



U.S. Department of Justice

Tax Division

Washington, D.C. 20530

CDC:TJS:KEDodd
5-16-4732
2014200746

September 30, 2015

Ben A. O'Neil
Thomas Werlen
Quinn Emanuel Urquhart & Sullivan LLP
777 6th Street NW, 11th Floor
Washington, D.C. 20001

Re: Schaffhauser Kantonalbank
DOJ Swiss Bank Program – Category 2
Non-Prosecution Agreement

Dear Mr. O'Neil:

Schaffhauser Kantonalbank (“SHKB”) submitted a Letter of Intent on December 27, 2013, to participate in Category 2 of the Department of Justice’s Program for Non-Prosecution Agreements or Non-Target Letters for Swiss Banks, as announced on August 29, 2013 (hereafter “Swiss Bank Program”). This Non-Prosecution Agreement (“Agreement”) is entered into based on the representations of SHKB in its Letter of Intent and information provided by SHKB pursuant to the terms of the Swiss Bank Program. The Swiss Bank Program is incorporated by reference herein in its entirety in this Agreement.¹ Any violation by SHKB of the Swiss Bank Program will constitute a breach of this Agreement.

On the understandings specified below, the Department of Justice will not prosecute SHKB for any tax-related offenses under Titles 18 or 26, United States Code, or for any monetary transaction offenses under Title 31, United States Code, Sections 5314 and 5322, in connection with undeclared U.S. Related Accounts held by SHKB during the Applicable Period (the “conduct”). SHKB admits, accepts, and acknowledges responsibility for the conduct set forth in the Statement of Facts attached hereto as Exhibit A and agrees not to make any public statement contradicting the Statement of Facts. This Agreement does not provide any protection against prosecution for any offenses except as set forth above, and applies only to SHKB and does not apply to any other entities or to any individuals. SHKB expressly understands that the protections provided under this Agreement shall not apply to any acquirer or successor entity unless and until such acquirer or successor formally adopts and executes this Agreement. SHKB

¹ Capitalized terms shall have the meaning ascribed to them in the Swiss Bank Program.

enters into this Agreement pursuant to the authority granted by its Board of Directors in the form of a Board Resolution (a copy of which is attached hereto as Exhibit B).

In recognition of the conduct described in this Agreement and in accordance with the terms of the Swiss Bank Program, SHKB agrees to pay the sum of \$1,613,000 as a penalty to the Department of Justice ("the Department"). This shall be paid directly to the United States within seven (7) days of the execution of this Agreement pursuant to payment instructions provided to SHKB. This payment is in lieu of restitution, forfeiture, or criminal fine against SHKB for the conduct described in this Agreement. The Department will take no further action to collect any additional criminal penalty from SHKB with respect to the conduct described in this Agreement, unless the Tax Division determines SHKB has materially violated the terms of this Agreement or the Swiss Bank Program as described on pages 5-6 below. SHKB acknowledges that this penalty payment is a final payment and no portion of the payment will be refunded or returned under any circumstance, including a determination by the Tax Division that SHKB has violated any provision of this Agreement. SHKB agrees that it shall not file any petitions for remission, restoration, or any other assertion of ownership or request for return relating to the penalty amount or the calculation thereof, or file any other action or motion, or make any request or claim whatsoever, seeking to collaterally attack the payment or calculation of the penalty. SHKB agrees that it shall not assist any others in filing any such claims, petitions, actions, or motions. SHKB further agrees that no portion of the penalty that SHKB has agreed to pay to the Department under the terms of this Agreement will serve as a basis for SHKB to claim, assert, or apply for, either directly or indirectly, any tax deduction, any tax credit, or any other offset against any U.S. federal, state, or local tax or taxable income.

The Department enters into this Agreement based, in part, on the following Swiss Bank Program factors:

(a) SHKB's timely, voluntary, and thorough disclosure of its conduct, including:

- how its cross-border business for U.S. Related Accounts was structured, operated, and supervised (including internal reporting and other communications with and among management);
- the name and function of the individuals who structured, operated, or supervised the cross-border business for U.S. Related Accounts during the Applicable Period;
- how SHKB attracted and serviced account holders; and
- an in-person presentation and documentation, properly translated, supporting the disclosure of the above information and other information that was requested by the Tax Division;

(b) SHKB's cooperation with the Tax Division, including conducting an internal investigation and making presentations to the Tax Division on the status and findings of the internal investigation;

(c) SHKB's production of information about its U.S. Related Accounts, including:

- the total number of U.S. Related Accounts and the maximum dollar value, in the aggregate, of the U.S. Related Accounts that (i) existed on August 1, 2008; (ii) were opened between August 1, 2008, and February 28, 2009; and (iii) were opened after February 28, 2009;
- the total number of accounts that were closed during the Applicable Period; and
- upon execution of the Agreement, as to each account that was closed during the Applicable Period, (i) the maximum value, in dollars, of each account, during the Applicable Period; (ii) the number of U.S. persons or entities affiliated or potentially affiliated with each account, and further noting the nature of the relationship to the account of each such U.S. person or entity or potential U.S. person or entity (e.g., a financial interest, beneficial interest, ownership, or signature authority, whether directly or indirectly, or other authority); (iii) whether it was held in the name of an individual or an entity; (iv) whether it held U.S. securities at any time during the Applicable Period; (v) the name and function of any relationship manager, client advisor, asset manager, financial advisor, trustee, fiduciary, nominee, attorney, accountant, or other individual or entity functioning in a similar capacity known by SHKB to be affiliated with said account at any time during the Applicable Period; and (vi) information concerning the transfer of funds into and out of the account during the Applicable Period, including (a) whether funds were deposited or withdrawn in cash; (b) whether funds were transferred through an intermediary (including but not limited to an asset manager, financial advisor, trustee, fiduciary, nominee, attorney, accountant, or other third party functioning in a similar capacity) and the name and function of any such intermediary; (c) identification of any financial institution and domicile of any financial institution that transferred funds into or received funds from the account; and (d) identification of any country to or from which funds were transferred; and

(d) SHKB's retention of a qualified independent examiner who has verified the information SHKB disclosed pursuant to Part II.D.2 of the Swiss Bank Program.

Under the terms of this Agreement, SHKB shall: (a) commit no U.S. federal offenses; and (b) truthfully and completely disclose, and continue to disclose during the term of this Agreement, consistent with applicable law and regulations, all material information described in Part II.D.1 of the Swiss Bank Program that is not protected by a valid claim of privilege or work product with respect to the activities of SHKB, those of its parent company and its affiliates, and its officers, directors, employees, agents, consultants, and others, which information can be used for any purpose, except as otherwise limited in this Agreement.

Notwithstanding the term of this Agreement, SHKB shall also, subject to applicable laws or regulations: (a) cooperate fully with the Department, the Internal Revenue Service, and any other federal law enforcement agency designated by the Department regarding all matters related to the conduct described in this Agreement; (b) provide all necessary information and assist the

United States with the drafting of treaty requests seeking account information of U.S. Related Accounts, whether open or closed, and collect and maintain all records that are potentially responsive to such treaty requests in order to facilitate a prompt response; (c) assist the Department or any designated federal law enforcement agency in any investigation, prosecution, or civil proceeding arising out of or related to the conduct covered by this Agreement by providing logistical and technical support for any meeting, interview, federal grand jury proceeding, or any federal trial or other federal court proceeding; (d) use its best efforts promptly to secure the attendance and truthful statements or testimony of any officer, director, employee, agent, or consultant of SHKB at any meeting or interview or before a federal grand jury or at any federal trial or other federal court proceeding regarding matters arising out of or related to the conduct covered by this Agreement; (e) provide testimony of a competent witness as needed to enable the Department and any designated federal law enforcement agency to use the information and evidence obtained pursuant to SHKB's participation in the Swiss Bank Program; (f) provide the Department, upon request, consistent with applicable law and regulations, all information, documents, records, or other tangible evidence not protected by a valid claim of privilege or work product regarding matters arising out of or related to the conduct covered by this Agreement about which the Department or any designated federal law enforcement agency inquires, including the translation of significant documents at the expense of SHKB; and (g) provide to any state law enforcement agency such assistance as may reasonably be requested in order to establish the basis for admission into evidence of documents already in the possession of such state law enforcement agency in connection with any state civil or criminal tax proceedings brought by such state law enforcement agency against an individual arising out of or related to the conduct described in this Agreement.

SHKB further agrees to undertake the following:

1. The Tax Division has agreed to specific dollar threshold limitations for the initial production of transaction information pursuant to Part II.D.2.b.vi of the Swiss Bank Program, as set forth in subparagraph (c) on pages 2-3 of this Agreement. SHKB agrees that, to the extent it has not provided complete transaction information, it will promptly provide the entirety of the transaction information upon request of the Tax Division.
2. SHKB agrees to close as soon as practicable, and in no event later than two years from the date of this Agreement, any and all accounts of recalcitrant account holders, as defined in Section 1471(d)(6) of the Internal Revenue Code; has implemented, or will implement, procedures to prevent its employees from assisting recalcitrant account holders to engage in acts of further concealment in connection with closing any account or transferring any funds; and will not open any U.S. Related Accounts except on conditions that ensure that the account will be declared to the United States and will be subject to disclosure by SHKB.
3. SHKB agrees to use best efforts to close as soon as practicable, and in no event later than the four-year term of this Agreement, any and all U.S. Related Accounts classified as "dormant" in accordance with applicable laws, regulations and guidelines, and will provide periodic reporting upon request of the Tax Division if unable to close any dormant accounts within that time period. SHKB will only

provide banking or securities services in connection with any such "dormant" account to the extent that such services are required pursuant to applicable laws, regulations and guidelines. If at any point contact with the account holder(s) (or other person(s) with authority over the account) is re-established, SHKB will promptly proceed to follow the procedures described above in paragraph 2.

