

Nordea

Report

on Investigation of Nordea Private Banking
in Relation to Offshore Structures

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INTRODUCTION

Nordea Group's two second line control functions, Group Compliance and Group Operational Risk have completed an independent internal investigation of Nordea Private Banking's part of the "Panama Papers" case. The investigation has been led by Group Compliance and Group Operational Risk with advice and with external support related to tax regulation, Know Your Customer (KYC), forensics operational risk as well as Luxembourg regulation and assessment of market practice and local legal advisors with regard to specific assessments related to interpretation of Luxembourg law. The report of the findings is attached in section A.

Further, Mannheimer Swartling Advokatbyrå has been appointed by Nordea Bank AB (publ) to make a separate review in order to conclude how the management and the Board of Nordea Bank S.A. has managed their duties in relation to the operations of offshore structures from a governance and risk management perspective in view of the results of the investigation carried out by Nordea Group Compliance and Group Operational Risk. The report of the findings is presented in section B.

Finally, Mannheimer Swartling has acted as advisor during the independent internal investigation carried out by Group Compliance and Group Operational Risk to confirm high professionalism in defining the scope, methodology, structure and documentation of findings, that the conclusions in a good way are reflecting the fact findings from the internal investigation and that no material findings have been excluded from the conclusions in the report in section A. A statement to this effect is presented in section C.



SECTION A

Internal Investigation

by

Nordea Group Compliance and Nordea Group Operational Risk

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1 Introduction

Group Compliance and Group Operational Risk have completed the internal investigation of Nordea Private Banking's part of the "Panama Papers" case.

The investigation was led by Nordea's two second line control functions, Group Compliance and Group Operational Risk, with advice and support from KPMG related to tax regulation, Know Your Customer (KYC), forensics operational risk as well as Luxembourg regulation and assessment of market practice. Mannheimer Swartling Advokatbyrå (MSA), led by Biörn Riese, has been used as legal advisor to ensure high professionalism in defining the scope, methodology, structure and documentation of findings. MSA also provided advice throughout the investigation in relation to method and format and finally expressed an opinion as to whether the conclusions reflect the fact findings from the investigation and that no material findings have been excluded from the conclusions. Local legal advisors in Luxemburg have been used for specific assessments related to interpretation of Luxembourg law. The investigation has mainly targeted Nordea's International Private Banking business, i.e. Nordea Bank S.A. in Luxemburg (NBSA). The scope also covered customers in Nordic Private Banking with an offshore structure. More precisely the focus was offshore structure customers administered by the law firm Mossack Fonseca (MF) based in Panama as well as all offshore structures established in Panama channelled via providers other than MF. As the number of Nordic Private Banking (NPB) customers with an offshore structure was limited all such customers were included in the investigation, independent of service provider used. Since the investigation covers a very specific subset of NBSA customers, the results should not be seen as representative of the entire customer base of NBSA.

The investigation has been carried out in 11 separate work streams. Key conclusions are presented in this report. The themes are the following:

- Anti-Money Laundering (AML)/Know Your Customer (KYC)
- Evidence of tax compliance
- Global Tax Reporting
- Foreign Account Tax Compliance Act (FATCA)
- Qualified Intermediary (QI)
- Common Reporting Standard (CRS)
- EU Savings Directive (EUSD)
- Operational Risk Management Framework & Policies
- Procedures for renewing Powers of Attorney
- Employees' private engagement in offshore structure activities
- Information Security

Group Compliance and Group Operational Risk have presented recommendations for areas where deficiencies have been identified. These will later be followed up by Group Compliance and Group Operational Risk to ensure that the deficiencies identified during the investigation are remediated.

2 Scope

The scope of the investigation was approved by the Board of Directors of Nordea Bank AB on 22 April 2016.

Group Compliance's investigation focused on the quality of the Know Your Customer (KYC) files, tax reporting and tax compliance issues whereas Group Operational Risk focused on potential operational deficiencies with a specific assessment of the risk management framework in International Private Banking in Luxembourg, i.e. within Nordea Bank S.A. in Luxembourg. Offshore structures, i.e. companies, trusts or foundations, are owned directly or indirectly by one or more ultimate beneficial owner(s) (each a "UBO"). Most of these UBOs also have a customer relationship (e.g. an account in the name of the UBO) with NBSA (such UBOs referred to as "UBO Customers").

The scope for the investigation is the offshore structures (the "Offshore Structure Customers") which have a customer relationship (e.g. an account in the name of the Offshore Structure Customer) with NBSA and which are a) administered by MF and/or b) incorporated in Panama.

It should be noted that the investigation's KYC file review is based upon 129 NBSA Offshore Structure Customers (i.e. all MF and Panama structures as of 15 April 2016) and 5 Nordic Private Banking Offshore Structure Customers. The corresponding numbers in the Evidence of tax compliance section are 137 and 16, respectively. The reason for the difference in NBSA Offshore Structure Customers reviewed is that the Evidence of tax compliance review also includes a few customers that were terminated prior to 15 April 2016. The reason for the difference in Nordic Private Banking offshore structures reviewed is that the KYC/AML work stream reviewed customers where Nordic Private Banking had functional responsibility for KYC; e.g. KYC data was collected by Nordic Private Banking (NPB), a segment within the business area Wealth Management and not by Retail. The evidence of tax compliance work stream reviewed all NPB offshore structure customers at least partially serviced by NPB.

3 Methodology

In April the CEO of the Nordea Group assigned the task of conducting an internal investigation in relation to the leaked so-called Panama Papers in order to present facts and conclusions on how Nordea has interacted with customers and service providers in relation to offshore structures. The task was given to Group Compliance and Group Operational Risk.

The investigation was governed by a Steering Committee chaired by the Head of Group Compliance and with the Head of Group Operational Risk as co-chair. The Steering Committee had representatives from Group Compliance, Group Operational Risk, Group Legal, Mannheimer Swartling, KPMG and the Group's US legal advisor.

The project was managed by the Head of Wealth Management Compliance with the Head of Wealth Management Operational Risk as deputy project manager. The project was organised in 11 project streams covering the main areas of the internal investigation. Each project stream had detailed plans based on which status and progress were reported to the Steering Committee. The independent review per project stream is the foundation for this consolidated report. The Steering Committee received material in advance of its meetings, and decision minutes were distributed, approved and followed up upon.

The internal investigation was mainly conducted by employees in Wealth Management Compliance, Wealth Management Operational Risk, Retail Operational Risk and Information Security with support from local control functions in NBSA as well as external advisors. All in all, the internal investigation team has consisted of approximately 20 own full-time employees from April to end-June and a smaller team until mid-July.

The internal investigation was structured according to five process steps: risk analysis, control design analysis, operational effectiveness assessment (testing), report and follow-up. The investigation of the procedures for renewing powers of attorney followed Nordea's specific methodology for Raise Your Concern investigations, governed by Group Operational Risk.

The risk analysis is intended to focus the investigation on the areas within scope where the inherent risk is the highest. The control design analysis seeks to identify and assess controls that have been put in place to mitigate the identified inherent risks.

The operational effectiveness assessment consists of testing controls to assess if the controls were effective in order to conclude if the areas lived up to expectations; e.g. if the area was compliant or if the compliance/operational risk was being managed sufficiently. In the testing, emphasis was put on the availability of documentation of the mitigating controls being in place and operating effectively.

The investigation has required active support from the business (1st Line of Defence) in providing comprehensive documentation. The investigation has performed a number of activities to ensure the validity of the information provided. Key data has been reconciled to ensure accuracy and completeness of customer lists, reconciliation to previously reported information, reconciliation to externally available information and by requesting management to explicitly confirm key facts upon which conclusions were made. Data quality issues were noted, which are attributed mainly to the long time period covered as well as the change of an IT system. However, the investigation has concluded that it is reasonable to conclude based on the information provided.

4 Facts and background

Wealth Management is one of three business areas in the Nordea Group. It mainly provides investment, savings and risk management solutions to high net worth individuals and institutional investors.

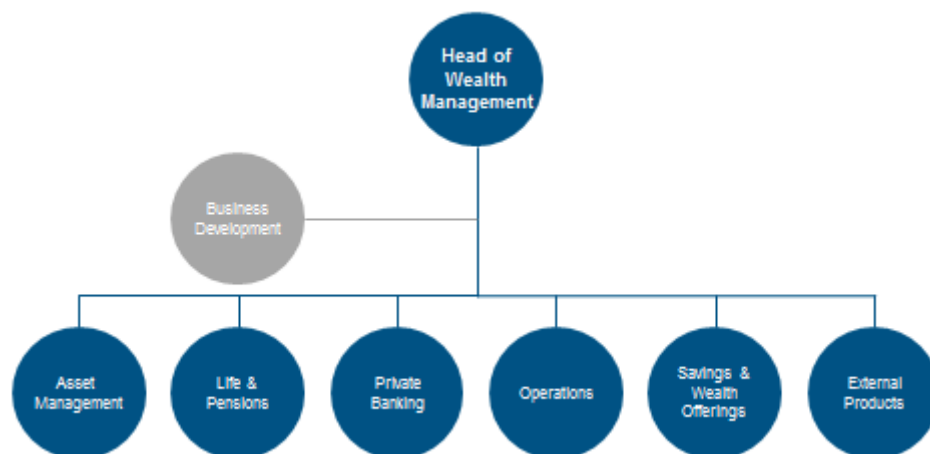


Figure 1 Organisation of Wealth Management

Within Wealth Management, Private Banking consists of Private Banking units in each of the Nordic countries, as well as International Private Banking (IPB). IPB operates in the legal entity Nordea Bank S.A. (NBSA). NBSA focuses on international private banking, serving a wide spectrum of international customers from offices in Luxembourg, branches in Zürich and Singapore, and a representative office in Spain.

