compliance function for Baltic Banking conducted oversight and controls of the subsidiary banks' work to combat money laundering. The internal audit identified at that point a number of deficiencies in the function's oversight and controls. The compliance function, for example, during the period October 2014–June 2015, had neither performed parts of the function's work nor escalated that the work had not been performed. The internal audit function reported the audit to the head of the Baltic Banking business area, the head of the compliance function, and the Board of Directors, among others.

Actions taken

Up to 2016, the compliance function for Baltic Banking conducted limited oversight and controls of the day-to-day work to combat money laundering in the Baltic subsidiary banks, and the oversight and controls it did conduct of the work to combat money laundering identified no serious deficiencies. A former head of the compliance function stated in an interview that an employee was sent from the parent bank to the Baltic subsidiary banks in 2015 to evaluate the work to combat money laundering. This employee was sent because of a lack of confidence in the compliance function for Baltic Banking. The evaluation identified a number of serious deficiencies in the Baltic subsidiary banks' work to combat money laundering, which were subsequently reported to the CEO and the Board of Directors of Swedbank in Q1 2016. The evaluation also concluded that the compliance function for Baltic Banking was not sufficiently strong and independent.

Finansinspektionen notes that Swedbank's management, CEO and Board of Directors did not make any documented decisions in 2015 to take action.

2016

Regular reports on deficiencies from the first, second, and third lines of defence to Swedbank's management, CEO and Board

In 2016, reports were submitted about, among other things, the following. In Q1 2016, the compliance function reported for the first time to the CEO and the Board of Directors in Swedbank that there were extensive and severe deficiencies in the Baltic subsidiary banks' measures to combat money laundering. The deficiencies were related to risk assessment, customer due diligence, and monitoring (for example, transaction monitoring), which are pillars of the anti-money laundering regulations. The reports also stated that the Baltic subsidiary banks did not have a risk assessment of the money laundering risk, there were deficiencies in the compiling and validation of customer due diligence information, and the Baltic subsidiary banks used different tools to monitor transactions and all of these tools were more or less manual and insufficient. Given that the deficiencies were so extensive and severe, the function recommended that the bank start an action plan for the Baltic operations, "the Baltic AML Programme"[19] (see below under *Actions taken*).

The compliance function for Baltic Banking reported to the head of the compliance function that the implementation of a new transaction monitoring system in the Baltic subsidiary banks would be part of the Baltic AML Programme. The report states that the final date for the implementation of the system had been Q4 2016, but the expected implementation was now at the end of 2017.

The internal audit function also reported deficiencies in the customer due diligence process in the Baltic subsidiary banks and that extensive measures were needed to rectify the deficiencies. The audit was reported to the head of the Baltic Banking business area and the Board of Directors, among others.

The compliance function for Baltic Banking reported to the head of the Baltic Banking business area that there was a need to strengthen the competence in the anti-money laundering work in both the first and second lines of defence in the business area. The internal audit function also reported to Swedbank's Board of Directors that the Group's resources in the work to combat money laundering had not been focused on the bank's Baltic operations. Furthermore, the compliance function reported to the Baltic Banking business area's risk and compliance committee that resources in the bank's Baltic operations were insufficient within the compliance function and that additional resources were necessary to be able to carry out appropriate measures to combat money laundering.

[19] AML stands for anti-money laundering.

Furthermore, the compliance function reported to the head of the Baltic Banking business area that the organisation at that time and the unclear distribution of roles and responsibilities had resulted in the compliance function in part acting as the first line of defence, meaning that it had not been able to conduct independent oversight and controls within certain areas.

The joint report from the function for independent risk control and the compliance function that was submitted to the CEO of Swedbank states that the line between the operations (first line of defence) and the compliance function was unclear.

In-house reviews and special investigations

In 2016, Swedbank conducted the following reviews.

Panama papers

At the beginning of 2016, the media disclosed that a very large number of documents had been leaked from the law firm Mossack Fonseca in Panama. The documents were said to show that a large number of people had hidden assets using so-called shell companies and there were links to Swedish banks. The leaked documents were called the Panama papers. As a result of the Panama papers, Swedbank conducted its own review in early 2016 into the bank's and the subsidiaries' links to the law firm Mossack Fonseca. The Board of Directors discussed the Panama papers at the Board meeting in April 2016. The compliance function reported then that the preliminary investigation conducted by the bank showed few links to Mossack Fonseca.

External information

In 2016, Swedbank received information from external parties, including the following.

The Latvian subsidiary bank was issued a sanction in 2016 from the Latvian supervisory authority due to deficiencies in the subsidiary bank's work to combat money laundering. The deficiencies were related, among other areas, to customer due diligence and monitoring. Swedbank has stated that the bank adopted action plans for the Latvian subsidiary bank due to the deficiencies identified by the supervisory authority.

In February 2016, the Board of Directors were informed by the CEO that there was a risk that the correspondent bank in GBP would terminate its relationship with the Latvian subsidiary bank. The minutes from the Board meeting held on 25 February 2016 show that the CEO informed the Board that there had been a problem with customer due diligence in the Baltic countries and that it was

difficult to keep correspondent banks. The CEO said that Swedbank "however is seen as fit and proper".

The relationship with the correspondent bank was terminated in March 2016. The report to the CEO and the Board of Directors specifies that the relationship was terminated due to an incident with a payment that the correspondent bank had stopped but that had not been identified and stopped by the Latvian subsidiary bank. Finansinspektionen notes that there is no mention in the minutes or any other documentation in the investigation of the termination of the relationship by the correspondent bank of further discussion or of the CEO or the Board of Directors taking any measures on the basis of the information.

Actions taken

In 2016, Swedbank's management took the following measures. Following the sanction issued to the Latvian subsidiary bank by the Latvian supervisory authority, Swedbank strengthened the compliance function by increasing the number of employees from 7 to 14.

At the end of 2016, Swedbank engaged the audit company KPMG to evaluate the compliance of the subsidiary banks' work to combat money laundering.

Swedbank has stated that the bank, due to the disclosures from the Panama papers, decided in 2016 on a comprehensive change regarding its non-resident high-risk customers. According to Swedbank, the decision meant that non-resident firms the bank considered to be high risk would only be accepted as customers if they had a strong link to the Baltic countries. The bank has stated that the decision was made by the head of the Baltic Banking business area. The decision in question, however, does not correspond with the bank's statement. The decision says that only new customer relationships with non-resident corporate customers classified as high risk must be approved by the head of each Baltic subsidiary bank.

Swedbank documented the following decisions regarding the implementation of measures.

In April 2016, the head of the Baltic Banking business area decided to establish the Baltic AML programme to remediate the identified deficiencies in the Baltic subsidiary banks. As part of this programme, a sub-project on governance was started to clarify roles and responsibilities between the first and second lines of defence. The objective was also to ensure that the organisation and the processes in the Baltic Banking business area agreed with those in the rest of the Group.

The AML programme was supposed to have resolved the deficiencies by the end of 2017. The internal audit function reported to the CEO and the Board of

Directors of the parent bank in March 2017 that the function had identified several deficiencies within the program, which required extensive measures. According to Swedbank, the programme entered into a continued phase in May 2019 but has since been absorbed into the 132-Point Programme, an action plan the bank started in the autumn of 2019.

Due to the implementation of the Fourth Money Laundering Directive, the CEO decided in July 2016 to implement a Group program called the AMLD4 Programme.[20] The programme would ensure that the Group complied with the Fourth Money Laundering Directive when it entered into force. At the Board meeting held in April 2017, the internal audit function reported its audit of the AMLD4 Programme, which identified serious deficiencies in the governance of the programme. In July 2017, the compliance function reported to the Board of Directors that there was a considerable risk that the Group would not comply with the regulation in time. In Q3 2017, the regulation entered into force and the function reported to the Audit Committee in December 2017 that the Group did not meet the requirements. In Q1 2019, the function reported that the Group still did not comply with the Fourth Money Laundering Directive.

2017

Regular reports on deficiencies from the first, second, and third lines of defence to Swedbank's management, CEO and Board

In 2017, reports were submitted about, among other things, the following. The compliance function reported to the CEO and the Board of Directors deficiencies in the Baltic Banking business area's risk assessment of money laundering risk. The function made the assessment that extensive measures were needed to manage the deficiencies. The cause of the deficiencies was attributed to the absence of an adequate framework and methodology. The compliance function furthermore reported deficiencies in the customer due diligence process in the Baltic subsidiary banks. The deficiencies were in part linked to documentation of customer due diligence and regular follow-up of customers.

The internal audit function also reported deficiencies in the customer due diligence process to the Board of Directors. The internal audit function assessed the customer handling process (to initiate or terminate customer

[20] AMLD4 stands for the Fourth Anti-Money Laundering Directive.

relationships) to be red or critical[21] again[22]. The risk in the process during the period under investigation continued to be assessed as critical.

The compliance function reported to the Board of Directors of Swedbank that there was a risk that the resources, knowledge, and maturity for managing the money laundering risk were insufficient given the deficiencies the function had identified. In addition, the function reported to the CEO that all business areas in the Group, including the Baltic Banking business area, were lacking sufficient competence for managing money laundering risk.

The compliance function also reported to the CEO of Swedbank that the lack of proper competence and the management of money laundering risk occurring too far down in the organisation in general increased the probability that the money laundering risk was not being given sufficient focus.

Internal reviews and special investigations

In 2017, Swedbank conducted the following special investigations and others.

Project B

In 2017, Swedbank started a project called Project B. The project was started to coordinate activities to terminate customer relationships with a customer group called "Customer Group", which consisted of "Customer A" and a number of other companies. The project also aimed to investigate if any violations of the anti-money laundering regulatory framework occurred during the course of the business relationship and if employees in the Estonian subsidiary had acted inappropriately. Customer A was a customer in both Swedbank and the Estonian subsidiary bank. As part of the project, Swedbank engaged several external consultants, including the law firm Erling Grimstad. The project was concluded with a report, the Project B report from July 2017, that was reported to Swedbank's CEO, the head of the compliance function, and the Chief Risk Officer. According to the report, there were extensive deficiencies in the Estonian subsidiary bank's measures to combat money laundering, and the report stated that it could not be ruled out that Customer Group had misused the Estonian subsidiary bank for money laundering. The report also addressed the importance of the three lines of defence understanding their roles and responsibilities. According to the report, the observations that were made could potentially be explained by an inappropriate organisation and structure for the three lines of defence. For example, the report states that the head of the compliance function in the Estonian subsidiary bank had been aware since

[21] According to the internal audit function, *critical* is defined as the identified risk being catastrophic in relation to earnings/income/expenses. It is highly probable that the ability to meet the target is in jeopardy and it is necessary to manage the risk, which must be confirmed by the risk owner.
[22] The internal audit function assessed the process as critical even throughout all of 2015.

2012 that the beneficial owners the subsidiary bank registered in its systems were not the "real" beneficial owners for Customer A and Customer Group. The report also states that both the first and second lines of defence in the Estonian subsidiary bank had been understaffed with regard to management and control of the money laundering risk. A lack of competence was also one of the causes for the non-compliance with the anti-money laundering regulatory framework.

According to the report, there had been systematic deficiencies in the Estonian subsidiary bank's management of the money laundering risk due to low levels of competence and a weak risk culture. The report also states that the management of the Estonian subsidiary bank did not have a clear understanding of its role. The Estonian management team was considered not to have fulfilled its obligations within central areas related to the anti-money laundering work. Furthermore, the Estonian management team was considered to have failed in its actions to protect the subsidiary bank from being misused for money laundering and to fulfil legal obligations.

The minutes from the Board meeting in April 2017 state that the CEO informed the Board of Directors that the Baltic AML Programme and a "special anti-money laundering project in Estonia" (Finansinspektionen's note: Project B), reported directly to the CEO in the parent bank. The material in the matter does not state, however, how the Board of Directors reacted following the information it received at the meeting. The information presented to the Board of Directors indicated that there were extensive deficiencies in the subsidiary banks' work to combat money laundering and in Estonia in particular since – in addition to the AML Programme – there was also a special anti-money laundering project that reported directly to the CEO in the parent bank.

Swedbank has not presented any material that shows that the CEO, the head of the compliance function or the Chief Risk Officer informed the Board of Directors of Swedbank about the risks and deficiencies that were identified under Project B. The documents from the investigation show that one of the bank's employees in June 2017 was told by the head of the compliance function not to inform the Board of Directors of Swedbank about the money laundering risks that had been identified in the Estonian subsidiary bank.

External information

In 2017, Swedbank received information from external parties, including the following.

In April 2017, the CEO reported to the Board of Directors that one of the correspondent banks in USD had informed Swedbank in Q1 2017 that it had terminated its relationships with the Estonian and Latvian subsidiary banks.

Finansinspektionen notes that there is no mention in the minutes or other documentation in the investigation pertaining to the termination of the relationships by the correspondent bank of further discussion or of the CEO or the Board of Directors taking any measures on the basis of the information.

In April 2017, the compliance function informed Swedbank's CEO and the Board of Directors that the audit company KPMG had evaluated the anti-money laundering work in the Baltic subsidiary banks. The evaluation showed that there were extensive deficiencies within the areas of risk assessment, customer due diligence and transaction monitoring in the Baltic subsidiary banks. The evaluation was also reported to the CEO and the Board of Director's Audit Committee.

KPMG's evaluation also states that the subsidiary bank had increased the number of employees within the area of anti-money laundering, but that it was not sufficient in either the short term or the long term. This was also confirmed in the action plan of the Baltic Banking business area (see below under Actions taken), where it shows that more employees were required in both the Baltic AML Programme and the day-to-day activities. Furthermore, the evaluation states that the compliance function for Baltic Banking had not regularly conducted oversight and controls of the first line's anti-money laundering work up through 2017.

At a meeting of Swedbank's Audit Committee in April 2017, the committee asked about the work to combat money laundering and if Latvia (where the subsidiary bank had been issued a sanction by the supervisory authority in 2016 due to deficiencies in its measures to combat money laundering) was an isolated problem. The minutes from the meeting show that the CEO of Swedbank informed the committee that the problems in the Baltic countries were due to US banks taking the position that the authorities there had not done enough to ensure compliance with the anti-money laundering regulatory framework with regard to non-resident customers. The CEO also said that there was hardly any business with non-resident customers left in Estonia but that measures were needed in Lithuania.

Actions taken

In 2017, Swedbank's management took the following measures.

Swedbank reported that the bank has not been able to clarify how the results of Project B in their entirety were handled by the parent bank and the Estonian subsidiary bank. According to Swedbank, there was only one meeting between the bank's CEO and the head of the Estonian subsidiary bank, at which the latter received information about the identified deficiencies and was tasked with resolving them.

In order to manage the roughly 20 areas that the audit company KPMG had assessed to be critical in its evaluation, the Baltic Banking business area established an action plan to manage the risks and deficiencies in the short term. The solution for the mid-term and long-term was that all solutions that KPMG identified would be handled in the Baltic AML Programme.

Swedbank has documented that the CEO had decided on the following measures.

On 19 April 2017, Swedbank's CEO decided to create a Group unit to combat financial crime and money laundering (GSI). The aim of the unit was to take a holistic approach to and management of the money laundering risk in the Group. The report from the specially appointed executive[23] to the CEO of Swedbank in January 2019 states, however, that the anti-money laundering work in the Swedbank Group is still fragmented and that the establishment of GSI had not achieved the desired results.