4. SHKB agrees to retain all records relating to its U.S. cross-border business, including records relating to all U.S. Related Accounts closed during the Applicable Period, for a period of ten (10) years from the termination date of the this Agreement.

With respect to any information, testimony, documents, records or other tangible evidence provided to the Tax Division pursuant to this Agreement, the Tax Division provides notice that it may, subject to applicable law and regulations, disclose such information or materials to other domestic governmental authorities for purposes of law enforcement or regulatory action as the Tax Division, in its sole discretion, shall deem appropriate.

SHKB's obligations under this Agreement shall continue for a period of four (4) years from the date this Agreement is fully executed. SHKB, however, shall cooperate fully with the Department in any and all matters relating to the conduct described in this Agreement, until the date on which all civil or criminal examinations, investigations, or proceedings, including all appeals, are concluded, whether those examinations, investigations, or proceedings are concluded within the four-year term of this Agreement.

It is understood that if the Tax Division determines, in its sole discretion, that: (a) SHKB committed any U.S. federal offenses during the term of this Agreement; (b) SHKB or any of its representatives have given materially false, incomplete, or misleading testimony or information; (c) the misconduct extended beyond that described in the Statement of Facts or disclosed to the Tax Division pursuant to Part II.D.1 of the Swiss Bank Program; or (d) SHKB has otherwise materially violated any provision of this Agreement or the terms of the Swiss Bank Program, then (i) SHKB shall thereafter be subject to prosecution and any applicable penalty, including restitution, forfeiture, or criminal fine, for any federal offense of which the Department has knowledge, including perjury and obstruction of justice; (ii) all statements made by SHKB's representatives to the Tax Division or other designated law enforcement agents, including but not limited to the appended Statement of Facts, any testimony given by SHKB's representatives before a grand jury or other tribunal whether prior to or subsequent to the signing of this Agreement, and any leads therefrom, and any documents provided to the Department, the Internal Revenue Service, or designated law enforcement authority by SHKB shall be admissible in evidence in any criminal proceeding brought against SHKB and relied upon as evidence to support any penalty on SHKB; and (iii) SHKB shall assert no claim under the United States Constitution, any statute, Rule 410 of the Federal Rules of Evidence, or any other federal rule that such statements or documents or any leads therefrom should be suppressed.

Determination of whether SHKB has breached this Agreement and whether to pursue prosecution of SHKB shall be in the Tax Division's sole discretion. The decision whether conduct or statements of any current director, officer or employee, or any person acting on behalf of, or at the direction of, SHKB, will be imputed to SHKB for the purpose of determining

whether SHKB has materially violated any provision of this Agreement shall be in the sole discretion of the Tax Division.

In the event that the Tax Division determines that SHKB has breached this Agreement, the Tax Division agrees to provide SHKB with written notice of such breach prior to instituting any prosecution resulting from such breach. Within thirty (30) days of receipt of such notice, SHKB may respond to the Tax Division in writing to explain the nature and circumstances of such breach, as well as the actions that SHKB has taken to address and remediate the situation, which explanation the Tax Division shall consider in determining whether to pursue prosecution of SHKB.

In addition, any prosecution for any offense referred to on page 1 of this Agreement that is not time-barred by the applicable statute of limitations on the date of the announcement of the Swiss Bank Program (August 29, 2013) may be commenced against SHKB, notwithstanding the expiration of the statute of limitations between such date and the commencement of such prosecution. For any such prosecutions, SHKB waives any defenses premised upon the expiration of the statute of limitations, as well as any constitutional, statutory, or other claim concerning pre-indictment delay and agrees that such waiver is knowing, voluntary, and in express reliance upon the advice of SHKB's counsel.

It is understood that SHKB contends that it has jurisdictional arguments and defenses that it could raise to support a claim that it is not subject to prosecution for any criminal offense in the courts of the United States. By entering into this Agreement, SHKB does not prospectively waive these arguments or defenses and it reserves the right to assert any applicable jurisdictional argument or defense in any future prosecution or civil action by the United States.