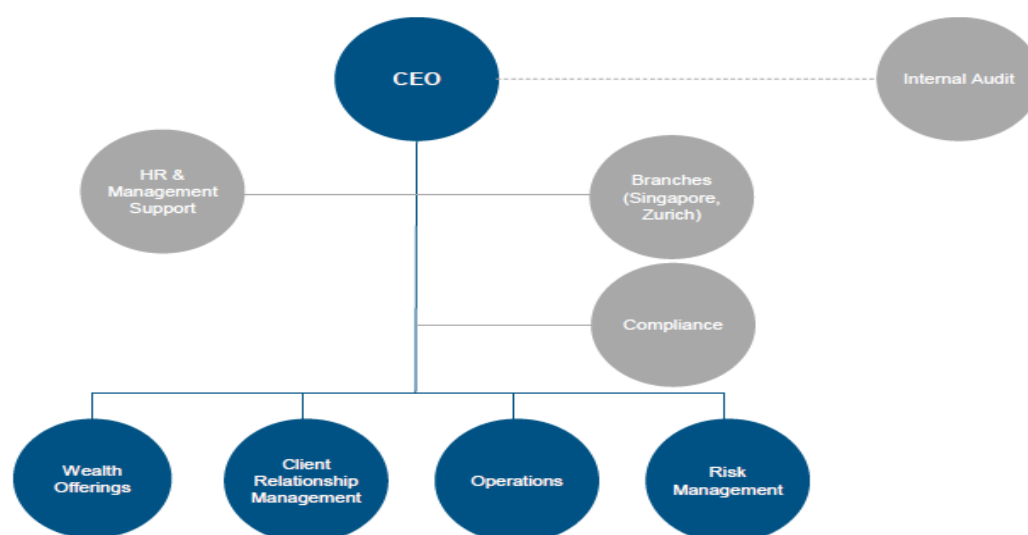


Figure 2 Organisation of International Private Banking/Nordea Bank S.A.

At end of 2015, the Nordea Group had EUR 288.2bn in external assets under management. Of this amount, NBSA had approximately EUR 13.9bn in assets under management. The number of 'customer clusters' in NBSA was at 15 April 2016 approx. 6,600, of which approx. 3,700 had Nordic nationality.

In the NBSA management reporting, customers are segmented according to their service needs and size of portfolios. Whether a customer has assets in offshore countries has not been a segmentation criterion. This means that the number of offshore customers and the size of assets held by the offshore structures were not been measured in the standard reporting by NBSA during the period investigated.

Offshore structures are common practice in international business and within international private banking. NBSA has concluded that offshore structures in certain situations are deemed as an efficient administrative ownership form if the owners have assets in many different countries with different tax rules. This is in particular the case if the tax system in these countries is complex and subject to regular changes or if the legal institutions are weak. Personal security can be another reason for choosing an offshore structure. The investigation has not found any reason to have a different view on this subject.

As of 15 April NBSA had 562 Offshore Structure Customers. 129 of these were either located in Panama and or had MF as their agent. These customers represent total assets under management of EUR 216m, i.e. 1.6% of total assets managed by NBSA. Of the 129 offshore structures, 5 had beneficial owners resident in the Nordics¹ and 29 had beneficial owners with Nordic nationality.

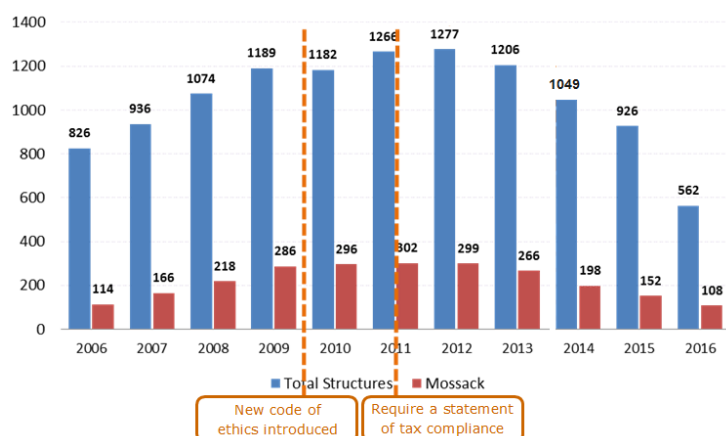


Figure 3 Development in number of offshore structure customers

The customers in scope have been onboarded over a period from 1984 to 2016, with 38 being onboarded before 2009 and some customers acquired through mergers. According to NBSA's risk assessment of the Offshore Structure Customers 72% were high risk, 11% increased risk and 17 % normal risk.

¹ Excluding Iceland.

The UBOs ² of the NBSA		Nationality ⁴	
Russia	24	Iceland	27
Iceland	20	Russia	25
United King-	17	United Kingdom	19
Bulgaria	10	Denmark	17
Switzerland	7	Bulgaria and Norway	8
Other ^{5 6 7}	83	Other ^{8 9}	57
Total number of UBOs	161	Total number of UBOs	161

The following is a summary description of the typical process when an offshore structure is established to hold assets on behalf of a customer, as described by NBSA:

- The customer and Nordea's Wealth Partner are discussing potential wealth structuring possibilities.
- The customer decides to set up a company structure in an offshore jurisdiction. Such decision is normally formalised during a phone conversation, via an email or verbally during a face-to-face meeting.
- Following the decision by the customer, the Wealth Partner contacts – normally via email – the Wealth Planning department with a request to facilitate this process. The email would normally include information about the names of the persons that should have a Power of Attorney to be able to act on behalf of the structure.
- Subsequently, Wealth Planning contacts the provider of the offshore structure, i.e. a law firm, informing this provider that a customer of NBSA wishes to purchase or set up a company. Such request is sent by email and specifies e.g. desired name, name of PoA and includes copies of PoA holders' passports.
- The corporate service provider processes the request and subsequently returns all documents – including the PoA and invoice – via standard mail.
- Wealth Planning is the receiver of this mail and subsequently delivers all these documents – including the invoice – to the concerned Wealth Partner. The invoice is normally paid from the offshore structure's account – although in some instances it may be paid from the account of the UBO – held with the bank.

² Including beneficial owners who are not customers of Nordea Bank S.A.

³ Based on 15/04/2016 numbers from 1st line of defence.

⁴ Based on 15/04/2016 numbers from 1st line of defence.

⁵ 5 were resident in the Nordic region.

⁶ None were resident in the US.

⁷ UBO's live in 36 different jurisdictions in all.

⁸ In aggregate, 31 UBO's had a Nordic nationality.

⁹ 2 UBO's had US nationality.

5 Conclusions

- The investigation establishes that NBSA over the years 2010-16 had regular interaction with MF. The interaction includes sending requests to MF to open offshore structures on behalf of customers, requesting Powers of Attorney (POAs), processing payments (e.g. administration fees) from customers' accounts and in a few instances NBSA made transactions from own accounts directly to MF to cover customers' fees based on a commercial decision. The communication has mainly been handled by a limited number of employees in Wealth Planning and Client Relationship units. While NBSA has had instructions on how the interaction with MF should be conducted, the investigation confirms that NBSA has not had any formal cooperation agreement with MF and has not found any documents suggesting that NBSA has received any financial compensation for the administrative services provided.
- NBSA has adopted Group Policies and Directives and issued several local procedures to ensure compliance with local regulations. Internal instructions reviewed are established in accordance with Luxembourg regulation and Group Policies and Directives.
 - a. The investigation shows that NBSA has had internal AML/KYC policies and procedures in place during the full period 2010-2016. However, specific weaknesses in the instructions have been noted:
 - 1) As at 2010 the procedures had the following shortcomings: beneficial owner not defined, customers that the bank has not met face-to-face have not been classified as high risk as it is stipulated according to Luxembourg regulation.
 - 2) The routines regarding training of new employees have been insufficient as it has not been stated as mandatory.
 - 3) In 2011 the procedures did not ensure that equivalent AML requirements were applied by the Swiss branch.
 - b. Over the full period Nordea has had tax compliance policies in place in line with market practice and regulatory requirements. In the internal instructions there are wordings describing reasons for opening offshore structures which are potentially misleading and could pose a regulatory or reputational risk. In particular the CID procedure refers in section 17.1.3 to offshore structures as a means of avoiding inheritance tax and for EU citizens of avoiding EU savings tax, but it is also stated that the bank expects changes in the EU Savings Directive that would make such offshore companies liable to pay withholding tax in the future.
- Despite annual training sessions led by external experts NBSA has not managed to implement the policies and instructions in a sufficient and consistent way. This is mainly related to the documentation of customer due diligence and documentation of tax compliance.
- NBSA has since 2010 had a systematic process for onboarding new customers, with separate requirements for normal, increased and high risk customers, and with detailed instructions on the customer information required before approving the account opening.
- Overall the investigated KYC files (Know Your Customer) are clearly below required standards both in relation to the regulatory requirement in Luxembourg and Nordea Group's AML policy. The majority of KYC files were high risk customers requiring enhanced due diligence (EDD), including such information as source of wealth/funds

and a thorough understanding of the purpose of the account opening, which were regularly incomplete. More concerning is that the so-called ongoing due diligence (ODD), the regular update and reassessment of the files, has not been done systematically. There has been a too passive approach when updating the customer due diligence on an ongoing basis and the ineffective implementation of specific EDD measures defined by Nordea have had a negative impact on the quality of the files. NBSA has for the customers in scope largely relied on the customer to notify the bank of any updates to the KYC. In many cases this leads to customer due diligence not being updated for several years even when the customer poses a high risk, which results in a large fail rate.

- Transactions have been investigated on a risk based approach. Most of the 25 customer relationships sampled for review included transactions that were not sufficiently documented with regard to transaction rationale and/or supportive documentation. Some improvements were noted on documentation of transactions post 2014; however, this was not a general observation. Documentation needs to be provided, however the investigation has not found reason to require any further escalation of these cases.
- Based on interviews with Wealth Partners in Luxemburg it is the impression of the investigation that NBSA has a better understanding of the customers than what is reflected in the KYC files.
- The control functions in NBSA have during the period not identified the weaknesses in due diligence process, as described above.
- In 2009 NBSA launched an ambitious Code of Ethics requiring documentation of the structure not being established for tax evasion purposes and of the customers' tax compliance. The policy did not reflect the challenges in collecting relevant evidence in many different tax jurisdictions, with far from homogeneous tax laws and exceptions. Nordea also invested significantly in internal resources, such as started to building a team of tax experts, introducing an annual training programme for relevant employees and informing customers of the new procedures. Despite these efforts the instructions on how to implement the policy and to execute the new procedures have been insufficient. This is partly explained by the challenges in collecting relevant evidence in many different tax jurisdictions, with far from homogeneous tax laws and exceptions. The investigation also shows that the control processes verifying a consistent implementation have been weak.
- Since 2013 NBSA has had a special Wealth Planning team with international tax experience reviewing new Offshore Structure Customers from a tax perspective to assess if the structure was simple, advanced or aggressive, later called complex, and if the structure has been in compliance with tax regulations. In certain complex cases external experts have been asked to give a sign-off before the customer has been onboarded.
- The investigation has not found evidence that employees in NBSA have proactively contributed to tax evasion.
- The investigation has concluded that, at time of onboarding, customers establishing offshore structures have been screened against tax evasion purposes in accordance with industry practice¹⁰ in 122 of the 137 offshore structures reviewed. In 114 of the 137 offshore structures reviewed NBSA had sufficient evidence of tax compliance in accordance with NBSA's procedures, i.e. NBSA's Code of Ethics.

