Landsbankinn's rules on measures to combat money laundering and terrorist financing

Rule No. 201811-0714-8 | Approved in November 2018 | Revision scheduled for 2020 | CEO
In adopting these Rules, Landsbankinn seeks to fulfil in all respects the strictest requirements made domestically and internationally of financial undertakings with regard to actions to combat money laundering and terrorist financing. These Rules are issued on the basis of Act No. 64/2006, on Actions to Combat Money Laundering and Terrorist Financing, as subsequently amended, as well as the guidelines of the Financial Supervisory Authority, Iceland, on Measures to Combat Money Laundering and Terrorist Financing No. 5/2014.

1. PURPOSE
The objective of these Rules is to seek to prevent the use of the operations and activities of Landsbankinn hf., or those of its subsidiaries, for the purpose of money laundering or terrorist financing.

These Rules apply to all employees of Landsbankinn hf. and its subsidiaries, as appropriate.

2. MONEY LAUNDERING AND TERRORIST FINANCING
Money laundering is the activity whereby an individual or legal entity acquires or receives for itself or others’ gains from a criminal offence according to the General Penal Code or other legislation. It is also regarded as money laundering if an individual or legal entity undertakes to convert, transport, send, store, assist in delivering, conceal such gains or information pursuant to its origins, nature, location, disposal or transport of such gains or in any similar manner participates in ensuring other parties gains from such criminal offences.

Terrorist financing is the provision or collection of funds with the intention that they be used, or the knowledge that they are to be used, to carry out an offence punishable under Article 100a-c of the General Penal Code.

3. DUE DILIGENCE
Before establishing a contractual relationship or before a transaction takes place, due diligence shall be carried out on a customer. Due diligence refers to gathering information and verifying information about the customer.

Due diligence shall take place in the following instances:

a) Upon establishing a lasting business relationship. Examples of events that mark the beginning of a lasting business relationship:
   i. Creation of a deposit account.
   ii. Signing of a credit facility or service agreement.
   iii. Signing of asset management contract.
   iv. Signing of a private banking service agreement.
   v. Issuance of a payment card.
   vi. Creation of custody account for securities transactions.

b) Due diligence shall be carried out on customers for individual FX transactions amounting to EUR 15,000 or more according to current and official exchange rates, whether the transaction is carried out in a single operation or in several operations. The same applies to foreign currency trading involving the equivalent of EUR 1,000 or more.

c) Lower amounts may be linked so that the total transaction amount may reach the above-mentioned EUR 15,000 limit. If an employee is of the opinion that linked business is being carried out in several transactions, due diligence shall be carried out when the amount of an individual transaction is EUR 1,000 or more according to current and official exchange rates.
d) When there is a suspicion of money laundering or terrorist financing, regardless of any derogation or exemption.

e) When doubt exists as to the accuracy or reliability of customer information data.

4. PERFORMING DUE DILIGENCE

4.1. INDIVIDUALS

Personal information must be obtained on the customer, including his/her name, Id. No. and legal domicile. Information on the customer's legal domicile is verified against Registers Iceland. If the address differs from the legal domicile, information on abode is recorded. Information on the customer's nationality is recorded.

In confirmation of the veracity of the information, customers must verify their identity by presenting valid personal identification.

The establishment of a business relationship with individuals who are not financially competent shall always be preceded by due diligence of the individual or his/her legal guardian or a close relative opening a fixed-term account in the name of the non-financially competent, in accordance with the Bank's procedures.

Foreign nationals are screened to ascertain whether they constitute an exposed person. The Money Laundering Reporting Officer (MLRO) ascertains whether to discontinue any business relationship entered into.

4.2. LEGAL ENTITIES

Basic information shall be gathered on domestic legal entities, such as name (registered company name), Reg. No., legal domicile and address, telephone and e-mail address as appropriate and legal form. Personal information on the legal entity's contact person, including name and Id. No., shall also be recorded. If the legal entity is not listed on a regulated securities market, information shall be gathered on the real (beneficial) owner. Beneficial owner refers to the person(s) (one or more) who owns the business or controls the legal entity through direct or direct holding of more than 25% of shares in the legal entity or controls more than 25% of votes.