It is understood that the terms of this Agreement do not bind any other federal, state, or local prosecuting authorities other than the Department. If requested by SHKB, the Tax Division will, however, bring the cooperation of SHKB to the attention of such other prosecuting offices or regulatory agencies.

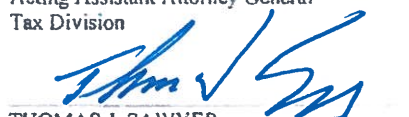
It is further understood that this Agreement and the Statement of Facts attached hereto may be disclosed to the public by the Department and SHKB consistent with Part V.B of the Swiss Bank Program.

This Agreement supersedes all prior understandings, promises and/or conditions between the Department and SHKB. No additional promises, agreements, and conditions have been entered into other than those set forth in this Agreement and none will be entered into unless in writing and signed by both parties.

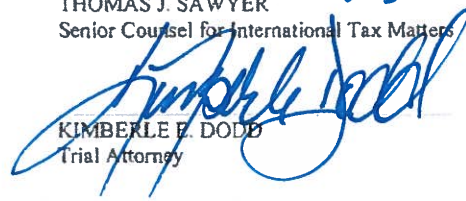
[Signatures to Follow on Next Page]


CAROLINE D. CIRAOLO
Acting Assistant Attorney General
Tax Division

DATE 10/8/2015


THOMAS J. SAWYER
Senior Counsel for International Tax Matters

DATE 8 OCTOBER 2015


KIMBERLE E. DOBB
Trial Attorney

DATE 10/8/2015


AGREED AND CONSENTED TO:
SCHAFFHAUSER KANTONALBANK


By: MARTIN VOGEL
Chief Executive Officer

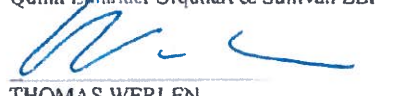
DATE October 7, 2015


By: MATTHIAS KÜBLER
Deputy Director & Project Leader

DATE 7 October 2015

APPROVED:

BEN A. O'NEILL
Quinn Emanuel Urquhart & Sullivan LLP

DATE 10/7/15


THOMAS WERLEN
Quinn Emanuel Urquhart & Sullivan LLP

DATE October 7, 2015

**EXHIBIT A TO SCHAFFHAUSER KANTONALBANK
NON-PROSECUTION AGREEMENT**

STATEMENT OF FACTS

INTRODUCTION

1. Schaffhauser Kantonalbank ("SHKB" or the "Bank") is a regional Swiss bank that was founded in 1883 and operates out of a headquarters in the City of Schaffhausen. SHKB has six branch locations: Schaffhausen-Fronwagplatz, Thayngen, Stein am Rhein, Neuhausen, Ramsen, and Gächlingen. All seven of the Bank's locations are within the Canton of Schaffhausen, and all branches are within a radius of ten miles of the headquarters. As a cantonal bank, SHKB is obliged to service primarily the residents of the Canton of Schaffhausen and the surrounding areas.
2. SHKB has approximately 310 employees, a balance sheet total of approximately \$6.2 billion in 2014 and approximately 70,000 accounts with approximately \$8.5 billion in assets under management.
3. Of the approximately 70,000 individual accounts maintained at the Bank as of the end of 2014, 53,000 accounts (75%) are held by Swiss residents, and due to the Bank's proximity to the German border, another 16,000 accounts (22%) are held by German residents. The overwhelming majority of these accounts (over 80%) are relatively small in size under \$100,000.

U.S. INCOME TAX AND REPORTING OBLIGATIONS

4. U.S. citizens, resident aliens, and legal permanent residents have an obligation to report all income earned from foreign bank accounts on their tax returns and to pay the taxes due on that income. For the tax year 1976 forward, U.S. citizens, resident aliens, and legal permanent residents had an obligation to report to the Internal Revenue Service ("IRS") on the Schedule B of a U.S. Individual Income Tax Return, Form 1040, whether that individual had a financial interest in, or signature authority over, a financial account in a foreign country in a particular year by checking "Yes" or "No" in the appropriate box and identifying the country where the account was maintained.
5. Since 1970, U.S. citizens, resident aliens, and legal permanent residents who have had a financial interest in, or signature authority over, one or more financial accounts in a foreign country with an aggregate value of more than \$10,000 at any time during a particular year have been required to file with the Department of the Treasury a Report of Foreign Bank and Financial Accounts, FinCEN Form 114, formerly known as Form TD F 90-22.1 (the "FBAR"). The FBAR for the applicable year was due on June 30 of the following year.
6. Since 1935, Switzerland has maintained criminal laws that ensure the secrecy of client relationships at Swiss banks. While Swiss law permits the exchange of information in

response to administrative requests made pursuant to a tax treaty with the United States and certain legal requests in cases of tax fraud, Swiss law otherwise prohibits the disclosure of identifying information without client authorization. Because of the secrecy guarantee that they created, these Swiss criminal provisions have historically enabled U.S. clients to conceal their Swiss bank accounts from U.S. authorities.