2018

Regular reports on deficiencies from the first, second, and third lines of defence to Swedbank's management, CEO and Board

In 2018, reports were submitted about, among other things, the following. The compliance function reported deficiencies in several areas of the Baltic subsidiary banks' measures to combat money laundering to the CEO and the Board of Directors. The deficiencies included the processes for risk assessment, customer due diligence and transaction monitoring. The method used for assessing the money laundering risk was insufficient, the subsidiary banks used insufficient and manual processes for risk classification of customers, and there were major deficiencies in the subsidiary banks' system for transaction monitoring since it neither took into account the subsidiary banks' local risk assessments nor allowed enhanced monitoring of customers classified as high risk.

The head of the Baltic Banking business area also presented the business area's anti-money laundering work to the Board of Directors in the autumn of 2018. The presentation stated that the transaction monitoring was not sufficient and that more scenarios and improved system stability were needed.

The compliance function reported a continued lack of resources and competence in the work to combat money laundering in the Baltic subsidiary banks within both the first and second lines of defence on several occasions to

[23] Specially appointed executive refers to a person who, according to Chapter 6, section 2, first paragraph, point 1 of the Anti-Money Laundering Act, is appointed to be responsible for the bank implementing the measures required under the act and the regulations issued pursuant to it.

the CEO and the Board of Directors. The function made the assessment that there was also a risk that the deficiencies could lead to insufficient implementation of anti-money laundering-related processes and controls and IT development and incomplete governance.

In the internal document "Lessons Learned", which was based on the observations by deficiencies in the anti-money laundering work identified by various authorities during investigations, the Baltic Banking business area made the assessment that the lack of resources within the first line of defence could result in the work to combat money laundering not be done at all or insufficiently. The document also stated that the Baltic subsidiary banks did not have a comprehensive internal document that described the distribution of responsibility and duties between the first and second lines of defence.

The compliance function reported to the CEO of Swedbank that there continued to be an unclear division between GSI and the compliance function. The function stated that GSI had lowered the priority on parts of the Group's work to combat money laundering, and the function felt that the function and the unit should agree on their respective roles.

In all of the quarterly reports in 2018 from GSI to the compliance function, GSI reported insufficient resources within the Group's work to combat money laundering.

In 2018, the internal audit function audited the independent oversight and control of certain measures to combat money laundering that had been performed within the compliance function for Baltic Banking. One of the internal audit function's conclusions was that it needed to conduct more audits of the compliance functions in order for the internal audit to be able to rely on the compliance functions' assessments. The audit was reported to the head of the Baltic Banking business area, the head of the compliance function, and the Board of Directors.

Swedbank also stated that the compliance function for Baltic Banking, up until the reorganisation in February 2018 during which GSI was established, had conducted very limited oversight and controls of the transaction monitoring and tasks related to such monitoring. The employees that were dedicated to the work to combat money laundering in the compliance function in the Baltic subsidiary banks had spent around 90 percent of their time up to February 2018 actually carrying out transaction monitoring. According to Swedbank, transaction monitoring is a typical "first line of defence activity". Furthermore, the compliance function for Baltic Banking conducted oversight and controls on several occasions of tasks that the function itself had performed.

Internal reviews and special investigations

In 2018, Swedbank conducted the following internal reviews and special investigations.

Review of Danske Bank's branch in Estonia

In the spring of 2007, the media reported suspected money laundering in Danske Bank's branch in Estonia (DBE). The Danish supervisory authority thus investigated the matter, and in September 2018 the so-called Bruun & Hjejle report was published that showed widespread suspicions of money laundering in DBE during the period 2007–2015. Given the suspected money laundering in DBE, Swedbank conducted its own reviews to gain an overview of any suspicious transactions and risks of money laundering connected to DBE. The compliance function's review of connections to DBE resulted in part in two reports in July and September 2018. The reviews were risk-based and had been limited to suspicious transactions and customers based on a number of risk indicators. The reports were sent to the CEO, the head of the Baltic Banking business area, the Chief Risk Officer and the specially appointed executive. The report from July 2018 states that the Baltic subsidiary banks had conducted almost 16,000 transactions with suspicious customers in DBE during the years 2007–2015 (in the presentation for the Board of Directors in September 2018 the figure used was 30,000). According to the report, there were also suspected links to the law firm Mossack Fonseca, well-known front men, well-known money laundering scandals, and other criminal activities, such as corruption and fraud. The report states that Swedbank had identified firms that had been customers in both the Estonian subsidiary bank and DBE.

The report from September 2018 states that the Baltic subsidiary banks had had around 3,400 suspicious customers who had conducted suspicious transactions with customers in DBE during the period 2007–2015. At the time of the report, 2,000 of these were still customers in the Baltic subsidiary banks. The report states that the sum of all the transactions was a very large amount. As part of this investigation, representatives for Swedbank have said that the bank had ended the customer relationship with almost half of those 2,000 customers by the end of Q1 2019 because the customers were considered to constitute an unacceptable risk of money laundering.

The report from September 2018 also states that the compliance function made the assessment that Swedbank and the Baltic subsidiary banks had not been able to identify the networks, links and risks that had been identified in the review with existing resources, competence, and systems. The report also states that the Group, at the time of the report, quickly needed resources, competence, and systems to be able to understand and manage the risk.

The report also said that Swedbank, given the results of the review, took the position that the bank must take measures using a risk-based approach. One of

the proposed measures was to decide on principles for a risk appetite for which types of customers the Swedbank Group would establish a business relationship with. Another proposed measure was that the CEO would decide to share the report with the heads of the Baltic subsidiary banks and the head of GSI, and that all proposed activities would be managed by the compliance function.

In September 2018, the compliance function presented the conclusions of the internal review of links to DBE to the Board of Directors of Swedbank. The presentation to the Board made it clear that none of the companies that had been named in the media[24] in connection with DBE were customers of the subsidiary banks at the time. The presentation otherwise contained parts of the information included in the so-called September report. The minutes from the Board meeting in September 2018 do not specify how the Board reacted to the findings of the review more than that the Board did not have any additional comments regarding the proposed path forward.

The Board of Directors once again discussed the internal review of links to DBE at a meeting in October 2018. The topic was also discussed at several meetings in the Board committees the same month. The CEO presented their view on the links to DBE. After the bank had analysed a large number of transactions based on various risk indicators, the CEO repeated that none of the firms mentioned in the media related to DBE were at that time current or previous customers of the subsidiary banks. Even though there were internal and external challenges in the work to combat money laundering, according to the CEO, the Group had worked and taken action systematically. The minutes from the Board meeting show that the Chair of the Board emphasised the importance of moving forward quickly.

At the same Board meeting in October 2018, the CEO informed the Board of Directors about the content of the forthcoming communication to analysts in conjunction with the presentation of the Q3 report in 2018. The minutes show that the message to be communicated was that the operations in the Baltic subsidiary banks did not have any links to the alleged money laundering in DBE. Furthermore, the analysts were to be informed that a large number of transactions had been analysed based on various risk factors and none of the firms mentioned in connection with DBE had been identified as current customers in the Swedbank Group. However, the minutes do not indicate whether the Board of Directors discussed the content of the information or whether the information really provided a representative depiction. The Board of Directors had received information and a presentation of the actual links to DBE including suspicious customers and suspicious transactions at both the meeting in September and the meeting in October. In addition, all three lines of defence had reported repeatedly since 2016 serious risks and deficiencies in the

[24] The media only mentions a few DBE customers by name.

Baltic subsidiary banks' work to combat money laundering to the Board of Directors.

Grimstad report from 2018

In the autumn of 2018, Swedbank once again engaged the law firm Erling Grimstad, in part to follow up on the firm's previous review of the subsidiary bank in Estonia. The report was submitted to the CEO and the head of the compliance function in December 2018. The report showed comprehensive deficiencies in the anti-money laundering work in the Estonian subsidiary bank and stated that it was not possible to rule out that employees in the Estonian subsidiary bank had acted inappropriately. The report also proposed a number of measures. The first recommendation was that the bank immediately inform Estonian and Swedish supervisory authorities and financial intelligence units. A second recommendation was that the bank should conduct a more comprehensive analysis of the portfolio of non-resident customers that the subsidiary bank had classified as high risk. A third recommendation was that the bank should ensure that it had taken sufficient measures regarding the recommendations made by the firm in 2017 under Project B. Swedbank has stated that given the gravity of the conclusions drawn in the so-called Grimstad report from 2018, it was of utmost importance for the bank to validate the information. Given the information subsequently presented in the Swedish television programme *Uppdrag Granskning* in February 2019 (see more below under External information for 2019), the bank's Board of Directors and the CEO felt it necessary to conduct a more in-depth review. Swedbank thus engaged the law firm Clifford Chance (see below under Actions taken for 2019).

External information

In 2018, Swedbank received information from external parties, including the following.

The Lithuanian subsidiary bank was issued a sanction in 2018 from the Lithuanian supervisory authority due to deficiencies in the subsidiary bank's work to combat money laundering. Swedbank has stated that the bank adopted action plans for the Lithuanian subsidiary bank due to the deficiencies identified by the supervisory authority.

Actions taken

Finansinspektionen notes that Swedbank's management, CEO and Board of Directors did not make any documented decisions in 2018 to implement measures.

Q1 2019

Regular reports on deficiencies from the first, second, and third lines of defence to Swedbank's management, CEO and Board

In Q1 2019, reports were submitted about, among other things, the following. The internal audit function reported deficiencies within the customer due diligence process in the Estonian and Lithuanian subsidiary banks to the head of the Baltic Banking business area and the Board of Directors. The report states that the deficiencies were related to customer due diligence measures for high-risk customers and that extensive measures were needed to manage the identified deficiencies.

The head of GSI in the Baltic Banking business area reported to the Risk and Compliance Committee within the same business area that there were repeated technical deficiencies and incidents in the system for transaction monitoring during the second half of 2018. The deficiencies and incidents had a direct impact on the ability to monitor transactions.

The compliance function stated in a report that the risk assessments for money laundering in the Baltic subsidiary banks up to 2018 were insufficient. The function also reported in Q1 to the CEO and the Board of Directors of the parent bank that the situation in some areas of the work to combat money laundering had gotten worse since the previous quarter. The function furthermore reported that there was a risk the Group had been in violation of the Board's adopted risk appetite for compliance risk related to the work to combat money laundering and terrorist financing. The function's report also stated that there were 21 outstanding deficiencies within the area of anti-money laundering in the Baltic subsidiary banks, and that 16 of them had not been rectified by the deadline set by the bank. The function also reported that the Group was non-compliant with the Fourth Money Laundering Directive that went into effect in 2017.

The compliance function reported to the Risk Committee of Swedbank's Board of Directors that there was a need for more resources and competence in the anti-money laundering work to safeguard the quality of the work in the area.

GSI reported once again to the compliance function that there were insufficient resources in the Group's anti-money laundering work.

Internal reviews and special investigations

In 2019, Swedbank conducted, among other measures, the following internal reviews.

Review following the Hermitage Capital Management report

In October 2018, businessman Bill Browder and the firm Hermitage Capital Management (HC) sent a report (the HC report) to Swedish authorities. In conjunction with this, the compliance function initiated an analysis and review of the Swedbank Group's exposure to the information disclosed in the HC report. The function's analysis and review resulted in two reports. The first report, from January 2019, was submitted to Swedbank's CEO, Chief Risk Officer, the specially appointed executive, and the heads of the business areas Baltic Banking, Swedish Banking and Large Corporates & Institutions. The report states that Swedbank Group's transaction flows to and from a Lithuanian bank probably had been part of an extensive money laundering scheme in the Baltics. According to the report, these transaction flows exposed the Swedbank Group to a critical reputational risk that could impact the parent company's share price.

The second report, from February 2019, targeted the Swedbank Group's exposure to persons, firms, and events in the HC report. The report states that the compliance function considered this review combined with the internal reviews and special investigations conducted previously to confirm the view that the Baltic Banking business area had had exposures to firms with close links to organised money laundering in the Baltics. The report also states that customers to the Baltic Banking business area had exposed the Swedbank Group to a critical risk of being misused for money laundering. Many current and former customers and their counterparties were considered to be non-resident offshore entities with non-transparent ownership structures hidden behind front men. The function drew the conclusion that the Baltic Banking business area historically had not identified anti-money laundering risks that were associated with transactions made with non-resident offshore entities within the EU/EEA[25]. According to Swedbank, the bank's CEO, the head of the internal audit function and the CFO received the report in March 2019.

External information

In Q1 2019, Swedbank received information from external parties, including the following.

In February 2019, the Swedish television programme *Uppdrag Granskning* from Sveriges Television aired with reports of suspected money laundering in the Baltic subsidiary banks. The minutes from the meeting of the Board of Directors held the day after the programme aired show that the CEO discussed the 50 customers mentioned in the programme. The CEO emphasised that the bank is a large retail bank with a business model that is fundamentally different than DBE's business model. The CEO furthermore underlined that customer

[25] European Economic Area.

relationships with all of the 50 customers mentioned in the program had been terminated during the period 2004–February 2019 and that several transactions with links to these customers had been reported to the Baltic equivalents of the Financial Intelligence Unit.

The minutes from the Board meeting in the middle of March 2019 show that the head of the Baltic Banking business area and the heads of each subsidiary bank presented the work to combat money laundering and its development. The aim of the presentation was to give the Board of Directors an overview of the 50 customers mentioned in the TV programme and how Swedbank and the Baltic subsidiary banks had worked to identify and terminate the business relationships with these customers. Responding to a direct question from the Board, the head of the Estonian subsidiary bank said that they were not aware of the subsidiary banks having any links to a specific well-known money laundering scandal. Finansinspektionen notes that the minutes do not show if any of the other participants at the Board meeting informed the Board that the subsidiary banks did have links to this well-known scandal since the bank, as recently as in February 2019, had identified such links in its review following the HC report.

Actions taken

In Q1 2019, Swedbank's management took the following measures.

Swedbank engaged, as presented above, the law firm Clifford Chance in February 2019, which in turn engaged the consultancy firms Forensic Risk Alliance (FRA) and FTI Consulting to investigate and to answer questions from the US authorities. Swedbank also stated that the bank, given the information disclosed in the TV programme *Uppdrag Granskning*, considered it necessary to conduct an in-depth review. The review would include all transactions in the Swedbank Group and the period 2007–March 2019. According to Swedbank, the inquiry was appointed by the CEO in consultation with the Board of Directors in the spring of 2019.

Finansinspektionen notes that none of Swedbank's management, CEO or Board of Directors made any documented decisions in Q1 2019 to implement measures.

Measures taken after the end of the period under investigation

Swedbank has stated that the bank passed a decision in April 2019 to establish a new Group unit, Anti-Financial Crime, that would focus in part on the work to prevent money laundering

During the summer and autumn of 2019, several members of senior management and the Board of Directors of the Estonian subsidiary bank were relieved of their duties. According to Swedbank, this action was preceded by

an internal investigation that showed “historical shortcomings” in the work to combat money laundering. Even though Swedbank had been informed about these “shortcomings” since at least 2017, the bank did not follow up that the Estonian subsidiary bank had taken measures until the summer and autumn of 2019.

In its statement on 20 December 2019, Swedbank has accounted for the Group’s comprehensive action program to combat money laundering and terrorist financing. According to the bank, the measures rest on three pillars: reinforcements to internal governance and control, the 132-Point Programme, and oversight and assurance of a common culture.

4.2.2 Finansinspektionen’s assessment

Lack of risk strategy and deficient identification and management of non-resident customers and resident customers with non-resident beneficial owners.

Chapter 5, section 1 of FFFS 2014:1 requires a bank to have a risk management framework. The framework shall contain the strategies, processes, procedures, internal rules, limits, controls and reporting procedures required to ensure that the undertaking, on an ongoing basis, can identify, measure, govern, internally report and exercise control of the risks to which it is or could perceivably become exposed.