In cases where it is unclear which person(s) own or control the legal entity, additional information shall be gathered in order to confirm the beneficial owner of the legal entity. Information the Bank may have reason to require includes:

- Further information on the ownership of legal entities.
- Memorandum of Association and/or Articles of Association of legal entity.
- Shareholders’ agreement (if the legal entity is a limited liability company) or other agreement between the owners or directors of the legal entity.
- Whether shares in a limited liability company are divided into special classes whereby certain classes carry more weight than others.
- Whether shares in the legal entity have been posed as guarantee to specified parties who hold voting rights based on the pledge agreement.
- Other agreements that may affect the control of the legal entity.

If further inspection fails to reveal the person(s) that are the beneficial owner(s), the managing director of the company shall be considered its beneficial owner.

Information shall be also gathered on all directors, managing directors, and authorised signatories of a legal entity. The legal entity shall also confirm which persons are authorised to oblige the legal entity.

1 According to Act No. 110/2007, on Stock Exchanges.
Copies shall be obtained of the legal entity's Articles of Association and most recent annual financial statements. An original certificate from the Enterprise Register of the Directorate of Internal Revenue (Fyrirtækjaskrá ríkisskattstjóra) or an attested copy shall be required. The certificate may not be more than three months old. Documents printed from the website of Credit Info shall be deemed sufficient.

Non-Icelandic legal entities shall submit an original or attested copy of the company's certificate of incorporation from the register of enterprises in the country in question. The certificate must be as current as possible, and never more than three months old. If submitted documents are not evidently issued by institutions equivalent to those in Iceland, their veracity must be confirmed by, for example, the appropriate Embassy. Copies shall be obtained of the legal entity's Articles of Association and most recent annual financial statements. A bank reference may be requested to attest to the identity of a legal entity.

4.3. INFORMATION ON THE BOARD OF DIRECTORS, MANAGING DIRECTORS AND AUTHORISED SIGNATORIES

Persons authorised to sign for legal entities and those who hold special authority to represent a legal entity in its dealings with financial undertakings, including managing directors and board members, must verify their identity by showing valid identification. These parties shall also confirm the validity of the origin of their authorisation to sign or special authorisations if representing a legal entity.

4.4. NON-GOVERNMENTAL ORGANISATIONS AND CHARITIES

Information on the purpose of NGOs and charities is recorded prior to establishing a business relationship. Information shall be gathered and verified on persons responsible and persons in charge of the organisations and their assets. It must also be established that the person(s) representing the NGO or charity is duly authorised to do so.

5. VALID IDENTIFICATION

Identification issued by a public authority or approved by a public authority, Icelandic or foreign, shall constitute valid personal identification. Valid personal identification includes passports, driver’s licences, Icelandic ID cards, and electronic ID that incorporates a valid electronic certificate stored in a secure signature-creation device. The personal identification may not have expired. Copies shall be taken of the personal identification presented. If the identification provided is issued by another source yet accepted by authorities, the Bank requires written confirmation of the veracity of this identification. Original copies of identification certified by a notary public can be accepted in lieu of the original.

To remove any doubt, payment cards, whether or not they carry a photograph of the card holder, are not valid personal identification for the purpose of these Rules.

6. FURTHER INFORMATION WHICH MUST ALWAYS BE OBTAINED

The following information on the intended transaction must be obtained prior to the transaction:

a) Information as to whether transactions are carried out on behalf of a third party:

A party seeking to establish a business relationship shall always be required to state whether its proposed transactions with the Bank will be carried out on behalf of a third party (the beneficial owner), whether this is a natural person or legal entity. If this is the case, or there is suspicion that this is the case, the customer shall be required to provide information as to who this party is; in such a situation the provisions of Section 4 shall apply concerning the information to be obtained concerning that party.

b) Information on the purpose of the business relationship, where this is unclear:
A party seeking to establish a business relationship shall as a rule be asked to state the purpose of the business relationship. In most cases, the purpose of the business relationship is clear, as for example in the following cases:

- Vehicle loan
- Contract for pension savings
- Custody agreement for securities transactions
- Asset management contract

7. SIMPLIFIED DUE DILIGENCE

A simplified form of due diligence may be carried out in certain cases. Simplified due diligence does not require assessing the validity of information about customers. It shall, however, always be necessary to register the name, Id./Reg. No. and domicile of an individual or legal entity. Person(s) representing the customer shall prove that they are authorised to do so and provide proof of identity.

Simplified due diligence may be used for the following parties:

a) Financial undertaking.
b) Life insurance company and similar legal entities, licensed to operate in the European Economic Area.
c) Companies listed on a regulated securities market, as defined in the Act on Activities of Stock Exchanges and Regulated OTC Markets.
d) Icelandic authorities, meaning parties or institutions who hold public roles or duties, such as the government and ministries, sub-offices of ministries and municipal governments.