7. In or about 2008, Swiss bank UBS AG (“UBS”) publicly announced that it was the target of a criminal investigation by the Internal Revenue Service and the United States Department of Justice and that it would be exiting and no longer accepting certain U.S. clients. On February 18, 2009, the Department of Justice and UBS filed a deferred prosecution agreement in the Southern District of Florida in which UBS admitted that its cross-border banking business used Swiss privacy law to aid and assist U.S. clients in opening and maintaining undeclared assets and income from the IRS. Since UBS, several other Swiss banks have publicly announced that they were or are the targets of similar criminal investigations and that they would likewise be exiting and not accepting certain U.S. clients (UBS and the other targeted Swiss banks are collectively referred to as “Category 1 banks”). These cases have been closely monitored by banks operating in Switzerland, including SHKB, since at least August of 2008.

QUALIFIED INTERMEDIARY AGREEMENT AND ITS ROLE IN NON-COMPLIANT U.S. RELATED ACCOUNTS

8. In 2001, SHKB entered into a Qualified Intermediary Agreement (“QI Agreement”) with the IRS. The Qualified Intermediary regime provided a comprehensive framework for U.S. information reporting and tax withholding by a non-U.S. financial institution with respect to U.S. securities. The QI Agreement was designed to help ensure that, with respect to U.S. securities held in an account at the bank, non-U.S. persons were subject to the proper U.S. withholding tax rates and that U.S. persons holding U.S. securities were properly paying U.S. tax.
9. The QI Agreement took account of the fact that SHKB, like other Swiss banks, was prohibited by Swiss law from disclosing the identity of an account holder. In general, if an account holder wanted to trade in U.S. securities and avoid mandatory U.S. tax withholding, the agreement required SHKB to obtain the consent of the account holder to disclose the client’s identity to the IRS. The QI Agreement required SHKB to obtain IRS Forms W-9 and to undertake IRS Form 1099 reporting for new and existing U.S. clients engaged in U.S. securities transactions.
10. In 2002, the Bank forbade the purchasing or holding of U.S. securities for U.S. persons. This internal SHKB policy became a written policy in 2004 prohibiting U.S. clients from owning securities, and the Bank required all U.S.-domiciled persons to provide a hold mail instruction to it. These policy measures were implemented to reduce the administrative burden on the part of SHKB and to prevent the Bank from being regarded as offering banking services in the United States. Nevertheless, a practical effect of this policy was to avoid SHKB having to disclose the identities of U.S. clients to the IRS under its QI Agreement. As a result, SHKB chose to continue to service U.S. clients

without disclosing their identity to the IRS and without considering the impact of U.S. criminal law on that decision.

11. SHKB believed it could continue to accept U.S. account holders, even if it knew or had reason to believe they were engaged in tax evasion so long as it complied with the QI Agreement, which in the Bank's view did not apply to account holders who were not trading in U.S. based securities or to accounts that were nominally structured in the name of a non-U.S. based entity. Until May 2012, SHKB did not require all of its U.S. clients to provide a signed IRS Form W-9 and to confirm whether their accounts were disclosed to the IRS.
12. As a result of the Bank's actions, prior to August 1, 2008 and thereafter, U.S. taxpayers were able to continue depositing funds into accounts at SHKB because of the nature of Swiss banking secrecy laws. SHKB was aware that some of its U.S. clients wanted to conceal their accounts from U.S. authorities.
13. Although it was subject to a QI Agreement, SHKB subverted the terms of the Qualified Intermediary Agreement by failing to fully comply with both its withholding and reporting obligations to the IRS, thus enabling U.S. account holders to avoid reporting their accounts to the U.S. authorities.

OVERVIEW OF SHKB'S BUSINESS WITH U.S. RELATED ACCOUNTS

14. In the Applicable Period, SHKB held a total of 182 U.S. Related Accounts with approximately \$84.5 million in assets under management. As of August 1, 2008, SHKB had 130 U.S. Related Accounts,¹ with aggregate assets of approximately \$56.8 million. During the Applicable Period, the Bank opened 52 additional U.S. Related Accounts, with an aggregate value of approximately \$27.7 million.
15. Of the approximately 70,000 clients SHKB has served in any year since August 2008, less than 1% were U.S. clients (including U.S. persons living in Switzerland). The Bank's U.S. Related Accounts in most instances were opened either by (i) U.S. expatriates resident in Switzerland working at one of the many U.S. companies operating in Schaffhausen, or (ii) Swiss or German citizens that moved to the U.S. or otherwise acquired U.S. status.
16. During the Applicable Period, the Bank held one structured account that was a U.S. Related Account with maximum assets under management of approximately \$11.5 million. The nominal account holder was a foundation in Liechtenstein, but the true owner was a U.S. person, which aided and abetted the client's ability to conceal his undeclared account from the IRS.