¹⁰ As confirmed by KPMG.

- The investigation has further concluded that in 20 out of the 137 cases reviewed, sufficient evidence has been collected to show that customers have been meeting their tax obligations, and for 49 cases no signs of tax evasion were found. In the remaining 68 customer files the documentation from the period 2010-2016 includes signs of a different nature that may be interpreted as indicators of tax evasion by customers, such as ultimate beneficial owners using credit cards issued for the account of the Offshore Structure Customer for purposes that appear as private consumption. These customer files require further analysis in order to be able to verify compliance with Nordea's tax policy. The documentation does not explain if and how NBSA has investigated and concluded to rule out tax evasion. Most of the 68 customers were onboarded before 2013.
- The regulatory requirements in relation to Nordic Private Banking Customers have not been assessed and there is a general lack of detailed guidance in the local procedures. The Code of Ethics decided by NBSA has not been in force in the Nordics. However, the investigation has reviewed the documentation in the files with the same purpose as for the customers in Nordea Bank Luxembourg. The documentation of the Nordic Private Banking customers is limited. For the 16 offshore structures reviewed, the investigation concluded that most of them had insufficient documentation and one had signs of a nature requiring further analysis to be able to rule out tax evasion by customers. The investigation shows that there are insufficient controls in place to ensure that NBSA customers receive tax reports in line with best market practice. Tax reports issued to UBOs of offshore structures do not reflect the UBO's ownership of the offshore structure. There are no specific regulatory reporting requirements in respect of Offshore Structure Customers, and consequently Nordea has not been found to be breaching any laws or regulations, in this regard. However, the reporting may not in all cases be sufficient to comply with the ICMA guidelines on market practice reporting. ICMA, the International Capital Market Association, provides standards of good practice for orderly reporting in consultation with members.
- The investigation shows that only a limited number of UBO Customers receive tax reports and those reports do not include information about UBO Customers ownership of an Offshore Structure Customer. There is no specific regulatory requirement in Luxembourg for such inclusion. However, not including information about the UBO customers' ownership of an offshore structure could mislead the UBO Customers or be used to mislead the relevant tax authorities, which exposes Nordea to a reputational risk as it could be perceived as supporting customers in tax evasion.
- NBSA does not have a documented process or controls for selecting the appropriate tax reporting for those UBO customers in need of extensive tax reporting. This exposes NBSA to a risk of not complying with the ICMA guidelines.
- The investigation shows that Nordea has appointed departments and staff to execute the relevant tasks and that supporting systems and procedures are in place to ensure Qualified Intermediary (QI) compliance; i.e. NBSA is viewed as compliant with the requirements. The rules are applied to US persons, including US citizens and US resident aliens, and to non-US persons, i.e. so-called non-resident aliens (NRAs).¹¹ Hence, the purpose of the regulations is to identify US persons investing in US securities through foreign intermediaries (i.e. avoid "non-identification") and to ensure the cor-

¹¹ An alien is a resident alien if he meets either the *green card test* or the *substantial presence test*. If not, the individual is a non-resident alien for US tax purposes.

rect application of the double taxation treaties concluded by the United States and more generally of the US withholding tax to be applied to foreign persons (i.e. avoid “under-withholding” for non-US persons).¹²

- Group Compliance has, however, found deficiencies relating to a lack of updating of procedures to reflect changes in regulations (FATCA) and changes in the QI Agreement with the IRS as at 1 July 2014 and relating to a (1st line) quality assurance procedure which has not been updated to reflect a recent system change. As for the quality assurance procedure NBSA is in the process of updating the procedure.
- The Common Reporting Standard is an international agreement to share information on residents’ assets and incomes automatically. NBSA is according to the requirements obliged to collect certain information prior to opening an account – namely a self-certification of tax residence – for a customer to be onboarded from 1 January 2016 and to classify already existing customers in respect of tax residence. Such classification will take place by 31 December 2016 for so-called high value¹³ individual accounts and by 31 December 2017 for all accounts. For new customers, NBSA has informed that these are only onboarded with the required self-certification. NBSA has established a Q&A document and a four-eyes principle, but there is no written procedure for CRS compliance in NBSA in general or for a compliant CRS onboarding. In a sample of 25 new accounts, various errors were found in the registrations of 55% of the connected customers. This indicates a clear need for a clarified and more specified procedure.
- Regarding the European Savings Directive (EUSD) there is no reason to suspect that NBSA is not compliant in respect of the Offshore Structure Customers. The establishment of offshore structures has at least since 2008¹⁴ been publicly described as a possible way to circumvent the EUSD and is in the public view associated with a lack of transparency vis-à-vis tax authorities. Banks with offshore structure customers run an inherent reputational risk as they could be construed by the public as enabling circumvention of the EUSD and other tax reporting requirements.
- The operational risks related to offshore structures have not been explicitly reported or identified through the Risk and Control Self-Assessment process (RCSA). Some risks related to e.g. tax havens and tax evasion allegations have been assessed, but these have not been considered as so-called top risks that would require specific mitigation
- Deficiencies in information security were identified mainly in management of third parties, security incident management and security awareness. The IT-oriented assessment shows unsatisfactory results for 11% of tested controls while the business-oriented assessment shows unsatisfactory results for 7% of the tested controls. As an internal benchmark the Group average ratio of non-compliant controls is 3%. Non-compliance has been identified with NBSA internal requirements (stated in the General Terms and Conditions) on collecting customer consent prior to sending personal data to third parties. During the investigation no formally collected and documented consent from customers has been presented.

¹² KPMG: Qualified Intermediary Handbook Luxembourg. The publication describes the QI requirements for the purpose of assisting the Luxembourg banks to set up QI procedures.

¹³ The term “high value account” means an existing individual account with an aggregate balance or value that exceeds USD 1,000,000 as of 31 December 2016 or 31 December of any subsequent year.

¹⁴ Described e.g. in [EU] COMMISSION STAFF WORKING DOCUMENT on “Refining the present coverage of Council Directive 2003/48/EC on taxation of income from savings” document SEC(2008)559.

- The investigation has found deficiencies in the procedures regarding renewal of Powers of Attorney (POA). In at least seven cases investigation has shown that backdated documents have been requested or provided during the last six years, which is illegal when it aims at altering the truth. The previous backdating of a POA took place in 2012, and the backdating of a proxy took place in 2014. However, to be convicted of the criminal offence of forgery or of use of forgery, certain conditions need to be met cumulatively. These conditions do not all seem to be met for the cases at hand. At least one of the conditions seems not to be met, which is the clear benefit or illicit advantage of the employee asking for backdating, the bank or another third party or causing prejudice or potential prejudice to a third party. However, the procedures are in violation of the Nordea Code of Conduct.
- The investigation has found two cases where employees in NBSA have owned offshore structures, both of them closed more than five years ago. No other private engagements among Private Banking employees were identified. Four of the offshore structure customers in NBSA have UBOs that are currently employees at Nordea Bank Russia. A separate investigation shows that these employees have acted in line with current internal policies and to the extent that the investigation has been able to verify documents, all four of them have also reported to the local tax authorities in line with local laws.

6 Overall recommendations

- The Nordea Group should define a risk appetite related to offshore structures and implement this through procedures.
- The investigation recommends the Nordea Group to introduce a reporting requirement for all employees if they have a material engagement in an offshore structure and specify the requirements under which the Group accepts that employees invest in offshore structures.
- NBSA should without delay review all files with identified indications of potential tax evasion and conclude whether documents could prove compliance or take mitigating actions, including ultimately discontinuing the customer relationship. This relates to the customers in focus for this investigation, but should as step two include the remaining customer files to ultimately cover all 562 offshore structures.
- Wealth Management and NBSA should assess if findings from the investigation are relevant to other parts of Wealth Management and NBSA than the offshore structure business. Such assessment should establish a structured overview of products and services provided to customers.
- NBSA should assess if the KYC files reviewed by the investigation are representative of the full set of Offshore Structure Customers or other customer populations and if so take appropriate action to remediate the KYC files as well.
- NBSA should review and adjust procedures related to offshore structures to ensure that NBSA does not perform any activities that could be perceived as supporting tax evasion.
- NBSA should define “sufficient evidence” of tax compliance and purpose of the structure and implement it along with management’s risk appetite and view on what constitutes acceptable tax planning and what is considered too close to tax evasion.
- NBSA should ensure that individual customers in core markets receive appropriate tax reports, e.g. by ensuring a properly documented assessment of the customer’s need for a tax report.
- NBSA should clarify rules and instructions related to renewal of Powers of Attorney and provide appropriate sanctions to those involved.
- NBSA should further enhance the compliance and risk culture and ensure sufficient risk awareness at all levels in NBSA.

7 Next steps

Following the completion of the internal investigation relating to the Private Banking part of the internal investigation, it is recommended that Group Compliance and Group Operational Risk advise the 1st line of defence on how to mitigate the deficiencies noted and follow up on such remediation taking place in a timely manner.

Going forward Group Compliance and Group Operational Risk will continue monitoring and controlling practices and procedures in other relevant parts of Nordea where offshore structures are commonly used. This will be part of the continuous operational risk and compliance work. In line with the common methodology a risk-based approach will be applied.



SECTION B

Governance Review

by

Mannheimer Swartling Advokatbyrå

Report to Nordea Bank AB (publ)

Governance Review

Stockholm, 19 July 2016

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Exhibits

Exhibit 1 – Illustration of Relevant Internal Rules on Governance and Operational Risk Management

Exhibit 2 – Timeline on Relevant Internal Rules on Governance and Operational Risk Management, Code of Conduct, Code of Ethics and Raising your concern instructions

1. Background and assignment



This Section provides brief information on the background of the assignment.

Media coverage on the so called “Panama Papers” in April 2016 portrayed Nordea International Private Banking in Luxembourg as a provider of tax haven structures for its clients. As a response to what was reported in media, Nordea Bank AB (publ) (“**Nordea**”) issued a press-release on April 16, 2016 stating that Nordea strongly denounces tax evasion, that other than in exceptional cases Nordea does not assist in setting up offshore companies, and that Nordea does not accept clients that are non-transparent towards relevant tax authorities. The press-release referred to compliance routines within Nordea designed to secure that all clients’ holdings and incomes on their accounts are reported to relevant tax authorities.