8. DUE DILIGENCE NOT CARRIED OUT

As a rule, if it proves impossible to carry out due diligence on a customer, a business relationship cannot be established.

If a current customer has not verified his/her identity, he/she shall do so without delay. Information shall also be obtained about the beneficial owner, if such information was not obtained upon the establishment of the business relationship.

9. EXEMPTION FROM DUE DILIGENCE

As a rule, a customer’s identity shall be verified in accordance with Section 4 of these Rules prior to the establishment of a contractual relationship. In exceptional cases, however, and after obtaining the authorisation of the money laundering reporting officer (MLRO), this may be postponed until after establishing a contractual relationship, in instances where there is deemed to be little risk of money laundering or terrorist financing. This applies in particular in cases where a customer cannot due to impossibility produce valid identification or is unable to appear in person to prove his/her identity, for example, customers in hospital or nursing homes. This may also apply to vacation pay accounts and gift accounts, customers who have a long business history with the Bank, elderly customers and non-financially competent customers.

10. ENHANCED DUE DILIGENCE

Certain situations may require enhanced due diligence. Enhances due diligence may involve the following:

a) If a current customer has not provided proof of identity, he/she shall submit a copy of valid personal identification attested by a notary public or other similar officially approved party in the country in question; the certified document itself shall be delivered to the Bank.
b) The initial payment shall be made in the name of the customer from an account which he/she has previously established in an approved credit institution or financial undertaking.

c) Request for information on the origin of funds.

d) In the case of foreign nationals, he/she may be requested to provide a bank reference from a bank in his/her home country.

e) To verify the legal domicile or residence of customers in the case of individuals residing abroad, the Bank may request a copy of an energy bill or similar.

11. SPECIAL CIRCUMSTANCES REQUIRING ENHANCED DUE DILIGENCE

11.1. REMOTE SALES

If the customer requesting a business relationship is not physically present to prove his/her identity when commencing such a relationship, increased requirements shall be made of information about the customer. Remote sales include establishing a business relationship through telephone or e-mail or the use of other electronic means of transactions.

11.2. TRANSACTIONS WHERE POLITICALLY EXPOSED PERSONS ARE INVOLVED

Natural persons who are or have been entrusted with prominent public functions and their immediate family members, or persons known to be close associates, of such persons are considered politically exposed. Prominent public functions in this connection shall mean senior public administrators and high-ranking military personnel; judges and public prosecutors; influential politicians; and senior management of public corporations.

Should a non-resident seeking to establish a business relationship prove to be a politically exposed person, an employee of Landsbankinn may not establish a business relationship with such a party until the employee’s superior and the MLRO have given approval for the transaction.

11.3. INTERBANK TRANSACTIONS

Landsbankinn’s employees may not carry out interbank transactions until the employee’s superior and the MLRO have given approval for the transaction. Interbank transactions refer to one bank providing another bank with service in the form of netting, liquidity management, short-term loans or investment etc.

Landsbankinn may not enter into or continue a business relationship with a shell bank or with any other financial undertaking which is known to permit its accounts to be used for transactions by a shell bank.

12. ONGOING MONITORING DURING THE CONTRACTUAL RELATIONSHIP

Customer transactions shall be subject to regular supervision for the duration of the contractual relationship with Landsbankinn. Care shall be taken to ensure that the information held on customers is always accurate and up to date. Information on customers shall be updated and further information gathered as needed.

13. OBLIGATION TO REPORT SUSPICIOUS BEHAVIOUR OF A CUSTOMER AND MEASURES IN THIS CONNECTION

13.1. EXECUTION OF SUSPICIOUS TRANSACTIONS

If an employee of Landsbankinn suspects, or has legitimate reason to expect, that assets which a customer is intending to transmit through the Bank are the proceeds of illegal actions or are connected with terrorist financing, care shall be taken not to refuse or by other means alert the customer wishing to carry out the transaction. If possible, the transaction shall not be carried out until the MLRO has approved the transaction.

13.2. REPORTING TO THE MONEY LAUNDERING REPORTING OFFICER
All suspicious transactions, attempts to conclude such transactions or suspicious behaviour by customers, shall be reported to Landsbankinn’s MLRO without delay. Examples of suspicious customer behaviour include:

» transactions are unusual, very extensive or complicated, having regard to the customer’s normal activities;
» customer provides information that is not considered credible;
» transactions involve significant amounts paid in cash; and
» transactions that do not appear to have an economic or legal purpose.