¹ Capitalized terms not otherwise defined in this Statement of Facts have the meanings set forth in the Program for Non-Prosecution or Non-Target Letters for Swiss Banks, issued on August 29, 2013 (the "Swiss Bank Program").

17. SHKB did not provide any specific financial incentives to its relationship managers to solicit or acquire U.S. Related Accounts, and none of the Bank's relationship managers primarily serviced U.S. clients.
18. The U.S. Related Accounts at SHKB were serviced by 64 different relationship managers, and during the Applicable Period, only eight relationship managers out of the total of 64 managed ten or more U.S. clients.
19. SHKB did not specifically market its services to U.S. persons and did not operate a U.S. desk. Its relationship managers never traveled to the United States in order to solicit or acquire clients or to market services.

SHKB'S U.S. RELATED ACCOUNTS

20. SHKB's U.S. Related Accounts were spread throughout the organization and among individual relationship managers, and there was no centralized reporting structure associated with the U.S. Related Accounts. Individual relationship managers with U.S. clients reported to a direct supervisor who in turn reported to the Head of the Bank's Private Client department. In addition to their direct reporting line, relationship managers were to bring any questions regarding internal policies or proper conduct to the Legal & Compliance department for consultation.
21. On February 1, 2013, SHKB decided to establish a division at the Bank's headquarters with sole responsibility for U.S. Related Accounts in connection with its efforts to implement FATCA's requirements. All U.S. Related Accounts now are serviced by selected relationship managers supervised by the Head of the International Wealth Management department, who in turn reports to the Head of the Bank's Private Client department.
22. Through its managers, employees and/or others, SHKB knew or had reason to know that some U.S. taxpayers who had opened and maintained accounts at the Bank were not complying with their U.S. income tax and reporting obligations.
23. SHKB also offered a variety of traditional Swiss banking services that it knew could assist, and that did in fact assist, U.S. clients in the concealment of assets and income from the IRS. One such service was hold mail. For a fee, SHKB would hold all mail correspondence for a particular client at the Bank. SHKB also offered code name or numbered account services. For a fee, the Bank would allow the account holder to replace his or her identity with a code name or number on bank statements and other documentation sent to the client. These services helped U.S. clients to eliminate the paper trail associated with the undeclared assets and income they held at SHKB in Switzerland. By accepting and maintaining such accounts, the Bank assisted some U.S. taxpayers in evading their U.S. tax obligations.

24. Among other things, SHKB specifically:

- Opened and maintained accounts for at least 18 U.S. taxpayers (approximately \$12 million) who had left other banks being investigated by the U.S. Department of Justice without ensuring that each such account was compliant with U.S. tax law from their inception at SHKB. Fifteen of these accounts provided a signed Form W-9 at account opening; three did not. Some of these U.S. taxpayers have since participated in an IRS Offshore Voluntary Disclosure Program or Initiative;
- Entered into numbered account agreements for at least 4 U.S. Related Accounts (approximately \$11.2 million), even though the Bank knew, or had reason to know, that a portion of these accounts were or may have been undeclared;
- Arranged for the issuance of credit, debit, or travel cards to the beneficial owner(s) of some U.S. Related Accounts. During the Applicable Period, SHKB offered travel cash cards to its clients, including U.S. persons. A client could instruct the Bank by telephone, mail, or e-mail to load up to 10,000 Swiss francs, U.S. dollars, or euros onto a travel cash card from his SHKB bank account. A client could then use the card for purchases or remit unused balances back to his SHKB account. Use of these cards by U.S. persons facilitated their access to or use of undeclared funds on deposit at the Bank;
- Issued checks, including series of checks, in amounts of less than \$10,000 that were drawn on accounts of U.S. taxpayers, even though the Bank knew, or had reason to know, that the withdrawals were made to avoid triggering scrutiny under the United States currency transaction reporting requirements;
- Processed significant cash withdrawals (i.e. withdrawals of at least \$15,000 or a series of withdrawals within a short period of time) during the Applicable Period for at least 15 U.S. taxpayers at or around the time the clients' accounts were closed, even though SHKB knew, or had reason to know, the accounts contained undeclared assets. As examples:
 - SHKB permitted a U.S. taxpayer to withdraw \$20,000, \$15,000, and \$19,721.19 in cash on April 18, 2012;
 - In June 2009, SHKB received an order to close an account from a U.S. taxpayer and subsequently processed a cash withdrawal by the U.S. taxpayer in the total amount of approximately \$60,000;
 - In November 2009, SHKB processed a U.S. taxpayer's cash withdrawal of 406,638.73 euros when the account was closed by the Bank;
 - In 2010, a SHKB relationship manager discussed "IRS 2013 issue" with the clients who said they "plan to close the account step-by-step by 2012 at the latest." SHKB then processed a cash withdrawal by those U.S. taxpayers of 22,543.20 Swiss francs in October 2011 when the account was closed by the Bank; and
 - In October 2012, a SHKB relationship manager advised a client to close an account with a transfer to a bank account in the United States, but the account