As a result of the above, the Nordea Group Board of Directors initiated an internal independent (2nd line) investigation (the “**Investigation**”) of adherence to relevant laws and regulations as well as policies and instructions in connection with Offshore Structures¹. The focus of the Investigation has been Offshore Structures customers administrated by the Panama law firm Mossack Fonseca as well as all Offshore Structures established in Panama channelled via other providers than Mossack Fonseca. The Investigation has been conducted through eleven separate work streams. The Investigation is conducted by Nordea Group Compliance and Group Operational Risk, with support from KMPG, and is governed by a Steering Committee.

Together with the Investigation, Mannheimer Swartling Advokatbyrå (“**MSA**” or “**we**”) has been appointed by the Nordea Group Board of Directors, i.e. the Board of Directors of Nordea to make a separate review in order to conclude how the management and the Board of Nordea Bank S.A. (“**NBSA**”) has managed their duties in relation to the operations of Offshore Structures from a governance and risk management perspective (the “**Review**”).

Specifically, MSA has been instructed that the Review is to contain the following elements:

- (a) Information on how the Board in NBSA has identified, monitored and ensured reports on the operations of Offshore Structures.
 - (i) The reporting within NBSA is to be reviewed, including risk reports, compliance reports, reports of relevant business areas during the period end of 2009 – beginning of 2016 (the “**Relevant Period**”) as well as any relevant decisions made in this regard.
- (b) A conclusion on to what extent the Board and Executive Management of NBSA had knowledge of the operations of Offshore Structures and whether they had information on the risks the operations entailed.

¹ As defined in Section 3.7.

- (i) The Review shall contain an account of the content of relevant reports and any decisions by the Board or Executive Management of NBSA based on the reports.
- (c) A conclusion on how identified risks correspond to the approved business strategy and risk appetite framework of NBSA paying specific attention to any changes over time in the business strategy and risk appetite, also bearing in mind any aspects of non-compliance and conduct risks.
- (d) Information on reports filed by the Board and Executive Management of NBSA to Group Executive Management, Group Operational Risk and Group Compliance in Nordea during the Relevant Period in relation to the above.
 - (i) The Review shall include a statement on the content of these reports, to whom the reports have been filed and any measures taken on a Group level and the timing of such measures.
- (e) A conclusion on to what extent the operations of Offshore Structures have been communicated to Nordea Group.

The outcome of the Review is made available to the Nordea Group Board of Directors and the Executive Management, the Nordea Group CEO and the Swedish financial supervisory authority (“**SFSA**”) through a detailed presentation. This document (the “**Report**”) describes the content of the presented material, in all material respects.

The work with the Review has been led by *Advokat* Björn Riese together with *Advokat* Andreas Steen, assisted by *Advokat* Amanda Wassén with further assistance by lawyers in, primarily, Mannheimer Swartling’s Corporate Sustainability & Risk Management practice group.

2. Method and assumptions



The Review is based on corporate documentation – meeting minutes, reports, internal rules etc. – made available to us by Nordea and NBSA for the purpose of this Report.² In addition to our review of the documents, we have interacted and conducted interviews with current and former Board members, management and employees of NBSA. Unless otherwise expressly stated, a mention in this Report to that we have been “informed” of a certain circumstance or that a fact has been “confirmed” or “explained” or the like is a reference to information provided to us during these interviews. The information in the documents together with the information received during said interviews is referred to as the “**Material**”. The Review is based solely on our understanding of the Material.

The Review is made taking into account the relevant internal rules on governance and operational risk management of NBSA. The determination of relevance has been carried out jointly with NBSA and has been confirmed by Nordea Group. Unless otherwise expressly stated, the Review is limited to the internal rules currently applicable to NBSA.

This Report is provided upon the request by the Nordea Group Board of Directors. MSA is not responsible towards any other party than Nordea for the content of this Report or for any use of the Report other than internally within Nordea Group and for the intended purpose. The applicable general terms and conditions for MSA’s services are set forth on MSA’s website www.mannheimerswartling.se.

² Corresponding to approximately 880 documents retrieved from the Relevant Period.

3. NBSA – operations, governance and reporting



This Section provides information on the operations of NBSA, its internal governance structure, internal rules and reporting.

3.1 The business conducted by NBSA

NBSA is a subsidiary of Nordea, the parent company in the Nordea Group, and has its headquarters in Luxembourg. NBSA has foreign branches in Switzerland and Singapore, a foreign representative office in Spain and two domestic subsidiaries (Nordea Investment Funds S.A. which in turn has a German subsidiary and Nordea Funds Services GmbH). NBSA, including direct and indirect subsidiaries, has about 460 employees³ compared to almost 30,000 employees in Nordea Group.

NBSA focuses on International Private Banking and Fund Distribution and provides services, including investment-, asset management- and risk management solutions, to wealthy private clients and institutional investors. The business conducted by NBSA is divided into International Private Banking and Asset Management. The total operating income of NBSA 2015 was mEUR 329 compared to Nordea's mEUR 10,140 and Wealth Management's mEUR 1,929.⁴ With regard to assets under management, NBSA's part was around 5 per cent of Nordea's mEUR 288,200 with an operating profit of mEUR 212 compared to Wealth Management mEUR 1,127 and Nordea mEUR 4,704.⁵

3.2 Luxembourg context – laws and external regulations

While operations associated with Offshore Structures as such are not illegal in Luxembourg, such structures could be used by clients as instruments for money laundering or tax evasion.

There are several laws and regulations in place in Luxembourg in relation to the fight against money laundering and terrorist financing. Luxembourg has transposed the relevant EU Directives on Anti-money laundering (“**AML**”) to date. It may be noted that NBSA has the same duties on AML and Know Your Customer controls⁶ regardless of whether the client uses an Offshore Structure or not. It may also be noted that, also for the time being, Luxembourg banks do not have any legal obligation to make sure that their clients are tax compliant. The

³ NBSA has grown from approximately 380 employees in 2009 to 460 employees in 2015, according to the Annual reports for NBSA 2009–2015.

⁴ Annual reports for NBSA and Nordea Bank AB (publ) 2015.

⁵ Annual reports for NBSA and Nordea Bank AB (publ) 2015.

⁶ Which includes identification of e.g. client, beneficial owner, origin of funds, nature of transactions, etc.

fourth EU Directive on AML⁷ has not yet been transposed into Luxembourg law⁸ and tax evasion is therefore not yet treated as predicate money laundering crime under Luxembourg law. There are also bank secrecy rules in place that prevents banks from reporting on tax evasion to the public prosecutor or their holding company. Tax information sharing is only allowed for in certain limited circumstances and exclusively to the Luxembourg tax authorities or to the prosecutor, as part of investigation conducted by such authority.

3.3 Offshore and onshore

Some of NBSA's clients have assets held in legal structures located in offshore financial centers. There are internal rules in place at NBSA applicable to the establishment and maintenance of operations associated with Offshore Structures. Some media reports have portrayed the operations of NBSA associated with Offshore Structures in a way that may be interpreted as if there is a specific client segment consisting of "offshore clients". This, however, has been explained to us by NBSA not to be the case. Hence, clients with Offshore Structures have not, as such, been viewed differently from other clients. During the Relevant Period NBSA has not considered it inappropriate to retain clients with Offshore Structures, provided that NBSA has "sufficient evidence" that the Offshore Structures are not established for tax evasion purposes, as provided for in a Code of Ethics.

In order to address increased regulatory demands and a shift in how transparency and tax evasion have been viewed in the European private banking world during the Relevant Period, NBSA took steps to put in place certain measures towards increased transparency, a process by several individuals in NBSA, and below referred to as the "**Onshore Transition**". This process was initiated during 2009. At the time, NBSA considered these measures as reaching beyond industry standards. It has been explained to us that the primary objective of the Onshore Transition was to increase transparency for all clients, with and without Offshore Structures, and that the measures were not targeted at Offshore Structures as such. The starting point of the Onshore Transition was the introduction of the Code of Ethics⁹, an initiative to be followed by other actions throughout the Relevant Period, including an amendment of the general terms & conditions, certain measures related to tax transparency, client segmentation, and cross-border training.

3.4 The governance structure of NBSA

At the top of the governance structure of NBSA is the Board of Directors (the "**NBSA Board**") under which an authorised executive management (the "**Executive Management**") operates. The members of the Executive Management have a joint responsibility for the day-to-day management of the operations of NBSA, but have divided certain responsibilities between themselves. The operations of NBSA are divided into the following units: Wealth Offerings, Client Relationship Management, Operations, Risk Management and Internal Audit. The Risk Management unit is regarded as an independent unit and is headed by the Head of Risk Management of NBSA. The Risk Management unit incorporates the functions (i) Risk &

⁷ Directive 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.

⁸ The fourth EU Directive on AML is to be implemented no later than 26 June 2017.

⁹ Timeline for Code of Ethics, Chart 3.7.

Capital, (ii) Credit, (iii) Legal, and (iv) Control teams. In addition there is a Compliance function that reports functionally to the Head of Risk Management but that also reports functionally to Group Compliance. Risk & Capital is headed by the Chief Risk Officer (“**CRO**”) and the Operational Risk Officer (“**ORO**”) within International Private Banking. Compliance is headed by the Chief Compliance Officer (“**CCO**”).

The purpose of the Risk & Capital function and the Compliance function within NBSA – and at Nordea Group level – is to identify, control, monitor, and manage operational and compliance risks. Operational¹⁰ and compliance¹¹ risks are defined in various internal rules.

The internal control structure within NBSA is organised in a “three-lines-of-defence” model. The 1st line of defence is performed by the day-to-day operational management which assesses, controls, and mitigates risks in accordance with the risk appetite and strategy set out by the NBSA Board in NBSA’s risk appetite framework. The 2nd line of defence comprises the Risk & Capital and the Compliance functions, which challenge, monitor and address the various risk exposures of NBSA. It also facilitates the implementation of effective risk management practices by operational management and assists the 1st line of defence in reporting adequate risk-related information. The 3rd line of defence consists of Internal Audit, which provides independent, objective and critical assessments on the effectiveness of the operational processes within NBSA.