13.3. MONEY LAUNDERING REPORTING OFFICER’S EXAMINATION OF SUSPICIOUS AND EXTRAORDINARY TRANSACTIONS

The MLRO shall assess whether there are grounds to report the suspicious transaction or attempted transaction to the Money Laundering Desk of the District Prosecutor. The MLRO shall be responsible for having all the circumstances of such transactions carefully examined and the results of this examination reported to the authorities concurrent to reporting the transaction. On the other hand, if there are not deemed to be grounds for such a report, the outcome of the investigation by the MLRO shall be preserved.

13.4. REPORT TO THE MONEY LAUNDERING DESK OF THE DISTRICT PROSECUTOR

If the MLRO is of the opinion that there are justified suspicions or reasonable grounds to suspect the transaction is connected to a violation of the type defined in Section 2 of these Rules, he/she shall immediately report the transaction or attempted transaction to the Money Laundering Desk of the District Prosecutor.

14. CONFIDENTIALITY

Management, employees and others working on behalf of Landsbankinn must ensure that neither the customer nor another unauthorised party receives knowledge that a report as referred to the the Money Laundering Desk of the District Prosecutor or another competent authority or that an investigation due to suspected money laundering has been initiated.

Furthermore, the same parties may not inform a customer or indicate to the customer by any means that his/her transaction is the object of an investigation following a report from another party, should they become aware of such an investigation.

15. RESPONSIBILITIES OF LANDS_BANKINN TOWARDS ITS EMPLOYEES

Landsbankinn shall ensure that information as to what employee reported a customer’s suspicious transaction is kept secret and the employee’s name shall not be disclosed, for instance, in reports to the the Money Laundering Desk of the District Prosecutor or another competent authority unless there is urgent reason for so doing.

In such case, the Bank must also take necessary measures to protect those employees involved in the report on the customer’s transaction against threats or hostile actions by customers following such reports.

16. EMPLOYEE TRAINING

The MLRO ensures that all employees are offered appropriate training in the actions to prevent money laundering and terrorist financing applied by the Bank at each time. Such knowledge and training must be maintained to reflect the technologies and methods known to be currently used in money laundering. Employees are required to pass a yearly exam of Landsbankinn's measures to prevent money laundering and terrorist financing.
The managing directors of the Bank’s individual divisions shall ensure that employees attend the information meetings and courses on preventing money laundering and terrorist financing offered with the above intention, as appropriate.

16.1. TRAINING FOR EMPLOYEES IN DIRECT CONTACT WITH CUSTOMERS

Frontline employees shall yearly at a minimum be offered special training. These courses shall cover the Acts and Rules on measures to prevent money laundering and terrorist financing, what documentation need to be obtained when establishing a business relationship, ongoing monitoring of customers’ transactions, where reports of suspicion of money laundering should be sent, how relations with customers shall be conducted in the event of such reports and what the obligations of employees are under these Rules and money laundering legislation. These employees shall receive special training to assist them in verifying what transactions could be connected with money laundering.

Supervisors of frontline employees shall request further training if necessary.

16.2. TRAINING FOR OTHER EMPLOYEES

Other employees of Landsbankinn shall regularly attend a course where the Bank’s rules in this regard are reviewed, together with current legislation on preventing money laundering and terrorist financing.

16.3. TRAINING FOR NEW EMPLOYEES

Upon commencing employment, a new employee shall be introduced to the Bank’s rules on measures against money laundering and terrorist financing.

17. SECURITY IN HIRING EMPLOYEES

Upon hiring employees, Landsbankinn shall ensure that they satisfy the strictest qualification requirements. Hiring procedures shall include authorisation to investigate an applicant’s education and work background, his/her financial position, record of criminal offences and other factors which could affect whether prospective employees are in any situation which increases the risk of their becoming the accomplice of parties laundering money or financing terrorist activities.

18. ACTIONS AGAINST EMPLOYEES WHO PROVE NEGLIGENT IN THEIR DUTIES

In the event that an employee violated the Bank's Rules on measures to prevent money laundering and terrorist financing without legitimate reason, the Compliance Officer may give him/her a warning or take other appropriate action in accordance with the nature of the offence. The Director of Human Resources shall be consulted concerning the issuance of warnings.

The MLRO’s report to the CEO shall contain information about the employee's infraction and the nature of the offence.