

FEDERAL RESERVE SYSTEM

Nordea Bank Finland Plc
Helsinki, Finland

Order Approving Establishment of a Branch and Acquisition of a Commercial Lending Company

Nordea Bank Finland Plc (ABank@), Helsinki, Finland, a foreign bank within the meaning of the International Banking Act (AIBA@), has applied under section 7(d) of the IBA (12 U.S.C. ' 3105(d)) to establish a branch in New York, New York, and to acquire ownership of American Scandinavian Banking Corp. ("ASBC"), New York, New York, a commercial lending company. The Foreign Bank Supervision Enhancement Act of 1991, which amended the IBA, provides that a foreign bank must obtain the Board's approval to establish a branch in the United States and to acquire ownership of a commercial lending company subsidiary. Bank previously received approval to file an application for approval of these transactions on an after-the-fact basis.

Notice of the application, affording interested persons an opportunity to comment, has been published in a newspaper of general circulation in New York, New York (*New York Daily News*, February 18, 2002). The time for filing comments has expired, and all comments have been considered.

Bank, with assets of \$204 billion, is a wholly owned subsidiary of Nordea AB (ANordea@), Stockholm, Sweden,¹ is one of the largest financial services companies in the Nordic region. Most of Nordea's operations involve banking activities, and more than 75 percent of those activities are retail oriented. Almost all of Nordea's banking activity is conducted through Bank and its three

¹ All financial data are as of March 31, 2002.

primary bank subsidiaries. Bank operates branches in New York, London, Singapore, Grand Cayman, and all of the Baltic states. Bank's only U.S. subsidiaries, other than ASBC, are several small nonbanking companies. Nordea's nonbanking subsidiaries consist of insurance companies, investment-related firms, and various financial services companies, primarily in the Nordic countries. The Swedish government owns 18.3 percent of Nordea. No other shareholder owns 10 percent or more of the holding company's stock. Nordea is a qualifying foreign banking organization within the meaning of Regulation K (12 C.F.R. 211.23(b)).

As part of a reorganization of its operations, Nordea transferred ownership of most of its banking subsidiaries to Bank, a newly formed bank. Previously, Nordea's primary banking subsidiary was Merita Bank ("Merita"), Helsinki, Finland. Merita Bank had three sister banks, located in Denmark, Norway, and Sweden. In the reorganization, Merita ultimately was merged into Bank, and the banks in Denmark, Norway, and Sweden became subsidiaries of Bank.² In the United States, Bank, as successor to Merita, acquired Merita's New York branch and its commercial lending company subsidiary, ASBC, a company chartered under Article XII of the banking laws of the State of New York.

The proposed branch would continue the operations and activities of the former Merita branch, including providing loans, foreign exchange, and letters of credit to U.S.-based subsidiaries of companies in the Nordic region. In addition, certain activities, including commodity derivatives and loan syndication activities,

² The subsidiaries are Nordea Bank Danmark A/S, Nordea Bank Norge ASA, and Nordea Bank Sweden AB.

which previously were conducted at the New York branch of Nordea Bank Norge ASA, would be conducted at Bank's New York branch.

In order to approve an application by a foreign bank to establish a branch in the United States or acquire ownership of a commercial lending company, the IBA and Regulation K require the Board to determine that the foreign bank applicant engages directly in the business of banking outside of the United States and has furnished to the Board the information it needs to assess the application adequately. The Board also shall take into account whether the foreign bank and any foreign bank parent is subject to comprehensive supervision or regulation on a consolidated basis by their home country supervisor (12 U.S.C. ' 3105(d)(2); 12 C.F.R. 211.24).³ The Board may also take into account additional standards as set forth in the IBA and Regulation K (12 U.S.C. ' 3105(d)(3)-(4); 12 C.F.R. 211.24(c)(2)-(3)).

As noted above, Bank engages directly in the business of banking outside the United States. Bank also has provided the Board with information necessary to assess the application through submissions that address the relevant

³ In assessing this standard, the Board considers, among other factors, the extent to which the home country supervisors: (i) ensure that the bank has adequate procedures for monitoring and controlling its activities worldwide; ii) obtain information on the condition of the bank and its subsidiaries and offices through regular examination reports, audit reports, or otherwise; (iii) obtain information on the dealings with and relationship between the bank and its affiliates, both foreign and domestic; (iv) receive from the bank financial reports that are consolidated on a worldwide basis or comparable information that permits analysis of the bank's financial condition on a worldwide consolidated basis; (v) evaluate prudential standards, such as capital adequacy and risk asset exposure, on a worldwide basis. These are indicia of comprehensive, consolidated supervision. No single factor is essential, and other elements may inform the Board's determination.

issues. With respect to supervision by home country authorities, the Board has considered the following information.

The Finnish Financial Supervision Authority (“Finnish FSA”) has supervisory responsibility for Bank, which, after the reorganization, would control almost all the banking assets of the Nordea organization. The Finnish FSA evaluates the operations and financial condition of Bank through on-site examinations and off-site reviews of Bank and its domestic and foreign offices and nonbank subsidiaries. On-site examinations of Bank are conducted annually, and periodic meetings with Bank management are held when necessary. Examinations focus on credit, market, liquidity, information technology, and operations risks, and include reviews of Bank’s risk management systems and internal controls. The Finnish FSA periodically examines foreign branches of Bank, with a goal of conducting examinations of each foreign branch approximately every two years. Foreign branches are required to forward examination reports prepared by local bank supervisors to the Finnish FSA. Off-site supervision consists primarily of the review of various required reports submitted by Bank, including monthly reports on nonperforming loans in foreign and domestic branches; quarterly balance sheets, income statements, and reports on Bank’s capital position, asset quality, liquidity, new activities, and currency and country risks; semiannual reports on large exposures; and annual reports on ownership changes and risk management. The Finnish FSA requires banks’ annual financial statements to be externally audited and published on a consolidated basis.