The governance structure of NBSA is established on the basis of the Circular CSSF 12/552, as amended (the “**CSSF Circular**”), issued by the Commission de Surveillance du Secteur Financier (the “**CSSF**”).¹² We have been informed that the structure of the Risk Management unit does not entirely correspond to the equivalent internal control organisation at Nordea Group level, because NBSA is a small company. Consequently, the reporting channels for the CRO differ from the structure at Nordea Group level.

3.5 Internal control and risk management in the Nordea Group

At Nordea Group level, the internal control and risk management is divided between Group Risk Management (“**GRM**”) and Group Compliance (“**GC**”). GRM is currently headed by the Chief Risk Officer of Nordea Group. GC is headed by the acting Group Compliance

¹⁰ Operational risk in Nordea is defined in line with Article 4.1 (52) of Regulation (EU) No 575/2013 of the European Parliament and Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, as follows: “*The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk.*” Operational risk is further specified as: “*The risk of loss includes direct or indirect financial loss, and impacts from regulatory sanctions, legal exposure, reputational damage and critical business process disruption*” cf. Nordea Operational Risk Policy, Section 2.

¹¹ Compliance risk includes: “[T]he risk to fail to comply with laws, regulations, rules and prescribed practises and ethical standards, governing Nordea’s activities in any jurisdiction, which could result in material financial or reputational loss to the Group, regulatory remarks or sanctions” cf. Charter for Group Compliance, Section 1.

¹² The CSSF is the authority in charge of the prudential supervision of the banks in Luxembourg. As part of its competence, CSSF is the supervisory authority that supervises the compliance of the banks with the governance rules. Within the scope of this capacity, the CSSF publishes circulars. A circular is considered as an instrument which allows the CSSF to quickly provide detailed explanations of legal and regulatory provisions applicable to supervised entities. While circulars are not legally binding, supervised entities must follow them in order to ensure that they are compliant with the CSSF’s expectations in respect of such legal and regulatory provisions.

Officer (“**GCO**”). Both GRM and GC are part of the 2nd line of defence. Under GRM is Group Operational Risk (“**GOR**”), headed by the Chief Operational Risk Officer (“**CORO**”). The CORO and the GCO respectively appoints ORO’s and Compliance Officers (“**CO**”) for the Nordea Group business areas.

Group Internal Audit is an independent function commissioned by the Nordea Group Board and headed by the Chief Audit Executive (“**CAE**”) and reports functionally to the Nordea Group Board and to the Board Audit Committee. The CAE also reports administratively to the President of Nordea Bank and to the CEO of Nordea Group.

3.6 NBSA’s internal rules

3.6.1 The norm hierarchy within Nordea Group

The internal rules framework within Nordea Group comprises: (i) Group Directives¹³, (ii) Guidelines (iii) Routines and Standard Operation Procedures, and (iv) Local internal rules in subsidiaries and branches¹⁴ (the “**Internal Rules Framework**”).

3.6.2 Relevant internal rules currently applicable to NBSA

3.6.2.1 *Relevant internal rules on governance and operational risk management*

Governance and operational risk management within NBSA is governed by the following Group Directives: (i) Policy for the Internal Rules Framework in the Nordea Group, (ii) Policy for Internal Control and Risk Management in the Nordea Group, (iii) Nordea Operational Risk Policy, (iv) Charter for Group Risk Management, (v) Charter for Group Compliance, and (vi) Charter for Group Internal Audit.

In addition, the following Guidelines are of relevance for the governance and operational risk management: (i) Group Compliance Integrated Process Framework, (ii) Guidelines for the Operational Risk Officer (ORO) work, and (iii) Guideline on the Risk and Control Self-Assessment Process for Operational and Compliance Risks.

Moreover, the following instruction is of relevance for the governance and operational risk management: (i) Instructions for the Compliance Officer (CO) work.

At local level, NBSA has issued local internal rules for governance and operational risk management. These local internal rules include: (i) Internal Governance Charter, (ii) Charter for the Board of Directors (the “**Charter for the Board**”), (iii) Charter for the Nordea Bank S.A. Executive Management (the “**Executive Management Charter**”), (iv) Risk Appetite Framework – Nordea Bank S.A. (the “**Risk Appetite Framework**”), (v) Risk & Capital Charter, (vi) Operational Risk Policy for Nordea Bank S.A., (vii) Operational Risk – Incident

¹³ Group Directives are issued at Nordea Group level, by the Nordea Group Board of Directors or the Nordea CEO in Group Executive Management. Group Directives generally apply throughout the entire Nordea Group, including all subsidiaries and units, and generally apply to all employees. In NBSA, Group Directives are to be separately approved by the NBSA Board or another relevant decision-making unit.

¹⁴ Where appropriate or required local internal rules are to be adopted by Nordea Group subsidiaries. Such local internal rules are to be issued by the relevant functions in the subsidiary in question. In NBSA, local internal rules are often approved by the NBSA Board and generally apply to all employees within NBSA.

Reporting Instructions IPB – Nordea Bank S.A., (viii) Specification on Operational Risk Policy – Reporting and Approval of Operational Risk Incidents in Nordea Bank S.A., (ix) Compliance Policy and Charter, (x) Compliance Manual, and (xi) Internal Audit Procedures within Nordea Bank S.A.

The above mentioned Group Directives, Guidelines and Local internal rules have been deemed to constitute the relevant internal rules as regards governance and operational risk management within NBSA (the “**Relevant Internal Rules on Governance and Operational Risk Management**”). An illustration of the Relevant Internal Rules on Governance and Operational Risk Management is attached as Exhibit 1.

3.6.2.2 *Other relevant internal rules*

The Code of Conduct is a supplement to the Nordea Code of Conduct with the intention to ensure a sound ethical culture within NBSA and to create an overview of the rules that applies to the employees within International Private Banking. The Code of Conduct applies to all employees within International Private Banking.

The Code of Ethics provides guiding principles on certain tax issues and has been explained as the starting point towards the Onshore Transition that was initiated in 2009.

The Raising your concern instructions set forth the whistle blowing procedures within Nordea Group and also set forth guidance on the managerial and the ORO responsibilities when receiving reports as well as responsibilities for the CO when handling a reported concern in cooperation with the ORO.

An illustration of when the Relevant Internal Rules on Governance and Operational Risk Management, the Code of Conduct, the Code of Ethics, and the Raising your concern instructions were approved and subsequently amended is attached as Exhibit 2.

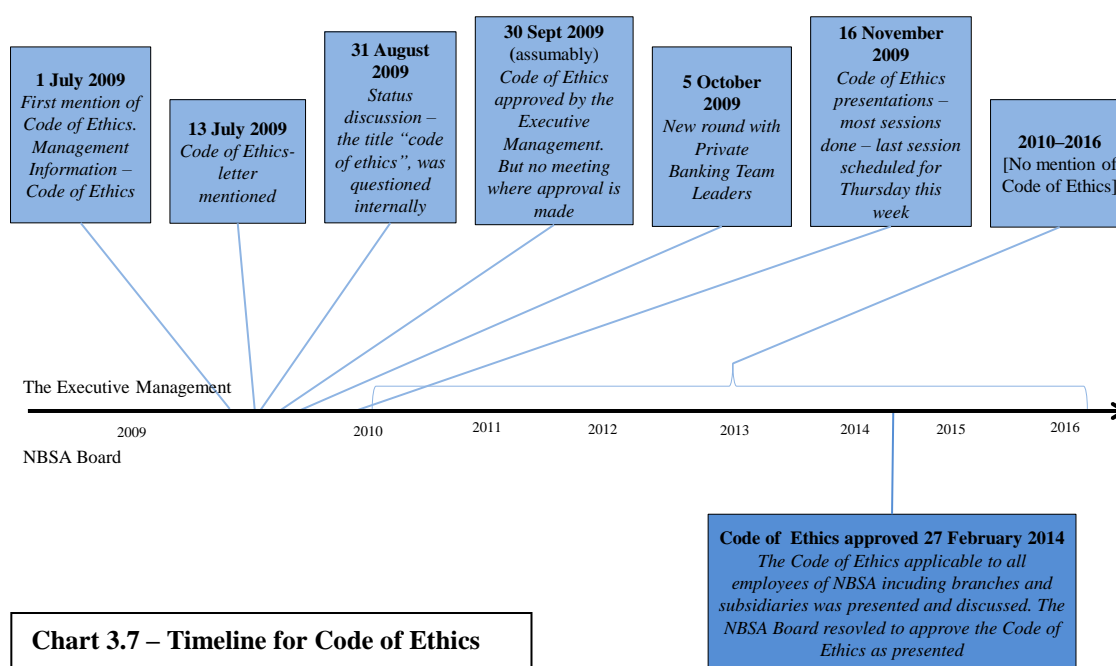
3.7 **Reports on the operations associated with Offshore Structures**

Various documentation and reporting requirements flow from the different internal regulations. We have reviewed minutes from NBSA Board and Executive Management meetings, operational risk reports, compliance reports, reports related to risk assessments and Internal Audit reports. In the following, the Relevant Internal Rules on Governance and Operational Risk Management and the requirements on documentation and reporting as set out in these rules will be presented briefly, in conjunction with information contained in the reviewed Material. The information presented below contains descriptions of or references to the operations associated with Offshore Structures, as well as issues relating to AML compliance (“**AML Issues**”) and client tax-compliance/avoidance of tax evasion¹⁵ (“**Tax Issues**”). For this purpose Offshore Structures is defined as corporate or other legal entities incorporated or registered in an offshore financial centre as defined by the IMF (“**Offshore Structures**”).

¹⁵ The term “*Tax evasion*” is generally used to mean illegal arrangements where liability to tax is hidden or ignored (i.e. the taxpayer pays less tax than he/she is legally obligated to pay by hiding income or information from the tax authorities), while the term “*tax avoidance*” is generally used to describe the arrangement of a taxpayer's affairs that is intended to reduce the tax liability and that although the arrangement is strictly in line with the rules under the relevant law it is usually in contradiction with the intent of the law it purports to follow. The term “*tax planning*” is generally used to describe a legal arrangement of a person's business and/or private affairs in order to minimize tax liability. Cf. <http://www.oecd.org/ctp/glossaryoftaxterms.htm>.

The Relevant Internal Rules on Governance and Operational Risk Management include the Internal Governance Charter, which provides a high level overview of the main functions within NBSA, as well as the Charters for the Board and the Executive Management. Together these documents provide a description of the reporting channels to and from the NBSA Board and the Executive Management respectively. We have reviewed minutes from NBSA Board and Executive Management meetings and reports from strategy meetings with participants from both NBSA and Nordea Group. All of the Executive Management have participated in so called strategy sessions (“**Strategy Sessions**”) and part of the Executive Management have jointly, together with participants from Nordea Group, participated in strategy meetings referred to as QRM/RFF meetings (“**QRM-meetings**”).

