



**Nordea**

20 July 2016

# Report regarding the investigation of Nordea Private Banking

## Conclusions and actions

# Nordea

## Internal Investigation of Nordea Private Banking in relation to the «Offshore structures»

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## Scope, involved parties and work streams

### Scope for internal investigation

- Nordea's International Private Banking business, i.e. Nordea Bank S.A. in Luxembourg (NBSA) and a small number of customers within Nordic Private Banking
- Focus on offshore structure customers administered by Mossack Fonseca (MF), and all offshore structures established in Panama channelled via other providers

### Investigation leads

- Nordea Group Compliance and Nordea Group Operational Risk

### Advice and support

- Mannheimer Swartling, led by Biörn Riese, legal advisor: Scope, methodology, structure, documentation of findings as well as expressed opinion on consistency of conclusions
- Local auditing firms: Tax regulations, KYC, forensics operational risk, Luxembourg regulations and assessment of market practice
- Local legal advisor: Assessments related to Luxembourg law

### Themes in 11 work streams

- 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 Standards
- EU Savings Directive
- Operational Risk Management Framework and Policies
- Procedures for renewing Powers of Attorney
- Employees' private engagement in offshore structure activities
- Information Security

## Fact sheet

### **KYC investigation on offshore structure customers**

- As of 15 April NBSA had 562 Offshore Structure Customers
- KYC investigation covered all 129 NBSA customers related to Panama and Mossack Fonseca
  - 5 with beneficial owners resident in the Nordics
  - 29 with beneficial owner with a Nordic nationality
- Also covered 16 offshore structures owned by customers in Nordic Private Banking

#### ***Purpose***

- Verify if customers have been properly risk assessed at time of on-boarding
- Verify if quality of current KYC files meet current Luxembourg regulation and Nordea policies

### **Tax compliance investigation**

- 137 NBSA offshore structure customers and 16 owned by Nordic Private Banking customers

#### ***Purpose***

- Verified if NBSA at the time when customers joined Nordea had sufficient evidence for tax compliance
- Verify whether the offshore structures after having been established were used for tax evasion purposes

## Conclusions on Nordea Bank S.A. in Luxemburg (NBSA)

### General

#### Relationship to Mossack Fonseca (MF)

- Regular interaction 2010-16, including:
  - Requests to open offshore structures on behalf of customers
  - Requesting Powers of Attorney
  - Processing payments from customer' accounts to MF
- No formal agreement with MF, no evidence of Nordea employees initiating the establishment of offshore structures
- NBSA has not received any financial compensation from MF

#### Policies and frameworks

- Adopted Group Policies and Directives
- Internal instructions established in accordance with Luxembourg regulation and the Group Policies and Directives.
  - Certain paragraphs have been unclear and could be misunderstood
- Code of Ethics reached beyond requirement by Luxembourg law
- Despite annual training not managed to implement policies and instructions in sufficient and consistent way, i.e. documentation

#### Customer on-boarding

- Since 2010 systematic process for on-boarding new customers
- Separate requirements for normal, increased and high risk customers
- Detailed instructions on what customer information has been required before approving the account opening

## Conclusions on Nordea Bank S.A. in Luxemburg (NBSA) Quality of KYC files

### KYC files

- Overall, for the period 2010-16, the investigated KYC files (Know Your Customer) are clearly below required standards
- Improvements in the latter part of the period
- The majority of KYC files were high risk customers requiring enhanced due diligence. Documentation was often incomplete
- The so called on-going-due-diligence, the regular update and re-assessment of the files, has not been done systematically
- The majority of the customer relationships sampled for review of transactions did not have sufficient documentation of the transactions
- However, based on interviews with the customer advisors, it is the impression of the investigation that NBSA has a better understanding of the customer than what is reflected in the KYC files
- The control functions have during the period not identified the weaknesses in due diligence process, as described above