Despite this, Swedbank has not had a risk strategy for the group that included the risk of money laundering. During the investigation, the bank admitted that it has not had a specific risk strategy but that the risk management policy together with the limit framework should be viewed as the bank’s risk strategy. In Q2 2018, the internal audit function reported to the Board of Directors of Swedbank that there was no clear risk strategy for the money laundering risk that was associated with the risk appetite. According to the function, the lack of this strategy had resulted in the bank being, and having been, reactive rather than proactive in its work to combat money laundering, which resulted in a number of initiatives that consumed time and resources. To enable an efficient management of the risk over time, the internal audit asserted that there was a need for a clear strategy that is related to the risk appetite, where roles and responsibilities are clear. The size of the Baltic subsidiary banks on their respective home markets and the regional money laundering risks make it particularly important to maintain appropriate money-laundering prevention measures. Given that the group’s operations have been exposed to an elevated risk of money laundering, it is a remarkable deficiency that Swedbank had not adopted such a risk strategy even though the bank reasonably must have realised that there was an elevated risk in the business.

Swedbank also has not had a documented strategy for the group with regard to non-resident customers and resident customers with non-resident beneficial owners. Furthermore, the lack of risk assessments and deficiencies regarding both customer due diligence and transaction monitoring were reported within the group. Given this background, Swedbank could not have sufficiently identified or managed the money laundering risks in the Baltic subsidiary banks' exposure to non-resident customers and firms with links to other countries.

This has led to Swedbank also not identifying and managing the elevated compliance and reputational risks that some of these customers and transactions introduced to the group. Finansinspektionen therefore finds that, at the group level, Swedbank has not met the requirements set out in Chapter 6, section 2, first paragraph of the Banking and Financing Business Act, in conjunction with Chapter 3, section 4 of the Supervision Act, to identify, measure, govern, internally report and exercise control over the risks with which its business is associated.

The lack of identification and management of risks associated with non-resident customers, resident customers with non-resident beneficial owners, and transactions in the Baltic subsidiary banks has also meant that the bank exposed itself to a risk of non-compliance with regulations as well as a risk it would jeopardise its good reputation. In this case, the public's and investors' confidence in Swedbank have also been negatively affected. Finansinspektionen therefore finds that Swedbank also failed in its compliance at the institute level in accordance with Chapter 6, section 2, first paragraph of the Banking and Financing Business Act.

Deficiencies were not reported in 2015

As specified above, Chapter 5, section 1 of FFFS 2014:1 requires a bank to have a risk management framework. The framework shall contain the strategies, processes, procedures, internal rules, limits, controls and reporting procedures required to ensure that the undertaking, on an ongoing basis, can identify, measure, govern, internally report and exercise control of the risks to which it is or could perceivably become exposed. According to section 2, the risk management framework shall be well integrated into the undertaking's organisational and decision-making structure and pertain to all material risks in the undertaking. The bank's business units are responsible for performing daily risk management.

As presented earlier in this section, neither the first nor the second line of defence reported in 2015 any deficiencies in the Baltic subsidiary banks' work to combat money laundering to the management, CEO, or Board of Directors of the parent bank even though later reporting shows that such deficiencies existed already in 2015.

Finansinspektionen therefore makes the assessment that Swedbank in 2015 did not sufficiently identify the deficiencies in the subsidiary banks' risk management and thus did not have control over the risks these imposed on the group. The bank therefore did not meet the requirements set out in Chapter 5, sections 1 and 2 of FFFS 2014:1 and Chapter 1, section 1, fourth paragraph of the same regulations.

Insufficient resources and lack of competence in the subsidiary banks' work to combat money laundering

During the years 2016–2019, the first, second and third lines of defence at the Group level, internal reviews and special investigations, and external reports repeatedly reported to and informed management, the CEO and the Board of Directors of Swedbank about the insufficient resources and the lack of proper competence in both the first and second lines of defence. There were no resources in the first line of defence in 2015. During the period 2016–Q1 2019, the number of employees did increase, but not to the extent required. The number of FTEs in the second line of defence dedicated to the Baltic operations has largely remained unchanged from 2016 through Q1 2019 when the period under investigation ends.

Chapter 6, section 3 of FFFS 2014:1 states that a control function shall have the resources required and access to the information needed to discharge its tasks. Furthermore, the provision states that such a function shall have staff with the required knowledge and powers for discharging their duties.

It is not possible to specify in absolute figures what constitutes sufficient resources for the first line of defence or the compliance function at a bank. This varies depending on the type of bank and how it has chosen to organise itself. An assessment must therefore be based on the bank's size and type of operations. The Baltic subsidiary banks are the largest banks in each country, and the subsidiary banks have had non-resident customers and resident customers with non-resident beneficial owners that have represented a large percentage of the total transaction volume and thus entailed an elevated risk that the subsidiary banks would be misused for money laundering. This in turn places high demands on the effectiveness of the efforts of the lines of defence.

Swedbank has allocated the resources for the lines of defence. Swedbank has chosen not to strengthen in particular the resources and competence for the second line of defence even though there was an obvious need and despite multiple reports.

Given this background, Finansinspektionen finds that Swedbank did not fulfil at the group level the requirements set out in Chapter 6, section 3 of FFFS 2014:1 and Chapter 1, section 1, fourth paragraph of the same regulations.

Unclear distribution of roles and responsibilities

The second and third lines of defence at the group level, internal reviews and special investigations, and external reports over the years 2016–2019 repeatedly reported to management, the CEO, and the Board of Directors of Swedbank that the distribution of roles and responsibility between the first and second line of defence was not clear. Over a period of several years, Swedbank has been aware of and identified an unclear role and responsibility distribution at the Group level. Despite several attempts to rectify the deficiencies, the division of roles and responsibilities in the group at the end of the period under investigation was still unclear.

Finansinspektionen makes the assessment that Swedbank has not fulfilled at the group level the requirements set out in Chapter 2, section 1 of FFFS 2014:1 and Chapter 1, section 1, fourth paragraph of the same regulations since the bank's organisational structure in this respect has not been appropriate and transparent with a clear distribution between functions and areas of responsibility.

The compliance function, according to Chapter 8, section 3 of FFFS 2014:1, shall identify, monitor, control and report on the undertaking's risks and compliance with internal and external regulations. The investigation into the matter shows that the compliance function for Baltic Banking did not conduct sufficient or regular monitoring and control up to 2017. The function also did not identify the risks and deficiencies in the subsidiary banks' measures to combat money laundering. The compliance function *at the Group level,* however, had already identified in 2016 that there were significant deficiencies in the subsidiary banks' measures to combat money laundering.

Until February 2018, the Baltic subsidiary banks basically did not have a compliance function for their work to combat money laundering since the function conducted limited oversight and control of anti-money laundering measures. The function spent most of its time monitoring transactions, which according to the bank is a first-line activity. Finansinspektionen therefore makes the assessment that Swedbank, at the group level, did not ensure that the compliance function for the Baltic Banking business area had discharged its broad responsibility in accordance with Chapter 8, section 3 of FFFS 2014:1 and Chapter 1, section 1, fourth paragraph of the same regulations. Consequently, the subsidiary banks basically lacked a first and second line of defence until February 2018.

Information from a former head of the compliance function shows that the compliance function for Baltic Banking was not sufficiently independent, at least up through 2016. Finansinspektionen also makes the assessment based on observations made in the Project B report that the part of the Group compliance function that was responsible for Estonia had not understood its role and responsibility and that the function had not been independent. Furthermore, the

compliance function for Baltic Banking had conducted controls and oversight in 2016 and 2017 of duties that the function had carried out itself. Finansinspektionen therefore makes the assessment that Swedbank, at the group level, did not ensure that the compliance function met the requirement on independence set out in Chapter 6, section 6 of FFFS 2014:1 and Chapter 1, section 1, fourth paragraph of the same regulations.

Swedbank did not take sufficient measures

From 2016 and through Q1 2019 when the period of Finansinspektionen's investigation ends, Swedbank's management, CEO and Board of Directors had repeatedly received information about the deficiencies in the central pillars of the Baltic subsidiary banks' work to combat money laundering. Similarly, Swedbank's management, CEO and Board of directors repeatedly received information about insufficient resources and a lack of the proper competence in both the first and second lines of defence in the subsidiary banks' work to combat money laundering. The CEO and Board of Directors of Swedbank also repeatedly received reports on unclear distribution of roles and responsibilities between the first and second lines of defence.

At the end of the period under investigation, there were 21 outstanding compliance deficiencies within the area of money laundering in the Baltic subsidiary banks, 16 of which had not been rectified by the deadline set by Swedbank. The compliance function also made the assessment at the same point in time that the Group was non-compliant with the Fourth Money Laundering Directive that went into effect in 2017. In addition to the regular reporting from all lines of defence, several in-house reviews and special investigations and external reports have shown since 2016 that there were deficiencies in the Baltic subsidiary banks' work to combat money laundering, including suspicious customers who conducted a large number of transactions and, according to the bank, entailed an unacceptable risk of money laundering and reputational risk.

Swedbank, in several cases, has not taken any measures as a result of the information it received on risks and deficiencies in the Baltic subsidiary banks' work to combat money laundering. For example, Swedbank has not drawn up an action plan for managing the risks and deficiencies in the Estonian subsidiary bank that were identified during Project B. The bank also has been aware of extensive suspicions of money laundering since at least 2017, but it was first in the spring of 2019 after the investigation conducted by the TV programme *Uppdrag Granskning* and the Swedish authorities, as well as foreign authorities, had opened investigations that Swedbank decided to conduct a more comprehensive review of the Swedbank Group's activities. Another example is that it was not until June 2019, and then again in September 2019, that Swedbank made sure that the Estonian subsidiary bank took measures against the senior executives in the Estonian subsidiary bank, even though the information regarding "shortcomings", to use Swedbank's

word, related to the work to combat money laundering had come to the parent bank's attention as early as at least 2017.

When it comes to the measures that have actually been taken in the anti-money laundering work at the group level since 2016, it is consistently unclear who has made decisions related to the measures. The decisions are documented in only a few cases. None of the documented decisions were made by the Board of Directors, and only a few were made by the CEO. The actions taken measures have often been reactive and fragmented since there has not been a unified approach in the group for how to manage the money laundering risk. The analyses, in the form of internal reviews and special investigations, have been narrow in scope, and as a result there has not been a comprehensive overview of risks and deficiencies. Swedbank has also not been successful in its change management. For example, the Baltic AML programme that was started in 2016 has still not been completed, and the bank made the assessment at the end of the period under investigation that the group was still not compliant with the Fourth Anti-Money Laundering Directive, which was the objective of the AMLD4 programme. The Group GSI unit did not achieve the desired results, either, which was to gain a holistic view and management of the money laundering risk within the Group, and the bank announced in April 2019 that a new Group unit, Anti Financial Crime (AFC), would be created instead.

As presented earlier in this section, the subsidiary banks have had insufficient resources and a lack of competence. A prerequisite for both the first line of defence and the compliance function being able to discharge their duties is that they have sufficient resources. It is the management's responsibility to ensure that both the first and the second lines of defence have the competence and resources necessary to carry out their work. If there are deficiencies in this respect, it is the management's responsibility to take the measures necessary to manage the deficiencies.

Swedbank has taken measures such as organisational changes, resource allocation and new recruits. However, the reporting to the bank's Board of Directors and CEO shows that resources and the proper competence in the subsidiary banks were still lacking at the end of the period under investigation. The measures that were taken, in other words, were not sufficient. The fact that the Swedbank's reaction was either non-existent or insufficient indicates insufficient governance and control.

Finansinspektionen makes the assessment that Swedbank, at the group level, did not fulfil the requirements set out in Chapter 3, section 3 of FFFS 2014:1 and Chapter 1, section 1, fourth paragraph of the same regulations, since the bank neither sufficiently oversaw and assessed the effectiveness of the bank's organisational structure, measures and methods nor took measures to correct identified deficiencies.

Finansinspektionen also makes the assessment that Swedbank, at the group level, has not fulfilled Chapter 5, sections 1 and 2 of FFFS 2014:1 and Chapter 1, section 1, fourth paragraph of the same regulations since it has not had a risk management framework that ensured the bank could identify, measure, govern, report internally, and exercise control over the risks that the bank is or can be expected to be exposed to at the group level. The risk management framework has neither been integrated into the organisation and the decision-making structure nor included all significant risks.

Chapter 6, section 7 of FFFS 2014:1 states in part that the board of directors and the managing director shall take appropriate measures as quickly as possible following reports from the control functions. Since 2016 and up through Q1 2019, when the period of Finansinspektionen's investigation ended, the compliance function and the internal audit function repeatedly reported deficiencies in the central pillars of the anti-money laundering regulatory framework in the Baltic subsidiary banks' work to combat money laundering to the CEO and the Board of Directors. Finansinspektionen notes that the subsidiary banks at the end of the period under investigation still had significant deficiencies in their measures to combat money laundering and that the measures that had been implemented to rectify these deficiencies had not been sufficient.

Similarly, Swedbank's management, CEO and Board of Directors repeatedly received information about insufficient resources and a lack of the proper competence in both the first and second lines of defence in the subsidiary banks' work to combat money laundering. The same applies regarding reports of unclear roles and responsibilities, the limited oversight and control, and the lack of independence.

Finansinspektionen makes the assessment that the Board of Directors and the CEO did not take appropriate measures following the reports from the control functions. Swedbank, therefore, has not fulfilled the requirements at either the group level or the institution level set out in Chapter 6, section 7 of FFFS 2014:1 and – with regard to the group level – Chapter 1, section 1, fourth paragraph of the same regulations.

Members of the Board of Directors have not been sufficiently knowledgeable

According to Chapter 3, section 2 of FFFS 2014:1, board members shall have sound knowledge and understand the bank's operations and the nature and scope of its risks. It is therefore important to have functional reporting from, for example, the control functions.

Reports on money laundering risks in the Baltic subsidiary banks have been submitted to the parent bank's Board of Directors to varying degrees. For example, the Board of Directors was not informed about the most serious

deficiencies observed within Project B and the HC review. Furthermore, the Board of Directors has only received information about some of the serious risks and deficiencies observed within the DBE review. The material in the investigations also gives the indication that the risk of the Baltic subsidiary banks potentially being misused for money laundering was toned down in the reports to the Board of Directors. Swedbank has also stated that the remaining Board members who were part of the Board during the period under investigation have experienced a dearth of information. According to Finansinspektionen's investigation, in part through interviews, the Board members and the former CEO do not share a unified view of how much detail was presented to the Board of Directors. Finansinspektionen has not been able to assess what really happened in this respect, but neither has this been a central part of the authority's investigation.

It is the Board of Directors' responsibility to ensure that the bank and the group are organised in such a manner to ensure that the Board receives the necessary information so the bank, on an ongoing basis, can identify, measure, govern, report internally and exercise control over the risks the bank or the group is or can be expected to be exposed to. Even if the Board of Directors had only been informed of the barest details or the reports presented a misleading, toned-down view of the risks and deficiencies, the investigation still showed that enough information had reached the Board that there was cause to dedicate considerable attention to whether Swedbank was implementing sufficient and effective measures to combat money laundering in the Baltic operations. As presented above, it is not possible to interpret from the material whether the Board has asked any questions or taken any measures as a result of correspondent banks' termination of the relationships with the subsidiary banks in Estonia and Latvia or how the Board kept itself informed about the outcome of the special anti-money laundering project in Estonia. Neither do the minutes or any other material in the matter from when the bank's own review of links to DBE was presented to the Board of Directors in September 2018 show that the Board discussed the suspected money laundering in the Baltic subsidiary banks or the elevated compliance and reputational risk that this had entailed for the parent bank. The Board of Directors also did not react to the finding from the DBE review of suspected links to the law firm Mossack Fonseca, even though the Board of Directors was informed in 2016 about an investigation that showed several such links. The Board of Directors' rules of procedure state that the minutes of the Board meetings shall provide a clear description of the issues that were discussed, the content of any decisions made, and agreed measures.