The NBSA Board minutes contain no specific references to Offshore Structures as such, and limited references to AML Issues and Tax Issues. The Executive Management minutes only contain a few references to Offshore Structures as such, while AML Issues are addressed on several occasions. In relation to Tax Issues, the minutes contain references to tax reporting. Also, during 2009, the Executive Management adopted and frequently discussed the Code of Ethics but there is no mention of it after 2010, apart from in February 2014, when the NBSA Board resolved to approve the Code of Ethics,¹⁶ see timeline in Chart 3.7 below.



The reports from the Strategy Sessions contain references to an “onshore trend” and several references to AML Issues and Tax Issues, such as the Code of Ethics. The Code of Ethics is described as a measure by which NBSA is to take all possible measures to ensure that its customers declare assets and income to the relevant tax authorities.

The reports from QRM-meetings reflect the launch of the Onshore Transition, which was initiated due to increased attention on offshore activities and pressure from governments, legislators, and international organisations to combat tax evasion. Three of the measures derived from the Onshore Transition are given particular focus in the reports: (i) the Code of Ethics, (ii)

¹⁶ NBSA Board meeting 24 February 2014.

the client segmentation process aiming to clean up smaller clients that can expose NBSA to reputational risk, and (iii) providing tax reports to customers to achieve tax compliant wealth planning solutions. The strategy reports continue to reflect and provide updates on the described initiatives throughout the Relevant Period.

The Relevant Internal Rules on Governance and Operational Risk Management also include the Risk & Capital Charter, the main document governing the risk reporting in NBSA and the organisation and responsibilities of the Risk & Capital function. The Risk & Capital Charter relates to the Risk Appetite Framework, which is a document that sets the limits for the maximum risk-taking that is deemed appropriate to fulfil the business strategy of NBSA. According to the Risk Appetite Framework, the NBSA Board is ultimately responsible for the overall risk appetite of NBSA. We have reviewed operational risk reports provided by the Risk & Capital function to Nordea Group, the NBSA Board and the Executive Management. None of these reports contain specific references to Offshore Structures as such. With regard to AML Issues, Nordea Group, the NBSA Board and the Executive Management reports contain some relevant references, including certain references to an internal risk identification process which identified AML Issues as a top risk in 2014 and 2015. With regard to Tax Issues, the operational risk reports contain very limited references of relevance.

The Relevant Internal Rules on Governance and Operational Risk Management also include the Compliance Policy, that sets out applicable compliance principles, and the Compliance Charter, that defines the roles and responsibilities of the Compliance function as well as additional responsibilities for compliance across NBSA. The Compliance function has reporting obligations to the Executive Management, NBSA Board and Nordea Group level as well as to the CSSF. The reports contain few direct references to Offshore Structures as such. They do contain frequent information on AML Issues, and AML is consistently highlighted as a main focus and a challenge for NBSA. With regard to Tax Issues, the reports contain references to how NBSA is affected by developments related to international tax agreements. In addition, the NBSA Board reports contain information on accounts related to e.g. Panama that have been rejected due to lack of sufficient tax justification.

The Relevant Internal Rules on Governance and Operational Risk Management also include the overall risk appetite framework of NBSA that consists of a number of policies, processes, controls, and systems. The Risk Appetite Framework document is a part of this overall framework. The risk appetite of NBSA is based on a number of top-down risk appetite statements that collectively define the boundaries for the risk-taking activities of NBSA. In addition, there are several policies governing risk management at Nordea Group level, including the Policy for Internal Control and Risk Management in the Nordea Group and the Nordea Operational Risk Policy. There are several key operational risk management and reporting processes, e.g. an Operational Risk Assessment which includes a Risk and Control Self-Assessment (“**RCSA**”) process. We have reviewed documents related to this risk self-assessment, including internal control questionnaires as well as risk cards and memos on specific risks. Risk cards and memos are prepared by the local division management and submitted to be approved by the Executive Management and provided to Nordea Group. There are no specific references in the documentation to Offshore Structures as such. In relation to AML Issues, there are several internal control questions related to this topic. The risk cards from 2014 and 2015 identified AML Issues as a top risk to be prioritised. In relation to Tax Issues, there are very few references.

The Relevant Internal Rules on Governance and Operational Risk Management further include Internal Audit Procedures that, among other things, set out the purpose of internal audit, the standards and methodology of audit, the planning and conducting of audit projects, and the periodic reporting. The procedures stipulate four different periodic reporting requirements: to

Nordea Group, the Board of NBSA, audit reporting to the Boards of NBSA's subsidiaries, and audit reporting to the CSSF as well as procedures for specific audit projects. We have reviewed annual summary reports as well as some specific audit reports. The audit reports frequently cover AML Issues but contain little or no references to Tax Issues or Offshore Structures. On AML Issues, the audits contain some suggested recommendations and measures to correct detected deficiencies throughout the Relevant Period, but deficiencies are never rated as critical.

In accordance with local regulation in Luxembourg, so called Long form reports, have been prepared by an external auditor annually during the Relevant Period. The Long form reports are submitted to the NBSA Board, the Executive Management, and the CSSF. In relation to AML Issues, minor remarks have occasionally been made, however, no substantial deficiencies have been noted. The reports do not contain any relevant references regarding the handling and operations associated with Offshore Structures or Tax Issues.

4. Conclusions



This Section provides the conclusions from the Review. The conclusions have been divided into the following sub-sections:

- (i) Conclusions on to what extent the NBSA Board and the Executive Management were aware of the operations associated with Offshore Structures and the risks related thereto;
- (ii) Conclusions on how identified risks correspond to the business strategy and Risk Appetite Framework of NBSA;
- (iii) Conclusions on to what extent the operations associated with Offshore Structures have been communicated to Nordea Group; and
- (iv) Overall conclusions on the governance of NBSA.

4.1 Conclusions on to what extent the NBSA Board and the Executive Management were aware of the operations associated with Offshore Structures and the risks related thereto

4.1.1 Awareness of the NBSA Board and the Executive Management related to the operations associated with Offshore Structures

In view of the Material, we conclude that the NBSA Board and the Executive Management throughout the Relevant Period have been aware that NBSA's business includes operations associated with Offshore Structures. This is explained by the fact that some clients have assets held in legal structures located in offshore financial centres, and that NBSA has considered it appropriate to retain clients with such Offshore Structures, provided that such clients have – in line with the Code of Ethics – been able to provide “sufficient evidence” that the Offshore Structures are not established for tax evasion purposes. There are internal rules in place at NBSA applicable to the establishment and maintenance of Offshore Structures. The awareness of the Board and Executive Management that NBSA's business includes operations associated with Offshore Structures has been unanimously confirmed in the interviews.

4.1.2 Risk awareness of the NBSA Board and the Executive Management related to the operations associated with Offshore Structures

In view of the Material, we further conclude that the NBSA Board and the Executive Management have not, throughout the Relevant Period, viewed Offshore Structures in and of themselves as entailing specific risks to NBSA's operations. Risks related to the operations associated with Offshore Structures have not, as such, been identified and addressed in the Risk Appetite Framework. They have not, as such, been identified as prioritised risks in the RCSA process and other risk assessment processes of NBSA. They have furthermore not, as such, been reported as entailing specific risks to the Executive Management or the NBSA Board, by e.g. the Risk & Capital and Compliance functions. That Offshore Structures in and of themselves have not been viewed or identified as inherent risks in NBSA's operations has also been unanimously confirmed in the interviews.

However, it is clear that the Board and the Executive Management of NBSA have been aware of, and identified, risks related to AML Issues and Tax Issues. Such risks are relevant to all clients and are of particular relevance to clients with Offshore Structures. The fact that the NBSA Board and the Executive Management have been aware of risks related to AML Issues and Tax Issues is supported by the following.

With regard to AML Issues, NBSA's risk awareness has, in line with industry practice, increased during the Relevant Period and grown into a main focus area at NBSA. This follows from both risk assessments and reporting. Questions related to AML Issues have been included in the internal control questionnaires throughout the Relevant Period, and were initially rated with high scores, with slight decreases in 2014. This may be related to the fact that risks related to AML Issues have been explicitly identified as a top risk in the RCSA process during 2014 and 2015. In addition, risks concerning AML Issues have been indirectly mentioned in the risk reporting during 2014–2016, by reference to the Risk Appetite Framework and the top risks identified in the RCSA process. Risks and awareness related to AML Issues have also been reported on to the NBSA Board and Executive Management through reports from the Risk & Capital, Compliance and Internal Audit functions. The reporting demonstrates an, over time, increased focus on AML Issues.

With regard to Tax Issues, it may be construed from the adoption of the Code of Ethics in 2009 that the Executive Management of NBSA viewed Tax Issues as a potential risk area. The rationale behind the Code of Ethics was to become more transparent and to not assist clients in tax evasion. The Code of Ethics stated that NBSA was to only engage with clients – new clients and when servicing existing clients – where the savings income was properly taxed according to relevant legislation.

Tax Issues have not been explicitly mentioned as top risks in the risk assessment processes of NBSA. However, we have been informed that reputational risk and risks related to tax evasion to some extent have been identified in the risk assessment processes of NBSA. The Risk Appetite Framework has identified reputational and compliance risks as such. This arguably entails risks related to Tax Issues. Tax Issues have been briefly addressed in reports from Risk & Capital, Compliance and Internal Audit, however not to the same extent as AML Issues.

4.2 Conclusions on how identified risks correspond to the business strategy and Risk Appetite Framework of NBSA

4.2.1 Introduction

As concluded in Section 4.1.2 it is clear that the Board and the Executive Management of NBSA have not viewed Offshore Structures, as such, as entailing specific risks to NBSA's operations. Consequently, no conclusions can be drawn on how such (not identified) risks related specifically to the operations associated with Offshore Structures have corresponded with the business strategy and risk appetite of NBSA.

However, as also concluded in Section 4.1.2, it is clear that the NBSA Board and the Executive Management have been aware of, and identified, risks of particular relevance for the operations associated with Offshore Structures. Such risks relate to AML Issues and Tax Issues. On the basis of this, conclusions on how the operations associated with Offshore Structures corresponded to the business strategy and risk appetite of NBSA will be presented in the following.