## Conclusions on Nordea Bank S.A. in Luxemburg (NBSA)

### Tax compliance

Investigation  
conclusions on  
potential tax  
evasion purpose

Nordea advice

Tax reports

- At the time of customer onboarding NBSA has had sufficient evidence of tax compliance in accordance with the Code of Ethics in 114 of the 137 offshore structures
- When investigating how the structures have been used after being established it was concluded that in 20 out of the 137 cases reviewed, sufficient evidence has been collected that customers have been living up to their tax obligations, and for 49 cases no signs of tax evasion was found
- In the remaining 68 customer files there are in the documentation signs of different nature requiring further analysis to confirm that the beneficial owners of these structures have adhered to Nordea's policies regarding tax evasion. Four of these cases refer to Nordic residents. Most of the cases refer to the period before 2013
- In Nordic Private Banking 1 customer file require further investigation to confirm compliance
- The investigation has not found evidence that employees in NBSA have proactively contributed to tax evasion
- Insufficient controls in place to ensure NBSA customers receive tax reports in line with best market practice

## Conclusions on Nordea Bank S.A. in Luxemburg (NBSA) Procedures for renewing Powers of Attorney

### Powers of Attorney

- Seven cases where Powers of Attorney or proxies were back dated
  - Illegal when it aims at altering the truth
- However to be convicted for the criminal offence of forgery or of use of forgery, certain conditions need to be met cumulatively
  - Do not seem as all are met for the cases at hand, at least not regarding the condition of clear benefit or illicit advantage for the employee asking for the backdating, the bank, or another third party or a prejudice or a potential prejudice to a third party
- However, the procedures are in violation of Nordea Code of Conduct, and the appropriate sanctions will be decided



## Conclusions on Nordea Bank S.A. in Luxemburg (NBSA) Employees' Ownership of offshore structures

### Employees' Ownership of offshore structures

- The investigation has found two cases where employees in NBSA have owned off-shore structures, both of them closed more than five years ago
- No other private engagements among Private Banking employees were identified
- Nordea has also reviewed the Russian management's ownership of private offshore structures. The review has not found evidence of violations of Nordea's internal policies in relation to establishing or maintaining such structures. Documents provided by the employees also support that these structures have been reported to the relevant tax authorities as required by Russian law
- The review has identified one case in breach of the code of conduct in Nordea Bank Russia related to advice

# Mannheimer Swartling's two assignments

## **Assignment No. 1**

A separate review in order to conclude how the management and the Board of Nordea Bank S.A. Luxembourg (“**NBSA**”) have 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.

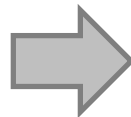
## **Assignment No. 2**

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.

# Assignment No. 1.

## **Assignment No. 1 – The Review**

A separate review in order to conclude how the management and the Board of NBSA have 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.



**General background** with regard to Luxembourg and the Offshore Operations



**Conclusions** with regard to

- 1) what extent the Board and the Executive Management of NBSA were aware of the operations associated with Offshore Structures and the risks related thereto;
- 2) how identified risks have corresponded to the business strategy and Risk Appetite Framework of NBSA;
- 3) what extent the operations associated with Offshore Structures have been communicated to the Group; and
- 4) the overall governance of NBSA.

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

- Throughout the Relevant Period, the Board and the Executive Management of NBSA have been aware that NBSA's business includes operations associated with Offshore Structures but have not viewed Offshore Structures in and of themselves as entailing specific risks to NBSA's operations.
- The Board and the Executive Management of NBSA have been aware of, and identified, risks related to anti-money laundering and tax issues. Such risks are relevant to all clients and are of particular relevance to clients with Offshore Structures.
- However, risks related to the operations associated with Offshore Structures have not, as such,
  - been identified and addressed in the Risk Appetite Framework or identified as prioritised risks in the Risk Control Self-Assessment process and other risk assessment processes of NBSA; or
  - been reported as specific risks to the Executive Management or the Board of NBSA, by e.g. the Risk & Capital and Compliance functions.