holder insisted on closing the account with a cash withdrawal. SHKB then issued a bank check on October 15, 2012 for the U.S. taxpayer in the amount of approximately 97,000 Swiss francs that the account holder picked up at the Bank's headquarters in Schaffhausen.

- Held statements and other mail relating to at least 41 U.S. Related Accounts where the account holder was located in the United States, rather than send the documents to the U.S. taxpayers in the United States, thus causing documents reflecting the existence of undeclared accounts to remain outside the United States; and
- Opened and maintained one undeclared account in the name of a structure that was beneficially owned by a U.S. taxpayer, while knowing that this structure was used by the U.S. client to help conceal his identity from the IRS. Specifically:
 - SHKB opened and serviced an undeclared account held by a Liechtenstein foundation with a U.S. beneficial owner from 1994 until 2014. This structure was set up by another bank in 1994 for the purpose of concealing that the funds in the foundation were beneficially owned by a U.S. person. When the relationship manager who initially serviced this account left the Bank in 2009, two other relationship managers serviced this account until 2012 with the knowledge that the funds in the account were beneficially owned by a U.S. person but not declared to U.S. tax authorities. The servicing of this account was done with the knowledge of SHKB's management. In 2012, the beneficial owner of this account entered the IRS Voluntary Disclosure Program following the Bank's request for a new Swiss Form A that identified the true beneficial owner, IRS Form W-9, and IRS waiver in connection with FATCA, and the account was closed in January 2014.

25. Due in part to the assistance of SHKB and with the knowledge that Swiss banking secrecy laws would prevent SHKB from disclosing their identities to the IRS absent any client or statutory authorization, certain U.S. clients of SHKB filed false and fraudulent U.S. Individual Income Tax Returns, Forms 1040, that failed to report their respective interest in their SHKB accounts and the related income. Certain U.S. clients also failed to file and otherwise report their SHKB accounts on FBARs.
26. SHKB was aware that U.S. taxpayers had a legal duty to report to the IRS and pay taxes on the basis of all their income, including income earned in accounts that the U.S. taxpayers maintained at SHKB. Despite being aware of this legal duty, the Bank opened, serviced, and profited from accounts for U.S. clients who SHKB knew or had reason to know were not complying with their U.S. income tax obligations.

MITIGATING FACTORS

27. SHKB recognizes that its opening and servicing of undeclared U.S. Related Accounts beginning in 2008, as described above, was inappropriate. The Bank has cooperated with the Department and provided information to the U.S. Government about its cross-border

business with U.S. Related Accounts. To do so, SHKB has, among other things, conducted email searches and interviews with relationship managers and members of management, reviewed client dossiers, and analyzed relevant internal documents.