Finansinspektionen makes the assessment given this background that the Board members neither kept themselves sufficiently informed nor ensured that the Board had received the information it needed. As a result, the members of the Board of Directors have not been sufficiently knowledgeable about the Baltic operations and its risks to be able to understand the risk that the group could be misused for money laundering purposes and the elevated reputation and

compliance risks that the subsidiary banks' money laundering risks entailed for the bank. Finansinspektionen therefore finds that Swedbank has not fulfilled the requirements set out in Chapter 3, section 2 of FFFS 2014:1.

Swedbank has not fulfilled the requirements on governance, risk management and control

Finansinspektionen's observations furthermore show that the deficiencies in the work to combat money laundering in the Baltic subsidiary banks have been systematic, that they existed throughout the entire period under investigation, that they remained at the end of the period under investigation, and that Swedbank on an ongoing basis and repeatedly since 2016 received information about them. As stated above, the parent bank is responsible for governing and controlling its subsidiary banks. This means that the parent bank must react when it receives information on an ongoing basis about deficiencies in the subsidiary banks by ensuring that the risks are managed. Swedbank has also organised the group in such a way as to make it possible for the bank to govern and control its subsidiary banks. The investigation shows that the governance is conducted through a matrix organisation and is centralised, and the group uses Group functions and units. This view is confirmed by the assessment from the Estonian supervisory authority that the Estonian subsidiary bank largely has functioned like a branch without having the support required from Swedbank.

The parent bank has not taken measures to manage the deficiencies in the subsidiary banks. The deficiencies remained, however, at the end of the period under investigation. The measures that were taken were therefore not sufficient. The deficiencies in the Baltic subsidiary banks in turn have resulted in elevated compliance and reputational risks for Swedbank, the management responsibility for which lies with the bank. For this reason as well, Swedbank should have reacted to the repeated information about deficiencies in the subsidiary banks that it had received.

Swedbank and its Baltic subsidiary banks are being, and have been, investigated by authorities in several countries due to questions surrounding compliance. Furthermore, the public's and investors' confidence in the bank have also been negatively affected. It is thereby obvious in Finansinspektionen's opinion that compliance and reputational risks arose at both the group level and the institution level for the parent bank and that Swedbank has not managed these risks.

Finansinspektionen therefore makes the assessment that the bank has not met at the group or institution level the requirements set out in Chapter 6, section 2 of the Banking and Financing Business Act to identify, measure, govern, internally report and exercise control over the risks with which its business is associated. The bank has also not met at the group level or institution level the requirement on having satisfactory internal control. According to Chapter 6, section 4b of the Banking and Financing Business Act, the board of directors of

a bank is responsible for ensuring that the requirements set out in Chapter 6, section 2 of the Banking and Financing Business Act are fulfilled.

4.2.3 Overall assessment

In summary, Finansinspektionen finds that Swedbank has not had sufficient governance and control of the Baltic subsidiary banks in the following respects.

Swedbank has not had a risk strategy for the group that included the risk of money laundering. The bank also has not had a documented strategy for the group with regard to non-resident customers and resident customers with non-resident beneficial owners. Swedbank has not sufficiently identified and managed the money laundering risks in the Baltic subsidiary banks' exposures to such customers. As a result, Swedbank has also not identified and managed the elevated compliance and reputational risks that some of these customers, and transactions linked to them, imposed on the group. Subsequently, Swedbank has exposed itself to a risk of non-compliance and a risk of jeopardising its good reputation. Swedbank has not met, at the group level or the institution level, the requirements set out in Chapter 6, section 2, first paragraph of the Banking and Financing Business Act (in conjunction with – in terms of group level – Chapter 3, section 4 of the Supervision Act) to identify, measure, govern, internally report and exercise control over the risks with which its business is associated.

In 2015, neither the first nor the second line of defence reported any deficiencies in the Baltic subsidiary banks' measures to combat money laundering to the management, CEO or the Board of Directors of the parent bank even though later reporting shows that there were deficiencies already in 2015. Swedbank has thus not sufficiently identified the deficiencies in the subsidiary banks' risk management and not had control over the risks these deficiencies imposed on the group (Chapter 5, sections 1 and 2 of FFFS 2014:1 and Chapter 1, section 1, fourth paragraph of the same regulations).

From 2016 and until the end of the period under investigation, the first, second and third lines of defence at the Group level, internal reviews and special investigations, and external reports repeatedly reported to and informed management, the CEO and the Board of Directors of Swedbank about the insufficient resources and the lack of proper competence in both the first and second lines of defence in the subsidiaries' work to combat money laundering. Swedbank, at the group level, has not met the requirements that a control function shall have the required resources and competence (Chapter 6, section 3 of FFFS 2014:1 and Chapter 1, section 1, fourth paragraph of the same regulations).

Swedbank's management, CEO and Board of Directors also received reports on the unclear distribution of roles and responsibilities between the first and second lines of defence.

The compliance function for Baltic Banking was at least up through 2016 not sufficiently independent. Furthermore, the function conducted limited oversight and control of the anti-money laundering measures in 2018, and on a number of occasions the function conducted oversight and controls of tasks the function performed itself. Swedbank, at the group level, has not met the requirement on having an organisational structure that is appropriate and transparent with a clear distribution of functions and areas of responsibility (Chapter 2, section 1 of FFFS 2014:1). The bank, at the group level, did not ensure that the business area compliance function for Baltic Banking had discharged its responsibility in accordance with Chapter 8, section 3 of FFFS 2014:1. Furthermore, the bank, also at the group level, did not ensure that the compliance function met the requirement on independence in accordance with Chapter 6, section 6 of FFFS 2014:1.

Since 2016 and up through the end of the period under investigation, Swedbank's management, CEO and Board of Directors repeatedly received information about deficiencies in the central pillars of the work to combat money laundering, insufficient resources, a lack of the proper competence, and an unclear distribution of roles and responsibility. In addition to the regular reporting, several in-house reviews, special investigations and external reports have shown since 2016 that there were serious risks and deficiencies. This includes, for example, suspicious customers who conducted a large number of transactions and, according to the bank, entailed an unacceptable risk of money laundering and reputational risk.

Swedbank, in several cases, has not taken any measures as a result of the information it received on risks and deficiencies in the Baltic subsidiary banks' anti-money laundering work, and it is consistently unclear for the measures Swedbank did take who actually decided on the measures. The decisions are documented in only a few cases. None of the documented decisions were made by the Board of Directors, and only a few were made by the CEO. The actions taken have often been reactive and fragmented since there has not been a unified approach in the group for how to manage the money laundering risk.

The deficiencies remained at the end of the period under investigation. The measures that were taken, in other words, were not sufficient. The deficiencies in the Baltic subsidiary banks in turn have resulted in elevated compliance and reputational risks for Swedbank, the management responsibility for which lies with the bank. Swedbank should have reacted to the repeated information about deficiencies in the subsidiary banks that it had received.

Swedbank, at the group level, has thus not sufficiently reviewed and assessed the effectiveness of the bank's organisational structure, measures and methods or taken appropriate measures to correct identified deficiencies (Chapter 3, section 3 of FFFS 2014:1). The bank, at the group level, also has not met the requirements on a risk management framework or that the framework must be

integrated into the organisation and decision-making structure and refer to all significant risks (Chapter 5, sections 1 and 2 of FFFS 2014:1).

Since the Board of Directors and the CEO have not taken appropriate measures as a result of the reports from the control functions, Swedbank, at either the group level or the institution level, did not meet the requirements set out in Chapter 6, section 7 of FFFS 2014:1.

The Board of Directors in Swedbank has not been sufficiently knowledgeable about the Baltic operations and its risks. Swedbank has thereby not fulfilled the requirements set out in Chapter 3, section 2 of FFFS 2014:1.

Finally, Swedbank has not met at the group or institution level the requirements set out in Chapter 6, section 2 of the Banking and Financing Business Act (and with regard to the group level in Chapter 3, section 4 of the Supervision Act) to identify, measure, govern, internally report and exercise control over the risks with which its business is associated. Furthermore, the bank has not met at the group or institution level the requirement on having satisfactory internal control.

5 Provision of information to Finansinspektionen

5.1 Finansinspektionen's observations and assessments

According to Chapter 13, section 3 of the Banking and Financing Business Act, a credit institution shall provide Finansinspektionen with any and all information about its operations and any related circumstances as requested by the authority. This entitles Finansinspektionen, for example, to obtain reports or request that the credit institution informs Finansinspektionen about other circumstances regarding its operations (Bill 2002/03:139 p. 544).

During the course of the investigation, the question arose about whether Swedbank, in both previous investigations and the current investigation, failed to provide requested information to Finansinspektionen. Swedbank has primarily asserted the following with regard to the application of Chapter 13, section 3 of the Banking and Financing Business Act. A point of departure for Finansinspektionen's right to request information is that such a request should be based on certain fundamental principles, for example with regard to legality and predictability. If an institution does not comply with a request from Finansinspektionen, this can lead to a sanction. A request should therefore be presented in such a manner that it is clear to the credit institution that it has received a request in accordance with Chapter 13, section 3 of the Banking and Financing Business Act. A request should therefore be submitted in writing and fulfil fundamental requirements on precision so the credit institution is given reasonable opportunity to identify what information is requested. Any arising deficiencies should always be placed in proportion to the difficulties in complying with a very broad and general request. According to the bank, a

request for information pursuant to Chapter 13, section 3 of the Banking and Financing Business Act, for reasons of predictability, among others, should refer to a reasonably limited period of time. For example, the requirement cannot assign a general and ongoing disclosure obligation to the credit institution if Finansinspektionen has not expressly requested specific information or followed up on a previous request with a new request for additional information. Finansinspektionen's request for information in April 2019 that covered all of the information that was relevant to the investigation, with an original period under investigation that spanned more than 12 years (i.e. from 2007 to Q1 2019), was, according to Swedbank, not precise enough. According to the bank, the request did not make it possible to directly determine which information Finansinspektionen considered relevant.

Swedbank also stated that even if some information can appear relevant in retrospect, this does not mean that the information automatically appeared relevant at the time of the original request. What can be considered relevant in a very comprehensive investigation, according to Swedbank, should reasonably be able to emerge gradually as Finansinspektionen specifies its request in more detail.

Finansinspektionen notes that there is no formal requirement on the manner in which the authority shall present its request for information. There is also no specification that the authority's request for information must be made in writing; rather, the request may also be presented verbally, for example at a meeting. The provision does not require Finansinspektionen to specify in its request a reference to something that the authority is not aware of at the time of the request. The dialogue that is a necessary part of the communication between the supervisory authority and firms is based on trust. The supervisory authority must be able to trust that the firm will not take advantage of the fact that the authority is not aware of all circumstances to withhold information about circumstances that are of importance to the supervision.

With this point of departure, there is cause for Finansinspektionen to assess whether Swedbank failed in its obligation to provide information upon request from the authority. This matter relates to primarily three areas: the Panama papers and Customer A, Finansinspektionen's mapping of Swedish banks' money laundering risks in the Baltic countries, and the current investigation.

5.1.1 Panama papers and Customer A

Due to the Panama papers, Finansinspektionen opened an investigation in April 2016 into Swedbank's measures to combat money laundering and any links to the law firm Mossack Fonseca. In the investigation (FI Ref. 16-5850), Finansinspektionen requested in May 2016 the bank's assessment of the risk of money laundering associated with Customer A, who was a customer of both Swedbank and the Estonian subsidiary bank. The bank answered in June 2016

that the customer constituted a "high risk" of money laundering due to its links to high-risk countries and its complex ownership structure.

In parallel with this investigation, Finansinspektionen conducted an ongoing follow-up of Swedbank's work to combat money laundering. As part of this follow-up, Finansinspektionen met with Swedbank on 8 November 2016. Prior to this meeting, Finansinspektionen requested on 24 October 2016 that the bank describe all relevant and ongoing events related to the area of money laundering and present a summary of the internal review the bank had conducted as a result of the Panama papers.

On 4 November 2016, Finansinspektionen received the presentation material from Swedbank. An excerpt from the document reads,

> "The bank's work with a broader review of the customer stock, which is focusing on customers within Swedish Banking and LC&I that are established in high-risk countries according to the bank's internal list of country risk, is in its final stages. The preliminary results show improvement areas where the next step is to increase the degree of awareness of the risks associated with, for example, tax havens.
>
> For the Baltic Banking business area, the work to evaluate the customer relationships where links to the Panama leak were identified has continued. As a consequence of these links, the business area has introduced stricter requirements in the decision-making process when onboarding new customers with ties to offshore jurisdictions. The business area has also offboarded customers with low activity, where the ties to the host country are considered to be too weak and where the reassessed risk has been considered to be unacceptable."[26]

The documentation that Finansinspektionen received in October 2019 as part of the current investigation shows that Swedbank, in May–September 2016, had already reviewed Customer A following Finansinspektionen's questions regarding the customer in May 2016. The bank's review showed that Customer A and a large number of other firms formed the Customer Group, which had complex ownership structures, ties to, among others, oligarchs and persons in politically exposed positions from a high-risk country, and persons and firms that were listed on the EU's and OFAC's sanction lists. Furthermore, several of the firms in the Customer Group were registered in offshore jurisdictions, and several of them were registered with the law firm Mossack Fonseca. The Customer Group, according to Swedbank, constituted approximately one-third of the customers and one-half of the transaction volumes in the Estonian subsidiary bank's portfolio of non-resident customers that the subsidiary bank

[26] Onboarding and offboarding refers to the initiation and termination, respectively, of a customer relationship. LC&I and Baltic Banking are two of the bank's business areas.

had assessed as constituting a high risk of money laundering. Customer A was also one of the largest customers in foreign currency exchange (FX) in the Large Corporates & Institutions business area in terms of earnings. The documentation furthermore shows that Swedbank made the assessment in September 2016 that Customer A constituted an unacceptable risk of money laundering due to the know-your-customer information the bank had at that time, and the customer relationship was therefore going to be terminated.

Swedbank asserted that the points in Finansinspektionen's request to the bank on 24 October 2016 were too general. Swedbank furthermore pointed out that Finansinspektionen requested, among other things, *a summary* of the bank's internal review, and that the bank provided such a summary. If Finansinspektionen was not satisfied with the answer, the authority, according to the bank, could have asked follow-up questions and requested additional information. Swedbank also asserted that the matter of a potential regulatory violation must be assessed in the light of what was considered relevant at that point in time given the actual request, not based on what can be considered relevant several years later and in another context. Swedbank also stated that the bank did not actively withhold information.

According to Finansinspektionen, information about Customer A and the Customer Group is the type of information that was included in the request the authority sent to Swedbank on 24 October 2016. The request stated that the bank was required to describe all relevant and ongoing events related to money laundering and provide a summary of the internal review the bank had conducted as a result of the Panama papers. The request also included the information that the bank had made the assessment on 13 September 2016 that Customer A constituted an unacceptable risk. This applies in particular given not only the severity of the information that had emerged from Swedbank's review and the scope of the Group's customer relationships with Customer A and the Customer Group but also because Finansinspektionen had requested information about Customer A within the scope of the then-ongoing investigation into the Panama papers. Finansinspektionen therefore finds that it must have been obvious for Swedbank that the information was relevant at the time of the request for information and the meeting on 8 November 2016. Finansinspektionen does not share Swedbank's opinion that the request was too general.