Although the Finnish FSA is responsible for the supervision of Bank on a consolidated basis, it relies on the supervisors in the other countries in which the Nordea organization has subsidiary banks (Denmark, Norway, and Sweden) to

conduct examinations of those banks and to report the findings to the Finnish FSA. The relevant supervisory agencies in Finland, Denmark, Norway, and Sweden have entered into a formal Memorandum of Understanding (the “MOU”) on the supervision of the Nordea organization. Pursuant to the MOU, the supervisory agencies coordinate the supervision of the Nordea organization and agree to share information. Supervisory coordination entails jointly developing a risk assessment of the organization, agreeing on an annual supervisory plan for the consolidated organization as well as individual entities, and meeting approximately once a month to discuss ongoing supervision.

The Swedish Financial Supervisory Authority (“Swedish FSA”) has responsibility for the consolidated Nordea organization. The Swedish FSA supervises Nordea on a consolidated basis through both on-site and off-site reviews. Nordea provides the Swedish FSA with periodic reports including quarterly balance sheets, income statements, capital adequacy statements, and semiannual reports on large exposures. The Swedish FSA appoints an external auditor for Nordea who must submit an annual report on the findings of its audit. This external audit is conducted in conjunction with the regular external audit performed by an auditor appointed by Nordea. The external audit focuses on asset quality and internal controls on a consolidated basis. The Swedish FSA is also provided with the results of audits conducted by Nordea’s internal audit group.

Based on all the facts of record, the Board has determined that Bank is subject to comprehensive supervision on a consolidated basis by its home country supervisor.

The additional standards set forth in section 7 of the IBA and Regulation K (*see* 12 U.S.C. ' 3105(d)(3)-(4); 12 C.F.R. 211.24(c)(2)-(3)) have

also been taken into account. The Finnish FSA has no objection to the establishment of the proposed branch and has approved the relevant portions of the Nordea reorganization.

Finland is a member of the Financial Action Task Force and subscribes to its recommendations on measures to combat money laundering. Financial Action Task Force recommendations and European Union money laundering directives are incorporated in Finland's anti-money laundering framework. Banks are subject to know-your-customer requirements and must consider whether a transaction is unusual for a customer. Banks report suspicious transactions to a special money laundering clearing house that is part of Finland's National Bureau of Investigation. Failure to report a suspicious transaction can result in a fine or imprisonment for up to six months. The Finnish FSA is responsible for enforcing compliance with Finland's anti-money laundering laws and regulations, and Finnish banks are expected to have written anti-money laundering policies and procedures. Bank has implemented such policies and procedures.

Finland's risk-based capital standards are consistent with those established by the Basel Capital Accord. Bank's capital is in excess of the minimum levels that would be required by the Basel Capital Accord and is considered equivalent to capital that would be required of a U.S. banking organization. Managerial and other financial resources of Bank also are considered consistent with approval, and Bank appears to have the experience and capacity to support the proposed branch. In addition, Bank has established

controls and procedures for the proposed branch to ensure compliance with U.S. law, as well as controls and procedures for its worldwide operations generally.⁴

With respect to access to information about Bank's operations, the restrictions on disclosure in relevant jurisdictions in which Bank and Nordea operate have been reviewed and the relevant government authorities have been contacted regarding access to information. Bank and Nordea have committed to make available to the Board such information on the operations of Bank and any of its affiliates that the Board deems necessary to determine and enforce compliance with the IBA, the Bank Holding Company Act, and other applicable federal law. To the extent that the provision of such information to the Board may be prohibited by law or otherwise, Bank and Nordea have committed to cooperate with the Board to obtain any necessary consents or waivers that might be required from third parties for disclosure of such information. In addition, subject to certain conditions, the Finnish FSA may share information on Bank's operations with other supervisors, including the Board. In light of these commitments and other facts of record, and subject to the condition described below, it has been determined that Bank has provided adequate assurances of access to any necessary information that the Board may request.

On the basis of all the facts of record, and subject to the commitments made by Bank and Nordea, as well as the terms and conditions set forth in this order, Bank's application to establish a branch and acquire ownership of a commercial lending company is hereby approved. Should any restrictions on access to information on the operations or activities of Bank and its affiliates

⁴ As part of the Nordea reorganization, it is expected that ASBC will be liquidated in accordance with New York law.

subsequently interfere with the Board's ability to obtain information to determine and enforce compliance by Bank or its affiliates with applicable federal statutes, the Board may require or recommend termination of any of Bank's direct or indirect activities in the United States. Approval of this application also is specifically conditioned on compliance by Bank and Nordea with the commitments made in connection with this application and with the conditions in this order.⁵ The commitments and conditions referred to above are conditions imposed in writing by the Board in connection with this decision and may be enforced in proceedings under 12 U.S.C. ' 1818 against Bank and its affiliates.

By order of the Board of Governors,⁶ effective July 25, 2002.

(signed)

Robert deV. Frierson
Deputy Secretary of the Board

⁵ The authority to approve the establishment of the proposed branch and the acquisition of ASBC parallels the continuing authority of the State of New York to license offices of a foreign bank and to supervise Article XII companies. The approval of this application does not supplant the authority of the State of New York, or its agent, the New York State Banking Department (ADepartment@), to license the proposed office of Bank and supervise ASBC in accordance with any terms or conditions that the Department may impose.

⁶ Voting for this action: Chairman Greenspan, Vice Chairman Ferguson, and Governors Gramlich, Bies, and Olson.