## 2. Conclusions on how identified risks have corresponded to the business strategy and Risk Appetite Framework of NBSA

- The aim of the business strategy of NBSA has been to meet the increasing regulatory demands concerning transparency and to comply with legal requirements in relation to AML Issues and Tax Issues.
- On the face of the reporting provided to the Executive Management, the NBSA Board and relevant Group functions, operations associated with Offshore Structures appear to have corresponded to the business strategy and the Risk Appetite Framework of NBSA throughout the Relevant Period.
- However, in view of the results from the Investigation, and the deficiencies described therein,
  - this reporting cannot be said to reflect the actual conditions of NBSA; and
  - the operations associated with Offshore Structures and the risks that they entail have in fact not corresponded to the business strategy and the Risk Appetite Framework of NBSA.

### **3. Conclusions on to what extent the operations associated with Offshore Structures have been communicated to the Group**

- Nordea Group has, through certain individuals, been aware that NBSA's business includes operations associated with Offshore Structures since
  - the Board of NBSA has consisted of members who have also held positions within the Nordea Group; and
  - Quarterly Review Meetings and Strategy Sessions have been attended by individuals that have held positions within NBSA as well as positions within Nordea Group.

## 4. Overall conclusions on the governance of NBSA

- 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 the matters discussed in the NBSA Board and Executive Management meetings. This constitutes deviations from the requirements set out in the Charters for the Board and the Executive Management of NBSA on keeping of minutes. 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 Quarterly Review Meetings and Strategy Sessions have been the instrumental forum for discussions on the strategy of NBSA and where the decision to pursue the Onshore Transition was initiated. This constitutes a deviation from the requirements set out in the Charter for the Executive Management of NBSA, since long-term strategy changes shall be proposed by the Executive Management to the Board of NBSA.
- The Compliance function has indicated in its reports that its resource situation has been strained, something that, judging from the reports, has not been addressed by the Executive Management of NBSA through specific measures. This constitutes deviations from the requirements set out in the Compliance Charter, which states that the Executive Management shall ensure that appropriate human resource and technical infrastructures are allocated to the Compliance function.



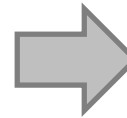
## 4. Overall conclusions on the governance of NBSA; cont.

- Although the Executive Management of NBSA has been aware of risks relating to AML Issues and Tax Issues, it has failed to link these risks to the operations associated with Offshore Structures. In view of the result of the Investigation, a fair conclusion is
  - that both the Board and the Executive Management of NBSA 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 in their respective risk assessment and control processes, and Internal Audit would possibly have performed audits with this in focus.
- After 2010 the formal reporting contains no reflections of the implementation of the Code of Ethics by the Executive Management of NBSA apart from one reference to the Code of Ethics in a 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 in order to ensure effective and efficient implementation of the Onshore Transition, specifically the Code of Ethics.

## Mannheimer Swartling's assignment No. 2

### Assignment No. 1 – The Statement

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.



**A statement** to this effect

# Nordea

## Casper von Koskull

President and CEO



# Decisive measures to mitigate deficiencies

## In summary

1. Nordea will promptly implement all the recommendations in the report
2. Stricter governance of Nordea Bank in Luxembourg (NBSA) by integrating NBSA into Nordea Group
3. Nordea has blocked accounts where deficiencies were found
4. NBSA will enforce new, stricter criteria for offshore structures in Nordea accounts
5. Nordea will strengthen its tax policy on customer advice
6. Nordea will say no to all new company structures where the business purpose is not clear
7. Nordea will strengthen competencies and recourses in control functions
8. All current offshore structures in NBSA will be reviewed

# Compliance the top priority – a norm based approach

- Compliance must be effective in an environment where both regulation and our stakeholders' attitudes and values evolve over time
- The Ethics & Values Committee. An operational function that will proactively work to develop key policies and strategies
  - Differ between what we *can* do and what we *should* do
- Policies will be changed in order to minimise the room for individual interpretations and secure a common view on compliance and a consistent implementation of policies
- A Tax Board will make the call on complex issues and ensure consistent decisions

# Strengthening the compliance organisation

- Recruited world-class people to key positions
- Built group-wide operations for critical processes
- Established a separate Financial Crime Change Programme (FCCP)
- 850 full-time employees focusing on activities related to KYC, sanctions screening and transaction monitoring  
– approx. 1,150 by year-end
- Strengthening competences and resources in Luxembourg