It is essential for Finansinspektionen's supervision that the firms under supervision are transparent with the authority, provide the requested information, and never take actions to withhold information. Finansinspektionen must therefore be able to trust that the information it has received in response to a request is complete and correct, without there being a need to ask control questions. It is also only possible in extremely rare cases for the authority to be able to determine, or even suspect, that something has been withheld in the information submitted by a firm. Finansinspektionen

therefore does not share Swedbank's opinion that the authority, by asking follow-up questions, could have determined that it had received the desired information, and it is not under any circumstances necessary for determining whether the bank violated its information obligation.

Finansinspektionen therefore makes the assessment that Swedbank, even though it had the information at the time of the meeting on 8 November 2016, did not provide the information requested by the authority. Instead, Swedbank withheld information that it reasonably must have understood could be of relevance for Finansinspektionen.

When Finansinspektionen asked Swedbank in February and March 2019 whether the bank had terminated the relationship with Customer A, since the bank had previously informed Finansinspektionen this would happen, the bank answered that it had assessed the "customer as constituting an unacceptable risk" and terminated the customer relationship. Finansinspektionen also asked whether it was the risk of money laundering that made the risk unacceptable. Swedbank answered that the reason was the bank "not having received sufficient know-your-customer information".

Finansinspektionen finds that Swedbank provided false information to the authority in March 2019 when the bank stated that the reason it considered Customer A to constitute an unacceptable risk was that the bank had not received "sufficient know-your-customer information". The correct circumstance was, as presented, that the bank had decided the customer's risk grade on the basis of the know-your-customer information the bank had at that time, in other words as of 13 September 2016. By providing false information, Swedbank failed to provide Finansinspektionen with the information the authority requested.

5.1.2 Finansinspektionen's mapping of money laundering risks

In the autumn of 2018, Finansinspektionen mapped Swedish banks' money laundering risks in the Baltic countries. Finansinspektionen wanted to investigate how high the risks were and previously had been.

As part of this mapping, Finansinspektionen requested a meeting with Swedbank in September 2018. Prior to the meeting, Finansinspektionen sent on 3 October 2018 a long list of questions to the bank regarding "the bank's operations in the Baltics from an AML perspective". One of the specific questions was worded as follows:

> "To what extent have you terminated business relationships with customers you consider to constitute an unmanageable risk?"

Swedbank did not submit any written material to Finansinspektionen prior to or during the meeting. The bank stated that it does not have the possibility of verifying how the question was answered at the meeting on 16 October 2018 since the persons who represented the bank at the meeting no longer work for the bank.

Finansinspektionen's notes on what was discussed at the meeting show, however, that Swedbank stated at the meeting that the bank applied a risk-based approach but that it did not see any risk of large-scale money laundering like that in DBE since the bank considered itself to have a different business model. Swedbank stated that it had not identified "anything special" in the bank's review of its links to DBE. Furthermore, Swedbank stated that the bank is a "retail bank" and focuses on local customers and that the bank did not have any customers like those in DBE.[27]

As part of the current investigation, Finansinspektionen received, among other things, the bank's internal reviews from May, July and September 2018, in other words reviews that were available to Swedbank at the time of the meeting with Finansinspektionen on 16 October 2018. The reviews focused in part on the Baltic subsidiary banks' links to customers in DBE. The reviews show that Swedbank identified links to customers in DBE. In addition, Swedbank identified links to historically well-known proxies, the law firm Mossack Fonseca, and suspected cases of money laundering, corruption, and fraud.

In addition, the bank had already in 2017 as part of Project B taken steps to terminate customer relationships with Customer A and the Customer Group due to the bank, as described, having made the assessment that the customers constituted an unacceptable risk of money laundering. Reviews were also conducted within this project that showed extensive deficiencies in the Estonian subsidiary bank's measures to combat money laundering and that the subsidiary bank could have been misused for money laundering. Swedbank had engaged external consultants, including the law firm Erling Grimstad, as part of Project B. The consultants' reports showed that there was a high risk that the Estonian subsidiary bank had been misused for large-scale money laundering, that there had been systematic deficiencies in the subsidiary bank's work to combat money laundering, and that the management in the subsidiary bank had not fulfilled its obligations within central parts of its work to combat money laundering.

Swedbank asserted that none of the questions that Finansinspektionen asked prior to the meeting on 16 October 2018 required the bank to describe the

[27] Given the suspected money laundering in DBE, Swedbank had conducted its own reviews to gain an overview of any suspicious transactions and risks of money laundering connected to DBE (see section 4.2.1).

results of any internal and external investigations linked to DBE. Furthermore, the bank asserted that the specific question was generally formulated and therefore open to different interpretations.

Finansinspektionen makes the assessment that the question about the extent to which Swedbank had terminated business relationships with customers the bank considered to constitute an unmanageable risk clearly fulfils the requirements that can be placed on precision in a request for information. It is Finansinspektionen's opinion that the links to suspicious persons, firms and behaviour that were identified in Swedbank's internal reviews must be considered of such a nature that they led to the customers being assessed as constituting an unacceptable risk and the termination of the customer relationships. Finansinspektionen therefore does not share Swedbank's position that at the time of the request it was not obvious what information the bank should have submitted. Since Swedbank did not provide information about terminated customer relationships and the circumstances surrounding such actions at the meeting on 16 October 2018, the bank did not provide Finansinspektionen with the information it requested.

5.1.3 The current investigation

Finansinspektionen informed Swedbank in April 2019 that the authority had opened the current investigation into the bank's governance, risk management and internal control of measures to combat money laundering in the Baltic subsidiary banks. In conjunction with this, Finansinspektionen requested that the bank provide the authority with certain information.

Finansinspektionen specifically requested that Swedbank provide the authority with lists of reports from 2007 through Q1 2019.

The first list was to include reports that showed how the money laundering risks had been reported from the Baltic subsidiary banks to the parent bank. As a non-exhaustive list of examples of reports that were included, Finansinspektionen specified

- reports from the heads, management and control functions of the Baltic subsidiary banks to the parent bank,
- reports from the parent bank's CEO and management to the Group Board of Directors, and
- reports from the parent bank's control functions to the CEO, management, and Board of Directors of the parent bank.

The second list was to include all other reports that were prepared by the bank internally or with the help of external parties – final versions or draft versions –

and whose specific objective was to account for money laundering or money laundering risks in the Baltic subsidiary banks.

The lists were supposed to contain information about, for example, the report's objective, who prepared the report, who was the recipient of the report, and the report date.

Finansinspektionen also requested that a number of documents be available at the forthcoming onsite visit. These documents included

- all meeting minutes from the Board of Directors and its committees that pertained to money laundering in the Baltic subsidiary banks during the period 2007–Q1 2019, and
- all meeting minutes from Group management and the CEO's committees that pertained to money laundering in the Baltic subsidiary banks during the period 2007–Q1 2019.

Finansinspektionen also thereafter both verbally and in writing clarified for Swedbank that all material, for example reports and other documentation, related to the risk that the Baltic subsidiary banks may have been misused for money laundering must be submitted to Finansinspektionen. Finansinspektionen did this, in part, on a number of occasions during the onsite visit, by pointing out, verbally or in writing, that documents that were covered by the information request had not been submitted to Finansinspektionen. Furthermore, Finansinspektionen urged Swedbank at special meetings to ensure that the bank had submitted all relevant information within the scope of the investigation and emphasised the importance of transparency.

During the course of the investigation, however, Finansinspektionen, in various ways, through interviews and onsite visits, became aware of documents that Swedbank had in its possession but did not submit to Finansinspektionen. This refers to documents that the bank had access to at the time of the request in April 2019, but simply did not provide to Finansinspektionen. There were more than 20 documents that Finansinspektionen received as late as in September, October, November and December 2019, and these documents included descriptions of the money laundering risk in the Baltic subsidiary banks that had been reported to parts of the management of Swedbank. The documents included those that served as the basis for Swedbank's decision to initiate its Baltic AML programme.

Swedbank asserted that the bank, via its internal procedures and to the best of its ability, attempted to localise and provide all documentation requested by Finansinspektionen, and that it should be kept in mind that this discussion only refers to twenty documents in a very comprehensive investigation. Swedbank also asserted that some of the documents that Finansinspektionen takes the

position should have been provided are working documents that have been prepared by individual employees and that the bank in some cases was not aware of and are also not clearly covered by Finansinspektionen's information request. Swedbank also emphasised that the bank, when it became aware that documents had not been provided to Finansinspektionen and that during the course of the investigation were assessed to be relevant for the authority, quickly made them available.

Finansinspektionen notes that the original period under investigation, as indicated by Swedbank, covered a long period of time, and that the material for the investigation has been extensive. During the onsite visit that took place in Q2 2019, at the request of Finansinspektionen, Swedbank supplemented on an ongoing basis the material that was made available to the authority with documents that the bank had not previously made available in conjunction with the original request for information. Swedbank has thus had plenty of time to make the relevant documents available and had many opportunities to supplement the material.

The documents that Finansinspektionen mentioned above are documents that the authority became aware of after the bank's response to the verification letter on 16 September 2019. The bank should have ensured by this point in time that all documents that were part of Finansinspektionen's request had been made available to the authority. The documents that Finansinspektionen now takes the position that Swedbank should have provided to the authority are documents that the bank prepared itself or commissioned a third party to prepare and that have been shared within the bank. Finansinspektionen takes the position that it must have been obvious for Swedbank that these documents were part of Finansinspektionen's request. Finansinspektionen therefore determines that Swedbank has not provided all of the information the authority requested.

5.2 Overall assessment

In summary, Finansinspektionen finds that Swedbank, in the following respects, has not provided the authority with the information it clearly requested.

Swedbank did not inform Finansinspektionen in November 2016 about the findings of the bank's investigation into Customer A and the Customer Group. Neither did Swedbank inform the authority about the fact that the bank, in September 2016, had made the assessment that Customer A constituted an unacceptable risk of money laundering.

Swedbank did not provide Finansinspektionen with information in October 2018 on terminated customer relationships and the circumstances surrounding

the terminations. The bank did not provide information about Project B, the objective of which was specifically to terminate customer relationships that had an unacceptable risk of money laundering. Swedbank did not provide information about which customer relationships the bank had terminated or intended to terminate as a result of the suspicious customers and transactions the bank found in its DBE review.

Swedbank, during the current investigation, did not provide Finansinspektionen with all of the documents the authority had requested, for example several internal and external documents regarding suspicions of deficiencies in the bank's work to combat money laundering and that obviously were of interest for Finansinspektionen.

Furthermore, Finansinspektionen finds that Swedbank, in March 2019, provided false information to the authority, when the bank, in response to a question, stated that the reason Customer A was considered to constitute an unacceptable risk was that the bank had not received sufficient know-your-customer information. The correct circumstance was that the bank had determined the customer's risk grade based on the know-your-customer information in the bank's possession.

As a result, Swedbank has not fulfilled the requirements set out in Chapter 13, section 3 of the Banking and Financing Business Act, which requires the bank to provide Finansinspektionen with information about its operations and any related circumstances as requested by the authority.

The failure to provide the information that Finansinspektionen requested also made the authority's supervision more difficult. It is essential for Finansinspektionen's supervision work that firms are transparent and make requested and relevant information available to their supervisory authority. The withholding of information, which obstructs Finansinspektionen's supervision, may therefore never occur. As described above, the risks and deficiencies in the Baltic subsidiary banks resulted in a reputational risk for the parent bank. This, in turn, has had an impact on the confidence in the financial system in Sweden.

6 Investigation into compliance with the anti-money laundering regulatory framework in the Swedish Banking business area

Swedbank's operations in Sweden are subject to the Swedish anti-money laundering regulatory framework. Finansinspektionen investigated how the bank complied with the regulatory framework during the period 1 April–28 November 2018 in the Swedish Banking business area.

6.1 Points of departure for this investigation

Swedbank, like other banks and financial institutions, is exposed to risks of money laundering and terrorist financing. The bank's size, complexity and international ties make it very important that the bank manage the risks it is exposed to and comply with the anti-money laundering regulatory framework.

Finansinspektionen's investigation focused on persons in politically exposed positions (PEPs) and private banking customers. A politically exposed person is defined as, in accordance with Chapter 1, section 8, point 5 of the Anti-Money Laundering Act, a natural person who has or has had either an important public function in a state or a function in the management of an international organisation. A customer who is a politically exposed person (PEP customer) is assumed to constitute a high risk of money laundering in accordance with the Anti-Money Laundering Act. Private banking customers are also generally considered to constitute a higher risk of money laundering since such customers typically have extensive holdings of different types of assets and often carry out large and complex transactions.[28] FI's investigation included customer categories and business relationships where the risk of money laundering and terrorist financing in general can be expected to be elevated.

6.2 Finansinspektionen's observations and assessments

6.2.1 Risk assessment

Risk assessment of customers

Chapter 2, section 3, first paragraph of the Anti-Money Laundering Act states that the bank shall assess the risk associated with each specific customer relationship (the customer's risk profile). The risk that is referred to is the risk that the customer will misuse the bank's products and services for money laundering and terrorist financing. In this assessment, the bank must use as its starting point the risks identified in its general risk assessment and the bank's knowledge about the customer. The assessment of the customer's risk profile is called the risk classification, which means that the customer is assigned to a risk grade.

In order for the bank to be able to manage customers that are considered to constitute a high risk of money laundering or terrorist financing, according to Chapter 3, section 16 of the Anti-Money Laundering Act the bank shall take enhanced customer due diligence measures. Enhanced customer due diligence measures refer, for example, to more in-depth controls of the customer's identity, the gathering of more information on the purpose and nature of the

[28] The joint guidelines for risk factors, Chapter 5.

business relationship, and the assets the customer handles within the business relationship.

A bank, according to Chapter 3, section 1, first paragraph of the Anti-Money Laundering Act, may not establish or maintain a business relationship with a customer that it does not have sufficient knowledge about in order to manage the risk of being misused for money laundering or terrorist financing and monitor and assess the customer's activities and transactions in accordance with Chapter 4, sections 1 and 2.

Having sufficient knowledge about its customers is a prerequisite for the bank's possibilities for monitoring customers' activities and actual behaviour and based on this information identify deviations and suspicious behaviour and transactions. These deviations, following a review and assessment, must be reported to the Financial Intelligence Unit for further investigation into suspected money laundering or terrorist financing.

In addition, the focus and scope of the monitoring, in accordance with Chapter 4, section 1, second paragraph of the Anti-Money Laundering Act, must be determined after taking into account the risk of money laundering and terrorist financing that can be associated with the customer relationship. This means that the bank must monitor the transactions and activities of customers considered to be high risk more frequently than those of customers considered to have a lower risk.

Swedbank uses a risk classification model in its risk assessment of customers. This risk classification model is part of the bank's System Support for customer due diligence and is used to assign a grade to the customers in Swedish Banking.

During the investigation, Swedbank stated that the bank's risk classification model contains various risk factors that have been allocated their own risk weight. The bank furthermore stated that these risk factors are based on the general risk assessment. According to the bank, the risk weights for the risk factors are summed to a total risk weight for each customer. The total risk weight determines the customer's risk grade.

The risk classification model that Swedbank uses in the Swedish Banking business area to assess the risk of its customers does not take into account all of the risks the bank has identified in its general risk assessment since some high-risk industries and high-risk products are not included as high-risk factors in the risk classification model. This means that the bank could have customers that have been assigned the risk grade normal but that in reality should have been classified as high risk. As a result, Swedbank does not take enhanced customer due diligence measures for these high-risk customers or monitor them to a greater extent than other customers.