4.2.2 The business strategy of NBSA

On the face of the reporting provided to the Executive Management, the NBSA Board and relevant Nordea Group functions throughout the Relevant Period, as described in Section 3.7, it appears as if the operations associated with Offshore Structures have corresponded to the business strategy of NBSA. However, in view of the results from the Investigation and the deficiencies described therein, the reviewed reporting cannot be said to have reflected the actual situation in NBSA. We therefore conclude that the operations associated with Offshore Structures, and the risks that they entail, have in fact not corresponded with the business strategy of NBSA. The discrepancy between the reporting and the actual situation in NBSA has led to the Executive Management, the NBSA Board and relevant Nordea Group functions not being provided with the information needed to be made aware of the fact that the operations associated with Offshore Structures have been in conflict with the business strategy.¹⁷ These conclusions are supported by the following.

The aim of the business strategy of NBSA during the Relevant Period has been to meet the increasing regulatory demands concerning transparency and to comply with legal requirements in relation to AML Issues and Tax Issues. This has been a general approach throughout NBSA's operations. In 2009, it was noted that the regulatory demands on "*offshore activities*" started to increase to combat tax evasion and that "*European offshore Private Banking will diminish as a business concept and that onshore Private Banking will be the driver of new growth.*" Client demand for tax and regulatory compliant wealth management solutions is frequently mentioned in the BSC Strategy reports from the Relevant Period.

The Strategy Session minutes from 2010 state that the "*onshore trend*" was making the banking sector in Luxembourg "*look grey or suspicious*" and the introduction of the Code of Ethics is mentioned as a response to the EU questioning of offshore centres. We have been informed that the introduction of the Code of Ethics became the starting point of the Onshore Transition in NBSA, an initiative to be followed by certain additional measures such as amendment of the general terms & conditions, client segmentation and cross-border training.

Although it may be questioned whether this is to be considered as a firm business strategy and even though it has been explained that the Onshore Transition was not targeted at Offshore Structures, as such, it is our understanding that NBSA from 2009 had identified the onshore trend as a focus area and that the business strategy subsequently was to develop competitive and fully tax compliant wealth management solutions.

The business strategy of NBSA requires specific attention to risks related to AML Issues and Tax Issues. Since the reporting, as described in Section 3.7, that has been made to the Executive Management, the NBSA Board and relevant Nordea Group functions, has not contained any information indicating that the risks related to AML Issues and Tax Issues linked to the operations associated with Offshore Structures were in conflict with the business strategy, it has appeared as though the risks related to AML Issues and Tax Issues pertaining to the operations associated with Offshore Structures, have corresponded to the business strategy. However, the results from the Investigation show deficiencies that prove the opposite.

¹⁷ However, it is noted that we have concluded that the NBSA Board and the Executive Management has been aware of risks relating to AML Issues and Tax Issues, as described in Section 4.1.2, although they have failed to link these risks to the operations associated with Offshore Structures.

4.2.3 The Risk Appetite Framework

On the face of the reporting provided to the Executive Management, the NBSA Board and relevant Nordea Group functions throughout the Relevant Period, it appears as if the operations associated with Offshore Structures have corresponded to the Risk Appetite Framework of NBSA. However, in view of the results from the Investigation and the deficiencies described therein, the reviewed reporting cannot be said to have reflected the actual situation in NBSA. We therefore conclude that the operations associated with Offshore Structures, and the risks that they entail, have in fact not corresponded with the Risk Appetite Framework of NBSA. The discrepancy between the reporting and the actual situation in NBSA has led to the Executive Management, the NBSA Board and relevant Nordea Group functions not being provided with the information needed to be made aware of the fact that the operations associated with Offshore Structures have been in conflict with the Risk Appetite Framework. These conclusions are supported by the following.

According to the Risk Appetite Framework, NBSA shall aim to minimise the exposure towards and impact from reputation and compliance risks. Furthermore, it is stated that NBSA shall have a prudent approach towards money laundering and terrorist financing risks, which shall be managed by ensuring compliance with applicable laws and regulations and by having appropriate procedures, instructions, and sound controls in place.

As of when the Risk Appetite Framework was introduced in 2014, the Risk & Capital and the Compliance reports to both the Executive Management and the NBSA Board have referred to the risk measures of the Risk Appetite Framework to describe the current risk status in NBSA. During this period, neither risks related to AML Issues nor Tax Issues have been reported to exceed the risk appetite measures approved by the NBSA Board. Hence, it has appeared as though the risks related to AML Issues and Tax Issues, pertaining to the operations associated with Offshore Structures, corresponded to the Risk Appetite Framework. However, the results from the Investigation show deficiencies that prove the opposite.

4.3 Conclusions on to what extent the operations associated with Offshore Structures have been communicated to Nordea Group

In view of the Material, we conclude that Nordea Group has, through certain individuals, been aware that NBSA's business includes operations associated with Offshore Structures. Our conclusion is supported by the following.

First, during the Relevant Period the NBSA Board has consisted of members that have also held positions within the Nordea Group, such as the Head of Wealth Management, Head of Wealth Management Operations, and Head of Business Development within Wealth Management. In our judgment, this implies that the knowledge of the NBSA Board has been transferred to and may be attributed to the Nordea Group.

Second, QRM-meetings have been held throughout the Relevant Period. The QRM-meetings have been attended by individuals that have held positions within NBSA as well as positions within Nordea Group such as Head of Wealth Management, Head of Wealth Management Operations and Head of Business Development within Wealth Management as described above. The QRM-meetings, together with the Strategy Sessions, appear to have been the main forum for business strategy discussions. The supporting material for these meetings, the BSC Strategy reports, has been submitted to Planning & Control within Wealth Management in Nordea Group.

4.4 Overall conclusions on the governance of NBSA

We have observed the following deviations from the Relevant Internal Rules on Governance and Operational Risk Management.

4.4.1 Compliance with Relevant Internal Rules on Governance and Operational Risk Management

4.4.1.1 *Content of minutes*

According to the Charters for the Board and the Executive Management respectively, the meetings of the NBSA Board and the Executive Management are to be recorded in minutes. The minutes are to contain references to any major deliberations of the meeting and the decisions and measures taken. The NBSA Board and Executive Management minutes are brief and contain little or no details on deliberations, due to which it is difficult to get a good understanding and overview of matters discussed in the NBSA Board and Executive Management meetings. For example, the Material indicates that matters related to AML Issues and to some extent Tax Issues have been raised through reports from the Risk & Capital, Compliance and Internal Audit functions, however this is not evidenced in the minutes from the NBSA Board and Executive Management meetings. Finally, it may be noted that the stringency and level of detail in minutes improved after 2013/2014, in line with stricter requirements from the CSSF. However, the minutes from recent years still contain limited details on deliberations.

The above constitutes a deviation from the Charters for the Board and the Executive Management.

4.4.1.2 *QRM-meetings and Strategy Sessions*

According to the Internal Governance Charter, no major changes to products, services, processes, routines, systems, organisation etc. shall be made in NBSA unless the Executive Management has approved it. The measures taken in relation to the Onshore Transition that are discussed in and initiated through the QRM-meetings as well as the Strategy Sessions can be considered such a major change to NBSA's client offering that Executive Management shall approve. While the Strategy Sessions constitute a form of Executive Management meeting, there is no formally documented decision in relation to the Onshore Transition. The absence of formalised decisions together with the fact that the discussions in QRM-meetings are not recorded in minutes does not facilitate the implementation of decided measures and in addition makes following up more difficult.

According to the Charter for the Executive Management, the Executive Management shall propose any changes regarding NBSA's long-term strategy to the NBSA Board. In view of the Material, our observation is that the QRM-meetings and the Strategy Sessions were the instrumental forum for discussions on NBSA's strategy during 2009. For example, the decision to pursue the Onshore Transition appears to have been initiated in these meetings. The Onshore Transition constitutes a considerable change of long-term strategy. It may therefore be argued that such matters, addressed and handled through the QRM-meetings and Strategy Sessions, in relation thereto should have been formally anchored with the NBSA Board, of which there is no evidence of in the Material – until 2014, when the Code of Ethics was formally adopted by the NBSA Board. The absence of formalised decisions in the appropriate forum together with the fact that the discussions in and initiatives from QRM-meetings are not recorded in minutes does not facilitate the implementation of decided measures and in addition makes following up more difficult.

The above observations constitutes deviations from the Internal Governance Charter and the Charter for the Executive Management respectively.

4.4.1.3 *Sufficient resources*

According to the Compliance Charters, the Executive Management shall ensure that appropriate human resources and technical infrastructures are allocated to the Compliance function. The Compliance function has indicated in its reports to Nordea Group and Executive Management that its resource situation has been strained, something that, judging from the reports, has not been addressed by the Executive Management through specific measures. This has been confirmed in interviews.

The above constitutes a deviation from the Compliance Charter.

4.4.2 Certain observations

4.4.2.1 *Risk awareness in relation to the operations associated with Offshore Structures*

Although the NBSA Board and the Executive Management have been aware of risks relating to AML Issues and Tax Issues, as concluded in Section 4.1.2, they have failed to link these risks to the operations associated with Offshore Structures.

While operations associated with Offshore Structures as such are not illegal in Luxembourg, such structures could be used by clients as instruments for money laundering or tax evasion. In view of this, as well as the result of the Investigation, it is therefore a fair conclusion that both the NBSA Board and the Executive Management should have identified a need for a particular risk awareness related to the operations associated with Offshore Structures, and that such risk awareness should have been incorporated in risk assessment processes and the Risk Appetite Framework. If this had been the case, it would have facilitated for the Risk & Capital and/or the Compliance functions to integrate related risks into their respective risk assessment and control processes, and Internal Audit would possibly have performed audits with this in focus.

4.4.2.2 *Implementation and follow up*

After 2010, the formal reporting contains no reflections of the implementation of the Code of Ethics by the Executive Management, apart from one reference to the Code of Ethics in a NBSA Board report from 2014. In view of the Material and the results from the Investigation, a fair conclusion is that insufficient processes and procedures have been put in place to ensure effective and efficient implementation of the Onshore Transition, specifically the Code of Ethics.