The bank states that the risk classification model largely has been based on the general risk assessment conducted in 2017 instead of the assessment conducted in 2018. Due to this statement from Swedbank, Finansinspektionen also requested and reviewed the 2017 general risk assessment. Finansinspektionen has determined that the bank has not fully assessed the risk of its customers based on the identified risks in this assessment, either. Swedbank also states that the risk assessment of customers has been based on the general risk assessment and the bank's customer due diligence, but deficiencies have been identified in the implementation and effectiveness. Swedbank therefore partly shares Finansinspektionen's assessment that the bank's risk assessment of customers has not been based on the general risk assessment and the bank's customer due diligence regarding the customer to the extent required by the Anti-Money Laundering Act.

Swedbank's compliance function reported to the CEO and the head of the Swedish Banking business area on 14 June 2018 that there were deficiencies in the bank's risk classification model. The report highlighted that the model does not consider all relevant risk factors identified in the bank's general risk assessment.

The bank stated the following in its response to the verification letter and the statement in December 2019. Due to the report, Swedbank began in 2018 a project to develop a new method for risk assessments and an enhanced risk classification model for customers. The bank chose to prioritise the development of a new model instead of updating the existing model. The bank stated that the customer's risk grade could be manually updated as needed while the new model was being developed. The new model was implemented in December 2019 and will be updated in Q2 2020 and Q4 2020 before all activities regarding this deficiency, according to Swedbank, will have been resolved. The bank states, for example, that some parts will be developed so the model fully takes into account and weighs the risk factors identified in the general risk assessment for 2019.

Finansinspektionen takes the position that a bank the size of Swedbank, with more than four million customers in its Swedish Banking business area, cannot rely on manual updates of customers' risk grades to fulfil the requirements of the law. Finansinspektionen also finds it remarkable and not acceptable that the bank continued to use the original model until December 2019. Overall, Finansinspektionen considers the bank's risk assessment of customers not to have been based on the general risk assessment and the bank's customer due diligence to the extent required by Chapter 2, section 3, first paragraph of the Anti-Money Laundering Act.

Validation of the risk classification model for customers

Models may be used to simplify and systematise a number of assessments that banks are required to make under the Anti-Money Laundering Act, for example the general risk assessment, the risk classification of customers, and the monitoring of transactions and activities. When a bank uses models, it is particularly important for these models to also function as intended and deliver the expected results.

A model risk, somewhat simplified, is a risk of errors that can arise in the use of a given model. The purpose of model risk management is to quality-assure and improve the models being used and ensure that they are not misused by customers who understand how the models work and can adapt their behaviour to avoid a high-risk classification, for example.[29]

If a bank uses models for risk classification, for example, according to Chapter 6, section 1, second paragraph of the Anti-Money Laundering Act, the bank must have procedures for model risk management. Finansinspektionen has issued more detailed regulations that expressly require a bank to conduct a validation of a model before it is taken into service or if material modifications are made to the model (Chapter 6, section 16 of the anti-money laundering regulations). Validation refers to a control that the model works as it should.

Due to the deficiencies that Finansinspektionen noted regarding Swedbank's model for risk classification of customers, the authority also reviewed the bank's procedures for validation and whether the bank had validated its model.

Swedbank has procedures for validating the risk classification model of Swedish Banking. The bank states that according to internal rules it shall review in the validation process that the risk factors and data used in the risk classification model are correct and complete and the assumptions made are appropriate and relevant. During the investigation, however, Swedbank stated that the bank has not validated the model, but that it will ensure that the continuing development work and forthcoming validations occur in accordance with a documented process.

The bank states in its statement that it has developed an enhanced model for risk classification and that in this work it also developed its method for model risk management. The new model for risk classification, according to the bank, was validated for implementation in December 2019.

Finansinspektionen makes the assessment that the bank did not take any of the measures required to validate its existing model for risk classification during the period under investigation. There has thus been a risk that customers who

[29] Bill 2016/17:173 p. 213.

should have been classified as constituting a high risk of money laundering or terrorist financing may have been classified as constituting a normal risk. This means in turn that Swedbank may have had customers with a high risk of money laundering or terrorist financing for which the bank has not performed enhanced due diligence measures or more frequent monitoring.

Finansinspektionen therefore makes the assessment that the bank has not fulfilled the requirements set out in Chapter 6, section 16 of anti-money laundering regulations.

6.2.2 Monitoring ongoing business relationships

Monitoring based on customer due diligence

Chapter 4, section 1, first paragraph of the Anti-Money Laundering Act states that a bank shall monitor ongoing business relationships in order to be able to identify activities and transactions that deviate from the bank's knowledge about the customer from what the bank has cause to assume based on its knowledge about customers, products and services, the information provided by the customer or transactions the bank suspects could be part of money laundering or terrorist financing.

A prerequisite for a bank to be able to fulfil its monitoring obligation is to have correctly implemented the other measures required under the anti-money laundering regulatory framework. In order to be able to monitor a specific customer's transactions, the bank must have assessed the customer's risk profile and taken appropriate know-your-customer measures. Functional review procedures and the reporting of suspicious transactions to the Financial Intelligence Unit are key for achieving the objective of the anti-money laundering regulatory framework, i.e. to prevent money laundering and terrorist financing.

The purpose of the bank obtaining information about its customers is to be able to assess the individual risk level of the business relationship (the customer's risk profile) and use a correct and accurate basis for ongoing monitoring of transactions and activities. The information obtained from the customer provides the point of departure for the bank's practical opportunities for identifying deviations from the customer's expected behaviour. The bank therefore needs to monitor whether the customer uses the accounts and services in the manner the customer has communicated. For example, if a customer makes significantly larger deposits or carries out different types of transactions than what was originally indicated in the dialogue with the bank, the bank must investigate the underlying cause of the deviation. The deviation can constitute suspicious behaviour that after further review the bank must report to the Financial Intelligence Unit.

Swedbank is one of Sweden's largest banks with more than four million customers in its Swedish Banking business area. Given the size, complexity and international ties of the bank, an automated system for transaction monitoring that can handle the bank's large number of transactions, customers and somewhat complex business operations is required. As discussed previously, transaction monitoring refers to the bank's monitoring and assessment of the transactions carried out by the customer.

Finansinspektionen notes that Swedbank has an automated system for transaction monitoring to identify suspected money laundering and terrorist financing. The system used in Swedish Banking is used for all customers in the business area. Swedbank stated that the bank, in its monitoring, has applied a risk-adapted scenario development in which the bank has identified a number of significant risk areas for PEP and private banking customers. From these identified risk areas, the bank then created scenarios that are used in its system for transaction monitoring. Swedbank has reviewed the customers' transactions in relation to these scenarios in the system to identify such deviations that the bank has assessed to potentially constitute suspicious behaviour. The deviations that are identified by the system are called alerts. When an alert is generated, the bank needs to investigate the transaction in more detail to be able to determine if it constitutes a suspicion of money laundering or terrorist financing.

During the period under investigation, there were twelve active scenarios in the system for transaction monitoring that were used for all customers within the Swedish Banking business area. In addition, Swedbank also used four additional specific scenarios that targeted transactions conducted by PEP customers.

The monitoring scenarios that Swedbank uses generate alerts only if the transaction amount exceeds a certain threshold value. How high this value is varies depending on the customer segment. The customer segment to which a specific customer belongs is based primarily on the size of the customer's monthly deposits or the assets the customer has in the bank. Customers with larger deposits or assets in the bank have a higher threshold value. Swedbank states in its statement that the bank conducted a statistical analysis of the various customer segments' historical transaction levels and based on this analysis determined the level of the thresholds that are used for each customer segment.

Finansinspektionen notes that all scenarios used in the automated system for transaction monitoring for the Swedish Banking business area are based on general assumptions regarding anti-money laundering and terrorist financing risks that originated from the bank's general risk assessment. The bank has also identified certain specific risk areas for different customer segments where, for example, some risk areas have been identified for PEP and private banking customers. Finansinspektionen notes, however, that Swedbank, aside from the

four specific scenarios that target PEP customers, has applied all active scenarios to all active customer groups, without considering the special risk areas identified for specific customer groups.

Finansinspektionen notes that Swedbank takes into account some know-your-customer information at a general level in its monitoring of ongoing business relationships through the applied thresholds. The customer information that is used is based primarily on information about the size of various customer groups' deposits and assets in the bank. Aside from the four specific scenarios that target PEP customers, Finansinspektionen notes that Swedbank does not use scenarios or threshold values that are intended to identify deviant transactions based on the knowledge the bank has about customers at an individual level. For example, there have been no scenarios that compare an individual customer's transactions to their historical transactions or considered the information the customer provided about the purpose and nature of the business relationship.

Swedbank stated in its general risk assessment for 2018 that new scenarios must be implemented in the system for transaction monitoring to be able to manage risks such as deviations in relation to the information the customer provided, differentiated monitoring of PEP customers depending on geography, and monitoring based on the risk grade.

Swedbank concedes that it did not have scenarios linked to individual know-your-customer information prior to 31 July 2019. However, Swedbank considers the bank to have monitored its ongoing business relationships based on the knowledge the bank had about its customers.

Swedbank states that the bank used scenarios in its transaction monitoring that were developed using the general risk assessment and in accordance with the regulatory framework. The bank furthermore states that the general risk assessment was based on knowledge the bank has about its customers, services and products. According to the bank, this means that it has captured generally deviant behaviour regardless of knowledge about the customer's risk grade and know-your-customer information. The bank considers it sufficient to use general threshold values since the values that are used are determined using a risk-based approach and were developed using statistically supported expected behaviour from various customer groups.

Finansinspektionen considers effective monitoring to require the bank to have obtained sufficient know-your-customer information for individual customers and that this information is also used in the ongoing follow-up and the transaction monitoring. The preparatory works for the Anti-Money Laundering Act (Bill 2016/17:173 p. 249) states that the knowledge about how the customer normally carries out its activities and uses the bank's products or services should serve as the basis for identifying deviant transactions and activities to prevent the customer from using the bank to launder money or

finance terrorism. Finansinspektionen takes the position that if the customer is not monitored in relation to the obtained know-your-customer information, the bank cannot identify deviations from the customer's expected behaviour.

Finansinspektionen takes the position that a bank of Swedbank's size and complexity must have designed its automated system for transaction monitoring in such a way as to handle deviations not just in relation to general customer behaviour but also to individual know-your-customer information that the bank has obtained from its customers. One of the main aims of obtaining know-your-customer information, such as the objective and nature of the business relationship, is that a bank should use the information to be able to follow up on the customer's activities in its ongoing follow-up, of which the transaction monitoring is a significant part.

Finansinspektionen notes that the Swedish Banking business area has not had scenarios that could identify deviations from the information the bank has had about its customers prior to 31 July 2019, regardless of whether the customer had been classified as constituting normal or high risk. By not considering know-your-customer information about individual customers, Swedbank has not been able during the period under investigation to identify deviations by these customers as long as the customers remained within the pre-defined general thresholds. The bank has thus not been able to follow up if the customer used the bank's products and services differently than indicated.

Finansinspektionen thus makes the assessment that Swedbank has not monitored its ongoing business relationships in the Swedish Banking business area based on the bank's know-your-customer information in the manner required by Chapter 4, section 1, first paragraph of the Anti-Money Laundering Act.

Monitoring based on the customer's risk profile

Chapter 4, section 1, second paragraph of the Anti-Money Laundering Act states that the focus and scope of the monitoring must be determined by taking into account the risks that the bank identified in its general risk assessment, the risk of money laundering and terrorist financing that can be associated with the customer relationship, and other information on methods for money laundering or terrorist financing.

This means, in part, that the scope and focus of the monitoring must be adapted to the customer's risk grade, which means that a bank must take more measures where the risk is assessed to be higher.

Finansinspektionen's investigation shows that the bank's automatic system for transaction monitoring has not taken the customer's risk profile into consideration. In the material Finansinspektionen received from the bank, there

is no scenario that states that a customer's risk grade is considered in the Swedish Banking business area.

As a result, when monitoring scenarios and setting parameters for these scenarios, the bank has only to a limited extent captured the customers who constitute a high risk of money laundering or terrorist financing since customers with different risk grades are not differentiated from one another in the transaction monitoring system. This means that transactions carried out by customers constituting a high risk have not been reviewed more than transactions carried out by customers constituting a low or normal risk. Since the objective of the review is to identify suspicious transactions, an absence of scenarios and parameters that take into consideration the customer's risk grade represents a potential risk that transactions that would be considered money laundering or terrorist financing are not identified.

In the autumn of 2018, Swedbank's compliance function reported to the CEO and the head of the Swedish Banking business area that there were deficiencies in the bank's transaction monitoring. The report highlighted in part that the transaction monitoring in the Group and the Swedish Banking business area was insufficient and major improvements were needed. The compliance function also reported that the transaction monitoring did not sufficiently increase in relation to high-risk customers and that it did not take into account the customer's risk grade or the knowledge the bank had about the customer.

Swedbank's statement shows that the bank considers the deficiencies in individual customers' risk classification and the fact that they have not been used in scenarios not to have resulted in the monitoring as a whole not being based on a correct risk classification.

Finansinspektionen notes that the anti-money laundering regulatory framework consists of different steps that are linked to one another in such a way that deficiencies in one could lead to deficiencies in another. This means that the effectiveness of a bank's work to prevent money laundering and terrorist financing is dependent on the bank taking measures in all areas in accordance with the requirements set forth by law. A risk-based approach means that the bank must take more measures when the risk is greater than normal.

As mentioned previously, Chapter 4, section 1, second paragraph of the Anti-Money Laundering Act states that a bank must take into account the individual customer's risk profile when monitoring ongoing business relationships. Finansinspektionen therefore does not share the bank's opinion that the customer's risk grade does not need to be considered in the monitoring.

Finansinspektionen thus makes the assessment that Swedbank has not monitored its ongoing business relationships in the Swedish Banking business area based on the customer's risk grade in the manner required by Chapter 4, section 1, second paragraph of the Anti-Money Laundering Act.

6.3 Overall assessment

Finansinspektionen takes the position that Swedbank, in the areas presented above, has not complied with the requirements set out in Chapter 2, section 3, first paragraph of the Anti-Money Laundering Act in that the bank, in its risk assessment of customers, has not fully taken into account all of the risks identified in the general risk assessment.

The bank has also not validated its model for risk classification, which is required in Chapter 6, section 16 of the anti-money laundering regulations.

When monitoring ongoing business relationships, Swedbank has not taken into account the knowledge the bank has about the individual customer to the extent required or adapted the focus and scope of the monitoring to the customer's risk grade. This means that the monitoring has not been in compliance with Chapter 4, section 1 of the Anti-Money Laundering Act.

Finansinspektionen takes the position that the deficiencies as a whole have meant that Swedbank has not appropriately managed its exposure to the risk that it will be misused for money laundering or terrorist financing.

7 Consideration of intervention

7.1 Applicable provisions

Finansinspektionen, in accordance with Chapter 15, section 1 of the Banking and Financing Business Act, shall intervene if a credit institution fails to fulfil its obligations set out in the act, other regulations that govern the institution's operations, or internal instructions based on regulations that govern the institution's operations. Finansinspektionen can intervene by ordering an institution to implement measures that will rectify a certain situation or by issuing the institution a remark. If the infringement is serious, the authorisation of the credit institution shall be withdrawn or, if sufficient, a warning issued.

Chapter 15, section 1b, first paragraph of the Banking and Financing Business Act states that when determining the sanction, Finansinspektionen shall take into consideration the gravity of the infringement and its duration. Special consideration shall be given to the nature of the infringement, the tangible and potential effects of the infringement on the financial system, the losses incurred and the degree of responsibility.

Chapter 15, section 1b, second paragraph of the Banking and Financing Business Act prescribes that Finansinspektionen may refrain from intervening if the infringement is negligible or excusable, if the credit institution rectifies the matter or if any other authority has taken action against the institution and such action is deemed sufficient.

According to Chapter 15, section 1c, first paragraph of the Banking and Financing Business Act, in addition to that set out in section 1b, as an aggravating circumstance, consideration shall be given to previous infringement by the credit institution. In conjunction with this determination, particular weight should be attached to whether the infringements are similar in nature and the time which has elapsed between the various infringements.

According to Chapter 15, section 1c, second paragraph of the Banking and Financing Business Act, as a mitigating factor, consideration shall be given as to whether the institution to a significant extent through active cooperation facilitated Finansinspektionen's investigation and quickly terminated the infringement after it was reported to or identified by Finansinspektionen.

According to Chapter 15, section 7 of the Banking and Financing Business Act, Finansinspektionen may combine a remark or warning with an administrative fine.

Chapter 15, section 8 of the Banking and Financing Business Act specifies the limits for the size of the administrative fine. According to the wording that was in effect prior to 1 August 2017, the administrative fine shall be set at the most to

1. ten per cent of the credit institution's turnover the immediately preceding financial year,
2. two times the profit recorded by the institution as a result of the infringement, if the amount can be determined, or
3. two times the costs avoided by the institution as a result of the infringement, if the amount can be determined.

On 1 August 2017, the provision was amended through a new, alternative ceiling for the administrative fine that was added in addition to points 1–3 above, namely an amount corresponding to EUR 5 million.

A new amendment to the provision entered into force on 2 August 2017. Point 1 above was then amended to state that the administrative fine shall be determined to be at the most ten per cent of the credit institution's turnover or, where applicable, corresponding turnover at the Group level, for the immediately preceding financial year. The other points were not amended in any way that is now of interest.

The transition provisions to the amendments in Chapter 15, section 8 of the Banking and Financing Business Act mentioned above state that older provisions apply to infringements that took place prior to the entry into force of each regulatory amendment.

Chapter 15, section 8 of the Banking and Financing Business Act furthermore states that the administrative fine may not be set at less than SEK 5,000. The fine may also not be of such a size that the institution subsequently does not meet the requirements set out in Chapter 6, section 1 of the Banking and Financing Business Act, i.e. that the fine not be so large that the institution risks not being able to meet its obligations.

When the fine is determined, according to Chapter 15, section 9 of the Banking and Financing Business Act, special consideration shall be given to such circumstances as those set out in sections 1b and 1c and to the institution's financial position, and, if it is possible to determine, to the profit that the institution earned as a result of the infringement.

7.2 Swedbank's statement

In its statement on 20 December 2019, Swedbank described the Group's comprehensive action plan to combat money laundering and terrorist financing. According to the bank, the measures rest on three pillars: reinforcement of internal governance and control, implementation of the action plan and allocation of resources (132-Point Programme), and oversight and assurance of a common culture. Swedbank also presented on a general level parts of its action plan for Finansinspektionen at a meeting on 23 January 2020. The bank's statement on 20 December 2019 does not specify when the bank expects to be finished with the overall action plan. At the meeting on 23 January 2020, the bank stated that a realistic target for completion of the plan is the end of 2022.

Regarding Swedbank's governance and control, the bank's statement on 20 December 2019 states in part that the bank's Board of Directors has initiated a review of the Group's organisational structure and framework for internal governance and control. The review will be conducted in 2020 and includes the entire Group, including the matrix organisation and the legal entities. Furthermore, the Board of Directors established a new Board committee, the purpose of which is to monitor and evaluate the Group's governance model and processes. The bank furthermore states that the CEO made changes to the Group's organisation, and in 2019 the previous CEO, several members of the Board, and management members from both the bank and the Estonian subsidiary bank left the Group.

When it comes to Swedbank's 132-Point Programme, the bank states in its statement on 20 December 2019 that the objective of the programme is to rectify deficiencies in compliance with the anti-money laundering regulatory framework that were identified as part of the ongoing investigations. The programme will be followed up on an ongoing basis and reported to Swedbank's risk and compliance committee, the CEO and the Board of Directors as needed. The statement furthermore states that a significant portion

of the measures taken within the Group aim to ensure that there are sufficient resources. According to the bank, the number of employees in the Group that will primarily work with matters related to money laundering and terrorist financing will almost triple by the end of 2020 compared to Q1 2019. At the meeting on 23 January 2020, the bank stated that the 132-Point Programme is dynamic and new measures will be added on an ongoing basis as needed.

Swedbank intends to rectify the identified deficiencies related to the unclear division of roles and responsibility through its work to strengthen internal governance and control, the implementation of the action plan, and oversight and assurance of a common culture.

With regard to Swedbank's culture, the bank's statement on 20 December 2019 also stated that the CEO initiated a project to analyse whether the culture (values and risk culture) in different parts of the Group have created undesirable behaviour compared to the expected risk culture. The project will result in recommendations to the Board of Directors and the CEO on which measures, if any, need to be taken for the Group to be able to realise the expected risk culture.

According to Swedbank, measures may be added to all pillars of the bank's overall action plan for anti-money laundering work since additional deficiencies or needs may be identified within the framework of the bank's ongoing initiative and communication from supervisory authorities. Swedbank's statement on 20 December 2019 furthermore states that the bank intends to bring in a third party to evaluate the measures the Group has taken and whether the Group's anti-money laundering work is in line with current regulations.

In its statement regarding the investigation into the bank's compliance with the anti-money laundering regulatory framework in Sweden, Swedbank stated that it decided in the autumn of 2018 to implement a new risk classification model. The new model, which was implemented in December 2019, will be updated in Q2 and Q4 2020.

According to Swedbank, when the new risk classification model has been fully implemented, it will have rectified the deficiencies highlighted by the bank's compliance function and Finansinspektionen, which means that it will consider all risks the bank has identified in its general risk assessment. The bank states that the new model was validated before it was taken into service and will be validated in future updates.

Swedbank states furthermore that the bank began to use four new scenarios on 31 July 2019 in its transaction monitoring system. These scenarios are based on deviations from the specific knowledge the bank has about individual

customers' historic behaviour and from information individual customers provided during the customer due diligence process.

The bank also states that several new scenarios are under development. These will take into account, for example, individual customer characteristics and more extensive know-your-customer information. In addition, scenarios are being developed from new typologies.

7.3 Assessment of the violations

Finansinspektionen's investigation shows that there have been deficiencies in Swedbank's governance and control of anti-money laundering measures in the Baltic subsidiary banks, the provision of information to Finansinspektionen, and compliance with the anti-money laundering regulatory framework in the Swedish operations.

As a result of the identified deficiencies, Swedbank has failed in its obligations pursuant to, for example, the Banking and Financing Business Act and the Anti-Money Laundering Act. The Anti-Money Laundering Act is the type of regulation that governs the bank's operations as set out in Chapter 15, section 1 of the Banking and Financing Business Act. The provisions in Chapter 15 of the Banking and Financing Business Act shall be applied in the event of violations to the Anti-Money Laundering Act (see Chapter 7, section 1, third paragraph of this act).

The violations cannot be considered negligible or excusable. Finansinspektionen does not consider the measures Swedbank currently has taken, and plans to take, to rectify the deficiencies to provide grounds for the authority to refrain from intervening against the bank. No other authorities have taken sufficient measures against Swedbank due to the violations, either. Finansinspektionen takes the position that as a whole the identified violations have been of such a nature that there are grounds to intervene against Swedbank.

7.4 Choice of intervention

In its choice of intervention, Finansinspektionen shall take into account the severity of the violations and their duration. Special consideration must be given to the nature of the violations, their tangible and potential effects on the financial system, losses incurred and the degree of responsibility.

Finansinspektionen makes the assessment that the investigation into governance and control of anti-money laundering measures in the Baltic subsidiary banks as a whole shows that Swedbank has displayed significant deficiencies in its work to maintain satisfactory governance, risk management and control. Swedbank has, in several instances, also failed to provide

Finansinspektionen with the information it requested or provided incorrect information in response to a question. Furthermore, Swedbank has violated the anti-money laundering regulatory framework in its Swedish Banking business area in several respects.

In terms of the violations' duration, it is primarily the deficiencies in governance and control that should be considered. Finansinspektionen notes that these deficiencies, to varying degrees, have been present throughout the entire period under investigation, i.e. more than 4 years. Given the context, this must be viewed as a relatively long period of time. It is an aggravating circumstance that the deficiencies occurred for so long, particularly since they were reported to both the CEO and the Board of Swedbank, the reports were clear, and they should have been perceived as alarming. Swedbank's failure to take sufficient measures introduced a significant increase to the risk that the subsidiary banks could have been misused for money laundering purposes. Both the subsidiary banks and Swedbank have thus been exposed to significant risks. In addition to Swedbank's governance and control having been insufficient for a long period of time, consideration must also be given to the fact that the deficiencies Swedbank failed to functionally and effectively rectify have undermined the possibilities for living up to the requirement on a bank to prevent money laundering. This means that it is not only the long duration of the violations but also the nature of the violations, taken together, that lead to the conclusion that the violations must be considered as particularly serious.

With regard to the nature of the violations, there are also grounds to view the violations linked to the provision of information to Finansinspektionen as particularly serious. A prerequisite for Finansinspektionen's supervision work is that the firms under supervision are transparent and make available requested and correct information to the authority. A firm that is under supervision may never withhold information from Finansinspektionen. As expressed by Finansinspektionen in section 5, a supervisory authority must be able to trust that the firm is not relying on the authority's information disadvantage to withhold information about circumstances that are important to the supervision. Every such attempt by a firm that is under supervision raises the question of whether this firm truly wants to follow the extensive regulatory framework, compliance with which is a prerequisite for being allowed to conduct regulated business. Swedbank's view – as was expressed in the bank's statement on 20 December 2019 – on the relationship between Swedbank and Finansinspektionen is deeply concerning.

The violations in this case have not, at least not yet, had any concrete effects on the financial system. The potential effects of the violations, on the other hand, have been clear. The deficiencies in governance and control of the operations in the Baltic subsidiary banks exposed both Swedbank and the subsidiary banks to significant risks. Furthermore, the deficiencies, like the violations to the anti-money laundering regulatory framework in the Swedish operations,

could have resulted in the financial system being misused to a greater extent for money laundering and terrorist financing. They could also lead to a loss of confidence in the system. The deficiencies in the provision of information make it more difficult, as Finansinspektionen has described above, for the authority to conduct its supervision. This in turn could affect not only customer and consumer protection but also the stability of and confidence in the financial system.

With regard to "the degree of responsibility", the preparatory works state that this provides Finansinspektionen with an opportunity to recognise whether there were mitigating circumstances in that a violation was the result of behaviour which, due to special circumstances, could be considered to be less reprehensible than otherwise (Bill 2013/14:228 p. 240). There are no such circumstances in this case.

Quite the opposite, there are circumstances that indicate that Swedbank's behaviour at times was more reprehensible. Finansinspektionen conducted an investigation in 2013 into Swedbank's compliance with the anti-money laundering regulatory framework.[30] The authority pointed out back then in a verification letter to the bank, among other things, that the bank was not taking the customer's risk grade into consideration when monitoring ongoing business relationships.

Finansinspektionen again investigated the bank's compliance with the anti-money laundering regulatory framework in 2016.[31] The closing letter[32] in this investigation states in part that it was Finansinspektionen's recommendation that the bank ensure it had obtained and documented sufficient information on the purpose and nature of the business relationships as part of its customer due diligence measures for all customers. Finansinspektionen also pointed out in the closing letter that this deficiency could result in the bank not being able to follow up on its business relationships and thus also not being able to satisfactorily monitor transactions.

In other words, Finansinspektionen previously pointed out several deficiencies in the compliance of Swedish Banking with the anti-money laundering regulations. Despite this, Finansinspektionen now notes that Swedbank has not rectified these deficiencies. This must be viewed as an aggravating circumstance.

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[30] FI Ref. 13-1785.
[31] FI Ref. 16-5850.
[32] When Finansinspektionen closes an investigation without deciding on a sanction or another intervention, the authority often sends a closing letter to the firm that was investigated. In the closing letter, Finansinspektionen informs the firm that the investigation has been closed and describes for the firm the deficiencies and weaknesses the authority identified. Fiannsinspektionen also recommends measures that it feels the firm should take.

In summary, Finansinspektionen makes the following assessment. The violations with regard to governance and control of anti-money laundering measures in the Baltic subsidiary banks have been ongoing for a relatively long period of time, even though the deficiencies were reported to the CEO and the Board of Directors. Due to the nature of the violations, there are grounds to view the failure to provide information to Finansinspektionen as particularly serious. The violations related to both governance and control and the failure to provide information to Finansinspektionen have had a clear potential impact on the financial system. As a whole, Finansinspektionen finds that these violations are serious.

With regard to the violations to the anti-money laundering regulatory framework in Swedbank's Swedish Banking business area, Finansinspektionen considers them not to be serious in the meaning set forth in Chapter 15, section 1, second paragraph of the Banking and Financing Business Act. There are, however, grounds to emphasise that the violations have had clear potential effects on the financial system and that Swedbank, with regard to some of the violations, carries a high degree of responsibility since Finansinspektionen had pointed out similar deficiencies to the bank previously.

Since Finansinspektionen considers some of the violations to be serious, the authority must consider the withdrawal of Swedbank's authorisation.

Withdrawing the authorisation for a bank is a powerful intervention, and as such it may not occur without strong grounds. According to the preparatory works, a warning can be issued when the conditions to withdraw an authorisation are present but in the specific matter a warning appears to be a sufficient measure.

According to Chapter 15, section 1c of the Banking and Financing Business Act, Finansinspektionen shall consider as mitigating circumstances if a bank significantly has facilitated Finansinspektionen's investigation through active cooperation and quickly rectified the infringement following its notification to or identification by Finansinspektionen. In order for cooperation to be considered, according to the preparatory works (Bill 2013/14:228 p. 241), the bank, on its own initiative, must have provided important information that Finansinspektionen itself does not already have at its disposal or can easily find. As presented in section 5.1, Swedbank has not provided Finansinspektionen with all documents that the authority requested during the investigation. Overall, Finansinspektionen notes that Swedbank has far from facilitated the investigation. In other words, it is not possible to view any participation from the bank as mitigating.

Neither has Swedbank, given the scope and complexity of necessary measures, been able to quickly cease the violation since it was reported to or identified by Finansinspektionen. There are therefore no mitigating circumstances that can

be considered in the choice of the sanction pursuant to Chapter 15, section 1c of the Banking and Financing Business Act.

Additional circumstances that can lead to a warning being sufficient are set out in the preparatory works and include that it is not likely that the bank will repeat the violation and that the forecast for the bank is positive or that the bank did not know any better when the violation occurred (Bill 2002/03:139 p. 382ff.).

Finansinspektionen presented in section 7.2 what Swedbank has said regarding the measures the bank has taken and plans to take. As presented there, the bank stated that a realistic target for completion of the plan is the end of 2022. In addition to this it can be added that Swedbank's annual report for 2019, which was published on 19 February 2020, states that the bank estimates that large parts of the action plan will be completed in 2020. Swedbank's Nomination Committee proposed in January 2020 that an additional four members of the Board of Directors of the bank be replaced.

Finansinspektionen notes that Swedbank has recently replaced its CEO and that a large percentage of the members of the Board of Directors during the time the violations were occurring have been replaced or will be soon replaced. The authority furthermore notes that Swedbank has taken and intends to take extensive measures to rectify the identified deficiencies. Finansinspektionen finds that the total action plan presented by Swedbank shows that the bank has now realised the extent of the problems and is committed to rectifying the deficiencies. To strengthen the control and follow-up of the total action plan, the Board of Directors has established, for example, a new Board committee, the purpose of which is to monitor and evaluate the Group's governance model and processes. The 132-Point Programme will also be followed up on an ongoing basis and reported to the bank's risk and compliance committee, the CEO and the Board of Directors as needed. Swedbank also stated that the resources primarily allocated to the Group's work to prevent money laundering and terrorist financing will almost be tripled by the end of 2020.