Exhibit 1 – Illustration of Relevant Internal Rules on Governance and Operational Risk Management

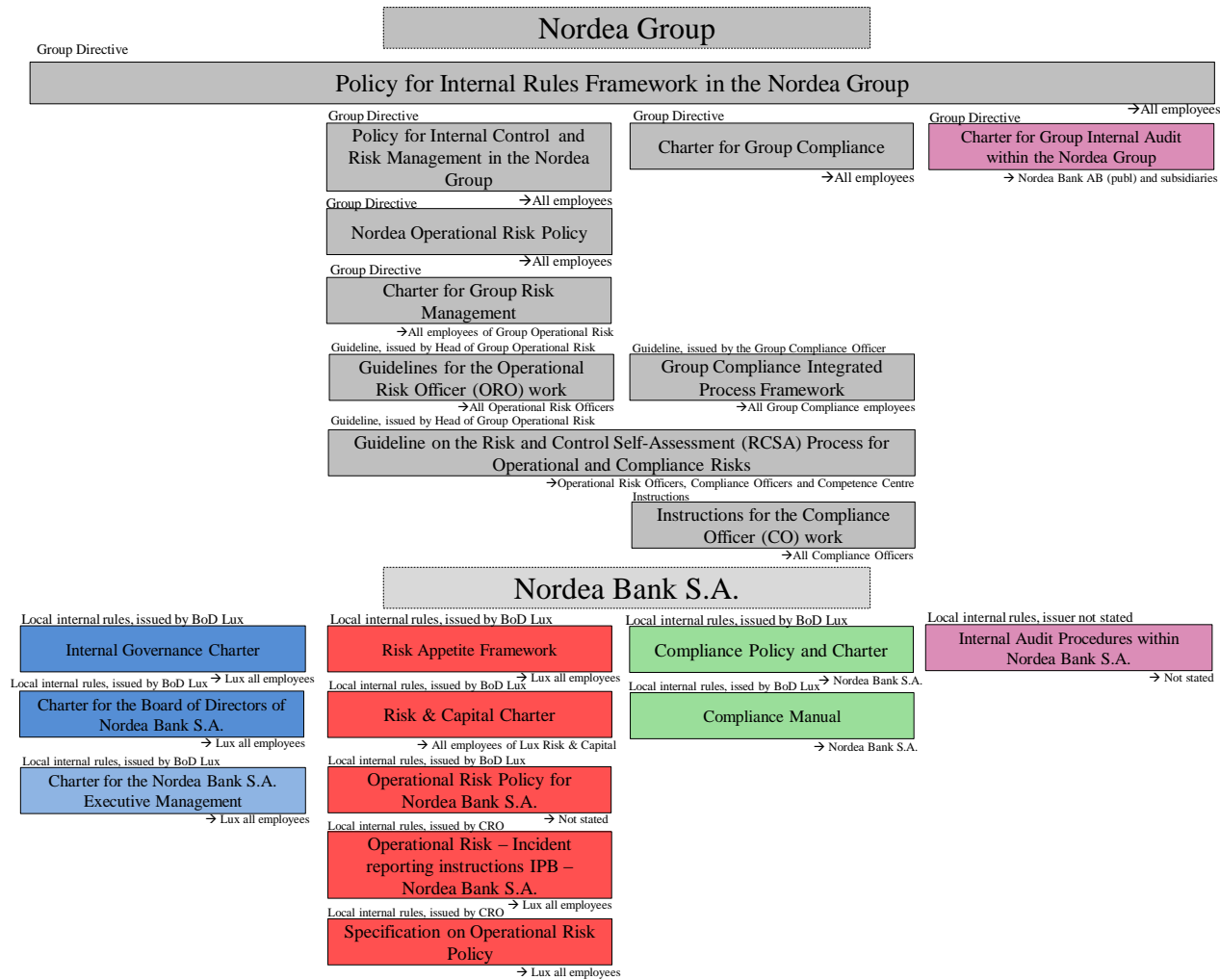
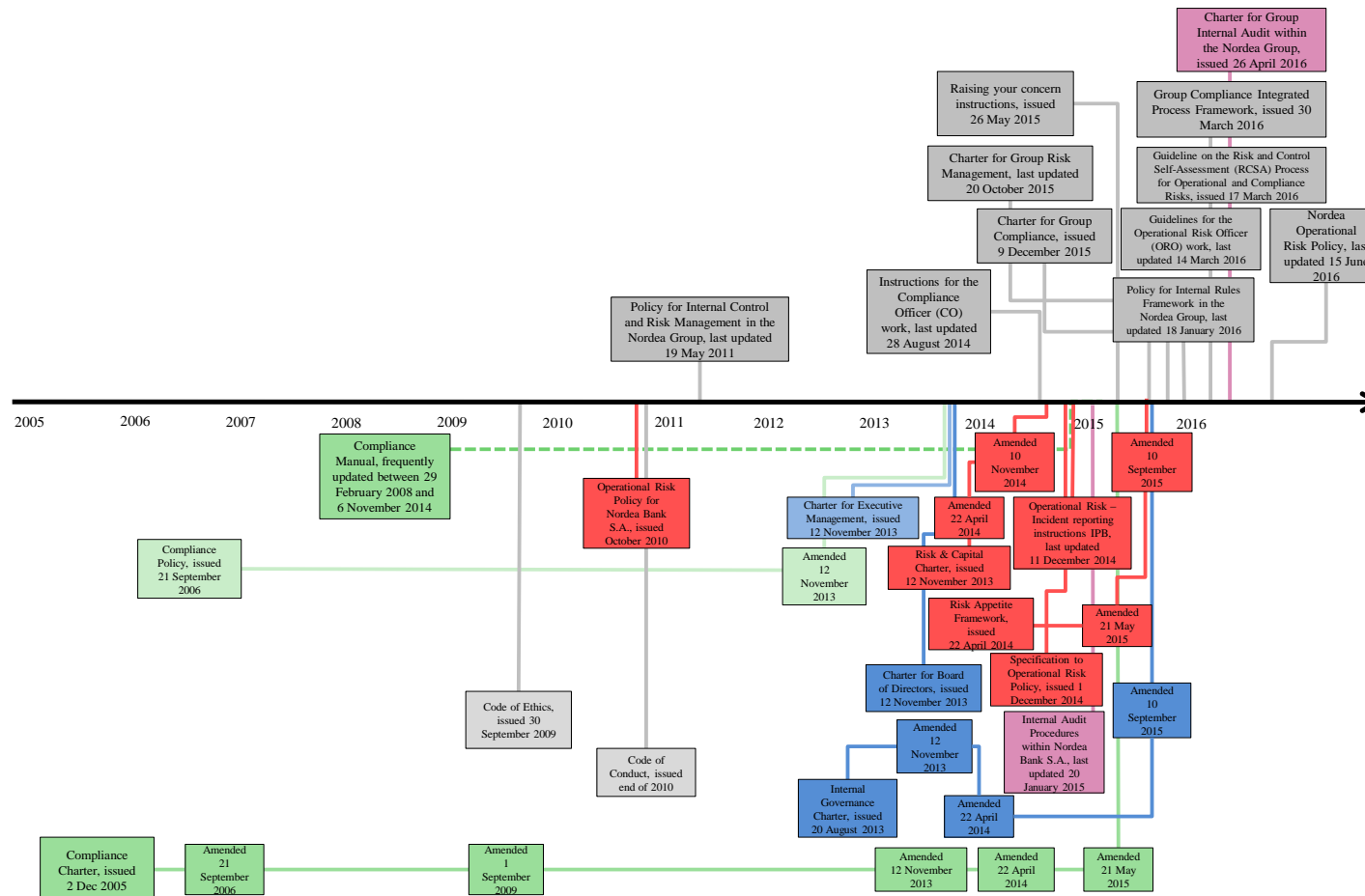


Exhibit 2 – Timeline on Relevant Internal Rules on Governance and Operational Risk Management, Code of Conduct, Code of Ethics and Raising your concern instructions





SECTION C

**Statement from Mannheimer Swartling Advokatbyrå
on the Internal Investigation**

19 July 2016

To

The Board of Directors of Nordea Bank AB (publ)

Statement by Mannheimer Swartling

As requested by the Board of Directors of Nordea Bank AB (publ) (“**Nordea**”) on 22 April 2016, Nordea Group Compliance and Group Operational Risk have reported the findings from an internal independent 2nd line investigation (the “**Investigation**”) as a consequence of the ongoing so called “Panama Papers” case.

This work has been organised on a risk based approach. The scope covers International Private Banking Nordea Bank Luxembourg S.A. customers with offshore structures set-up by the Panama law firm Mossack Fonseca in any country, as well as all offshore structures established in Panama channelled via other providers than Mossack Fonseca. All Nordic Private banking customers with offshore structures have also been covered in the Investigation. The Investigation has been divided into eleven streams where each stream has made a report and all reports have formed the basis for the detailed reporting to the Board of Directors of Nordea and the final public report dated 19 July 2016 (the “**Report**”). KPMG and local legal advisors have assisted in and provided advice and support to the Investigation.

Mannheimer Swartling (“**MSA**” or “**we**”) has been used as advisor during the Investigation to confirm high professionalism in defining the scope, methodology, structure and documentation of findings, that the conclusions in a good way are reflecting the fact findings from the Investigation and that no material findings have been excluded from the conclusions in the Report (the “**Assignment**”).

For the purpose of the Assignment, we have followed the Investigation as an external representative, attended meetings with the steering committee set up for the Investigation, reviewed presentations made to the steering committee by the different streams, attended presentations made by the Nordea Group Compliance and Group Operational Risk to Nordea Bank Luxembourg S.A. representatives and reviewed the final reports from each stream as well as the final Report based thereupon.

Nordea Group Compliance and Group Operational Risk have been responsible for the preparation of the reports from each stream and the fair presentation of the reports to the steering committee as well as for the content of the Report under such control the steering committee has determined necessary to enable the preparation of a final Report that are free from material misstatements or omissions, whether due to error or any other reason. Our responsibility with regard to the Investigation is to express the judgment following from the Assignment.

We believe that the insight we have obtained during the Investigation together with our review is sufficient and appropriate to provide a basis for our judgement that the Investigation has been completed with high professionalism in defining the scope, methodology, structure and documentation of findings, that the conclusions in a good way are reflecting the fact findings from the Investigation, and that no material findings have been excluded from the conclusions presented in the Report.

Our statement above is strictly limited to matters stated herein and is not to be read as extending by implication to any other matters in connection with the Panama Papers or otherwise. This letter is solely for your information and may not be reproduced, referred to or delivered to any other party without our prior consent. The applicable general terms and conditions for our services are set forth on Mannheimer Swartling's website www.mannheimerswartling.se.

Stockholm 19 July 2016

Mannheimer Swartling Advokatbyrå AB