In contrast, though, a possible indication that Swedbank would not be able to comply with the regulatory framework in the future is the bank's reported stance regarding its possibilities to govern and control the operations in the bank's subsidiary banks with regard to the current investigations (see section 3.3.1 above). Swedbank has, however, initiated a review of the Group's organisational structure and its framework for governance and control. Finansinspektionen therefore presumes that Swedbank, given the assessment of the authority in this decision, will arrange its organisation in such a way as to perform effective governance and control of the operations in the Baltic countries.

With regard to the serious deficiencies Finansinspektionen noted regarding the provision of information to the authority, Finansinspektionen's description earlier in this decision of Swedbank's attitude towards how active the bank must be when informing the authority and providing it with requested information is deeply concerning. The arguments presented by Swedbank in this respect raise questions regarding whether the bank intends to provide its supervisory authority with the information it needs to be able to discharge its duty of, for example, protecting financial stability and good consumer protection. However, Finansinspektionen makes the presumption that, following the clear description of the expectations that must obviously be placed on a firm under supervision, and in particular on the most important firms, Swedbank will realise which requirements the bank must meet in order to be able to repair the severely damaged confidence in the bank. Finansinspektionen therefore makes the overall assessment that, despite the seriousness and nature of the violations, it is possible to assume that Swedbank will comply with the current provision moving forward.

In terms of Swedbank's measures to comply with the anti-money laundering regulatory framework in Sweden, Finansinspektionen views positively the measures the bank has presented for its new risk classification model and development work related to the transaction monitoring. However, Finansinspektionen notes that the bank has not specifically accounted in its action plan for how it intends to monitor ongoing business relationships based on the risk grade of individual customers in such a manner that the focus and scope of the monitoring is adapted to the risk profile of the customer.

Finansinspektionen notes that as a whole Swedbank has taken and is planning measures that, together with Finansinspektionen's correction of Swedbank's misconceptions regarding the bank's responsibility in certain respects, significantly reduce the risk of new or similar violations. Swedbank may also be viewed as having the ability to implement the measures. Finansinspektionen therefore stops with the assessment that the expectation that Swedbank will rectify the deficiencies and in the future comply with the regulation is strong enough to be sufficient to issue Swedbank a warning.

The warning Finansinspektionen is issuing Swedbank will be accompanied by an administrative fine.

Finansinspektionen must first determine the highest possible amount for the fine (the "ceiling" for the administrative fine). It has not been possible to determine the profit attributable to Swedbank, or the costs the bank avoided, as a result of the regulatory violations. A ceiling for the administrative fine determined by the bank's, or the Group's, turnover (see below) will exceed an amount corresponding to EUR 5 million. The ceiling for the administrative fine will therefore be based on turnover.

As presented in section 7.1, one of the calculation principles for setting the highest amount for an administrative fine was changed through a legislative amendment that went into force on 2 August 2017. While the administrative fine was previously allowed to amount to at the most ten per cent of the bank's turnover in the immediately preceding financial year, it may now, where relevant, amount to at the most ten per cent of the corresponding turnover at the group level. Because Swedbank is part of a group, the new wording of the provision is applicable.

The transition provisions for the legislative amendment specify, however, that older provisions apply to violations that occurred prior to the entry into force of the amendment.

If the violation had ceased before the entry into force, the ceiling for the administrative fine would have been determined by the previous wording of Chapter 15, section 8 of the Banking and Financing Business Act. When, as in this case, a violation occurs over a long period of time and an amendment to a law enters into force during this time that makes it possible to decide on a stricter sanction than what was previously possible, it must be decided how the sanction will be determined given the amendment to the law.

Finansinspektionen has stated in a previous decision that if the violation began immediately before or ended immediately after the entry into force of the legislative amendment, there can be grounds to use the regulations that applied during the greatest part of the period in question to determine the size of the administrative fine (Finansinspektionen's Decision on 13 September 2016 in FI Ref. 15-13887). In the same decision, Finansinspektionen found that the starting point in other cases should be to use how much of the violation occurred before and after the legislative amendment to determine an intended ceiling for the administrative fine.

The circumstances in the case in question differ somewhat from the decision in 2016 in that there are two investigations with different investigation periods. The investigations include several different violations that were committed at different points in time. There is therefore cause to not only consider how much of the time during which the violations took place occurred before and after the entry into force of the legislative amendment but also when the various violations took place.

In terms of the violations related to governance and control, they have been occurring throughout the entire period under investigation, in other words from 2015 through Q1 2019. The span of the violations prior to the legislative amendment in August 2017 is somewhat longer than after the amendment. In terms of the violations linked to the provision of information to Finansinspektionen, these violations occurred on three distinct occasions: one before and two after the legislative amendment. One of the occasions, the

failure to provide information in the current investigation, also continues after the end of the period under investigation. In terms of the violations to the anti-money laundering regulatory framework in the Swedish Banking business area, all violations occur after the legislative amendment.

Following an overall assessment, Finansinspektionen finds that it is reasonable to set a ceiling at the average of the highest administrative fines in accordance with both applicable provisions.

Swedbank's turnover amounted in 2019 to SEK 52.08 billion, and the corresponding turnover at the group level amounted to SEK 60.36 billion. The ceiling for the administrative fine according to the older provisions therefore amounts to SEK 5.21 billion and according to the new provisions to SEK 6.04 billion. The average of these amounts is SEK 5.62 billion, which Finansinspektionen finds is the ceiling for the administrative fine.

The size of the administrative fine can be seen as a gradation of the violations. When Finansinspektionen determines the size of the administrative fine, the authority must give special consideration to such circumstances that must also be considered when choosing the sanction and to the bank's financial position and, if it can be determined, the profit the institution made as result of the violation.

As presented above, Customer A was one of the largest customers in foreign currency exchange (FX) in the Large Corporates & Institutions business area in terms of earnings. It must also be assumed that other customers, including firms in the Customer Group, with which customer relationships were terminated due to the risk of money laundering, contributed positively to the subsidiary banks', and by extension Swedbank's, net profit. Given the significant reinforcement in its work to prevent money laundering and terrorist financing that Swedbank says the bank will implement by the end of 2020, it is also clear that Swedbank has not allocated sufficient resources for the work in previous years and that the bank thus has had lower costs than what it should have had given the elevated risk level. It is therefore obvious that Swedbank has profited as a result of the violations, even if Finansinspektionen has not been able to determine an exact figure. Otherwise, Finansinspektionen has outlined earlier in this decision its assessment of the violations. The circumstances that were presented as sufficient grounds for the choice of the sanction are also those that should be taken into consideration when determining the size of the administrative fine. As presented, Finansinspektionen considers both the violations regarding Swedbank's governance and control of the subsidiary banks in the Baltic countries and the violations regarding the failure to provide Finansinspektionen with access to requested information to be serious. In addition, there are multiple deficiencies in the work to prevent money laundering in the Swedish operations. It is

against this background that Finansinspektionen determines the administrative fine.

Finansinspektionen sets the administrative fine at SEK 4,000,000,000. This administrative fine is not large enough to prevent Swedbank from meeting its solvency and liquidity requirements in accordance with Chapter 6, section 1 of the Banking and Financing Business Act. The provision set out in Chapter 15, section 8, third paragraph of the Banking and Financing Business Act, which states that administrative fine may not be of such a size that the bank will subsequently not be able to meet the requirements set out in Chapter 6, section 1 of the same act, therefore does not affect the size of the fine.

The administrative fine shall accrue to the Government and is invoiced by Finansinspektionen after the decision enters into force.

FINANSINSPEKTIONEN

Sven-Erik Österberg
Chairman of the Board of Directors

Per Håkansson *Senior Advisor to the Director General*	Kajsa Larsberger Holting *Senior Legal Counsellor*	Helena Landstedt *Legal Counsellor*

A decision in this matter was made by the Board of Directors of Finansinspektionen (Sven-Erik Österberg, Chair, Maria Bredberg Pettersson, Peter Englund, Astri Muren, Stefan Nyström, Mats Walberg, Charlotte Zackari and Erik Thedéen, Director General) following a presentation by Senior Advisor to the Director General Per Håkansson, Senior Legal Counsellor Kajsa Larsberger Holting, and Legal Counsellor Helena Landstedt. Senior Supervisor Alexandra Kettis and Senior Legal Counsellor Mika Tuominen participated in the final proceedings.

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

Copy: Swedbank AB’s CEO

N O T I F I C A T I O N R E C E I P T

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FI Ref. 18-21044
FI Ref. 19-7504
Notification No. 1

Warning and administrative fine

Document

Decision regarding a warning and administrative fine for Swedbank AB announced on **19 March 2020**

I have received the document on this date.

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DATE

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SIGNATURE

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NEW ADDRESS (IF APPLICABLE)

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This receipt must be returned to Finansinspektionen **immediately**. If the receipt is not returned, the notification may be issued in another manner, e.g. via a court officer.

If you use the enclosed envelope, there is no charge for returning the receipt.

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

Appendix 1

How to appeal

It is possible to appeal the decision if you consider it to be erroneous by writing to the Administrative Court. Address the appeal to the Administrative Court in Stockholm, but send the appeal to Finansinspektionen, Box 7821, 103 97 Stockholm or finansinspektionen@fi.se.

Specify the following in the appeal:

- Name, personal ID number or corporate ID number, postal address, email address and telephone number
- The decision you are appealing against and the case number
- What change you would like and why you believe the decision should be changed.

If you engage an agent, specify the name, postal address, email address and telephone number of the agent.

Finansinspektionen must receive the appeal within three weeks from the day you received the decision.

If the appeal was received on time, Finansinspektionen will assess whether the decision will be changed and then send the appeal, the documents in the appealed matter and the new decision, if relevant, to the Administrative Court in Stockholm.

Appendix 2

Applicable provisions

Governance and control

Chapter 6, section 2 of the Banking and Financing Business Act (2004:297) states that a credit institution shall identify, measure, steer, internally report and have control over the risks associated with its business. The institution shall ensure that it has satisfactory internal control.

Chapter 6, section 4b of the Banking and Financing Business Act sets out that it is the board of directors of a credit institution which is responsible for ensuring that the requirements of Chapter 6, sections 1–3 of the Banking and Financing Business Act are fulfilled.

Chapter 3, section 4 of the Special Supervision of the Credit Institutions and Securities Companies Act (2014:968) (the Supervision Act) states that a parent undertaking or subsidiary that is subject to supervision under the act must meet the requirements set out in Chapter 6, section 2, first paragraph of the Banking and Financing Business Act at a group or subgroup level.

Chapter 1, section 1, fourth paragraph of Finansinspektionen's regulations and general guidelines (FFFS 2014:1) regarding governance, risk management and control at credit institutions (FFFS 2014:1) states that the regulations, in accordance with that set out in Chapter 3, section 4 of the Supervision Act, shall be applied at the group or subgroup level.

Chapter 2, section 1 of FFFS 2014:1 states that an undertaking has an appropriate, transparent organisational structure with a clear allocation of functions and areas of responsibility that ensure sound and efficient governance of the undertaking and enable Finansinspektionen to conduct efficient supervision.

Chapter 3, section 2 of the FFFS 2014:1 states that board members shall have sound knowledge and understanding of the undertaking's organisational structure and processes in order to ensure that they are consistent with the decided strategies of the undertaking. Board members shall be thoroughly familiar with and knowledgeable about the undertaking's operations and the nature and scope of its risks.

Chapter 3, section 3 of FFFS 2014:1 states that the board of directors or managing director shall regularly review and assess the efficiency of the undertaking's organisational structure, procedures, measures, methods, etc. decided by the undertaking to comply with laws and other statutes regulating the operations of the undertaking that are subject to authorisation. The board of directors or managing director shall also take appropriate measures for addressing any deficiencies therein.

Chapter 5, section 1 of FFFS 2014:1 states that an undertaking shall have a risk management framework containing the strategies, processes, procedures, internal rules, limits, controls and reporting procedures required to ensure that the undertaking may, on an ongoing basis, identify, measure, govern, internally report and exercise control of the risks to which it is or could perceivably become exposed.

Chapter 5, section 2 of FFFS 2014:1 states that the risk management framework as in section Chapter 5, section 1 of FFFS 2014:1 shall be well integrated into the undertaking's organisational and decision-making structure, and pertain to all material risks in the undertaking. The business units of the undertaking are responsible for performing daily risk management.

Chapter 6, section 3 of FFFS 2014:1 states that a control function shall have the resources required and access to the information needed to discharge its tasks. Such a function shall have staff with the required knowledge and powers for discharging their duties.

Chapter 6, section 7 states that a control function shall regularly, at least once a year, report on material deficiencies and risks to the board of directors, the risk committee if such has been appointed, and the managing director. The reports shall follow up on previously reported deficiencies and risks and describe each new identified material deficiency and risk. The report shall also include a consequence analysis and a recommendation for measures. The board of directors, risk committee and managing director shall, as soon as possible, take appropriate measures ensuing from the control function's report.

Chapter 8, section 3 of FFFS 2014:1 states that the compliance function shall identify risks that exist of failure by the undertaking to fulfil its obligations pursuant to laws, statutes and other regulations applicable to the operations subject to authorisation. Furthermore, the function shall monitor and control the risks managed by concerned functions (point 1), monitor and control compliance with laws, statutes and other regulations, and relevant internal rules (point 2), monitor and control compliance with internal rules and procedures in accordance with section 1 (point 6), verify and regularly assess whether the undertaking's procedures and measures are appropriate and efficient (point 7), and provide recommendations to the people concerned based on the observations made by the function (point 8).

Provision of information to Finansinspektionen

According to Chapter 13, section 3 of the Banking and Financing Business Act, a credit institution shall provide Finansinspektionen with any and all information about its operations and any related circumstances as requested by the authority.

Anti-money laundering regulatory framework

Chapter 2, section 3, first paragraph of the Money Laundering and Terrorist Financing Prevention Act (2017:62) (Anti-Money Laundering Act) states that a firm shall assess the risk of money laundering or terrorist-financing that can be associated with the customer relationship (the customer's risk profile). The customer's risk profile shall be determined based on the general risk assessment and the firm's knowledge about the customer.

Chapter 4, section 1, first paragraph of the Anti-Money Laundering Act states that a firm shall monitor ongoing business relationships and assess individual transactions with the aim of identifying activities and transactions that

1. deviate from what the firm has cause to expect given the knowledge it has about the customer.

2. deviate from what the firm has cause to expect based on the knowledge the firm has about its customers, the product and services it provides, the information provided by the customer, and other circumstances, or

3. without being deviant pursuant to point 1 or 2 can be assumed to be part of money laundering or terrorist financing.

Chapter 4, section 1, second paragraph of the Anti-Money Laundering Act states that the focus and scope of the monitoring must be determined by taking in account the risks that have been identified in the general risk assessment, the risk of money laundering and terrorist financing that can be associated with the customer relationship and other information on the method for money laundering or terrorist financing.

Chapter 6, section 1, first paragraph of the Anti-Money Laundering Act states that a firm shall have procedures and guidelines for internal control. The second paragraph states that the firm shall have procedures for model risk management if it uses models for risk assessment, risk classifications, monitoring or other procedures. It furthermore states that procedures for model risk management shall aim to evaluate and quality assure the models the firm uses.

Chapter 6, section 16 of Finansinspektionen's regulations (FFFS 2017:11) regarding measures against money laundering and terrorist financing states that an undertaking shall validate a model before it is taken into service. If substantial changes are made to a model, a new validation must be carried out.