28. Beginning in October 2008, SHKB adopted measures to avoid facilitating U.S. tax evasion by requiring that all new account holders with a U.S. nexus complete and sign an IRS Form W-9.
29. In September 2009, SHKB further established restrictions for servicing U.S. clients by prohibiting the provision of asset management and e-banking services to U.S. clients and prohibiting the provision of credit and debit cards to U.S. clients domiciled in the United States.
30. In September 2010, the Bank adopted additional precautions regarding the tax status of the Bank's foreign account holders. This policy set forth an internal compliance regime directing that (i) no client assets be provided or received outside SHKB's premises, (ii) clients may not be accepted if it is known or suspected that the assets are not taxed properly, (iii) transactions with client assets may not be made using personal accounts of SHKB personnel, (iv) SHKB personnel may not sign documents on behalf of clients or accept client assets, (v) when an existing client indicates that his assets are undeclared, SHKB shall direct the client to speak to a tax advisor and may not accept new assets from an undeclared source, and (vi) prospective clients are to be made aware of a provision in SHKB's general terms and conditions indicating it is the responsibility of clients to adhere to all tax-related laws applicable to their assets.
31. In August 2011, the Bank decided to define the rules according to which relationship managers may service clients with foreign domicile and stated that banking services may only be offered to international clients not resident in Switzerland in compliance with regulations applicable wherever the account holder is resident. Specifically regarding U.S. clients, the policy codified a longstanding ban on any business-related travel to the U.S., directed that no communication be made with U.S. persons outside of Switzerland, and directed that no cold calls be made to non-domestic persons.
32. Beginning in May 2012, the Bank began requesting that new and existing clients sign and have on file a Form W-9 and a combination self-certification as to tax compliance and waiver of SHKB's obligations under the Swiss banking secrecy laws. In January 2013, the Bank adopted a policy that set forth in writing the foregoing requirements for the acceptance of new U.S. clients and the servicing of existing U.S. clients. The policy also directed that (i) no new U.S. clients domiciled outside of Switzerland would be accepted, (ii) the accounts of existing U.S. clients not domiciled in Switzerland would be closed by June 20, 2014 in order to comply with the forthcoming FATCA requirements, and (iii) U.S. clients were only to be serviced by experienced relationship managers located at SHKB's headquarters.

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33. In December 2012, SHKB further tightened its compliance policies with respect to external asset managers. The Bank directed that clients could only be accepted from Swiss-based external asset managers unless prior approval was obtained from SHKB management and that relationships were permissible with external asset managers servicing U.S. clients only if the external asset manager is a registered investment advisor under SEC rules.
 34. Following SHKB's efforts, approximately 24 of its U.S. Related Accounts have thus far entered into an IRS Voluntary Disclosure Program or Initiative. Moreover, the Bank has obtained waivers of Swiss bank secrecy for approximately 87 percent of its U.S. Related Accounts and has provided customer names for those accounts to the U.S. Government.

EXHIBIT B TO NON-PROSECUTION AGREEMENT

**RESOLUTION OF THE BOARD OF DIRECTORS
OF SCHAFFHAUSER KANTONALBANK**

By circular resolution, the Board of Directors (the "Board"; *Bankrat*) of Schaffhauser Kantonalbank (the "Bank") on October 7, 2015 (having a quorum) resolved as follows:

WHEREAS, the Bank has been engaged in discussions with the United States Department of Justice (the "DOJ") regarding certain issues arising out of, in connection with, or otherwise relating to the conduct of its U.S. cross-border business;

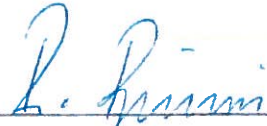
WHEREAS, in order to resolve such discussions, it is proposed that the Bank enter into a non-prosecution agreement with the DOJ (the "Agreement"); and

WHEREAS, the Bank's U.S. and Swiss counsel have advised the Board of Directors on the Bank's rights, possible defenses, and the consequences of entering into the Agreement;

This Board hereby **RESOLVES** that:

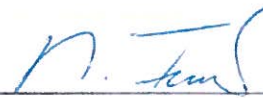
1. The Board has reviewed the entire Agreement attached hereto, including the Statement of Facts attached as Exhibit A to the Agreement, consulted with U.S. and Swiss counsel in connection with this matter and voted to enter into the Agreement, including to pay a sum of US\$ 1,613,000 ([one million six hundred and thirteen thousand U.S. dollars]) to the DOJ in connection with the Agreement;
2. Mr. Martin Vogel (Chief Executive Officer, *Vorsitzender der Geschäftsleitung*) and Mr. Matthias Kübler (Deputy Director; *Vizedirektor*) of the Bank, both registered in the Commercial Register of the Canton of Schaffhausen as having joint signatory authority, (collectively, the "Authorized Signatories"), are hereby authorized to jointly execute the Agreement on behalf of the Bank substantially in such form as reviewed by this Board with such non-material changes as the Authorized Signatories may approve;
3. Mr. Thomas Werlen and Mr. Ben O'Neil of Quinn Emanuel Urquhart & Sullivan, LLP are hereby authorized to jointly sign the Agreement in their capacity as the Bank's U.S. counsel;
4. The Board hereby authorizes, empowers and directs the Authorized Signatories to take, on behalf of the Bank, any and all actions as may be necessary or appropriate, and to approve and execute the forms, terms or provisions of any agreement or other document, as may be necessary or appropriate to carry out and effectuate the purpose and intent of the foregoing resolutions; and
5. All of the actions of the Authorized Signatories of the Bank, are hereby severally ratified, confirmed, approved and adopted as actions on behalf of the Bank.

IN WITNESS WHEREOF, the Board of Directors of the Bank (having a quorum) has executed this Resolution.



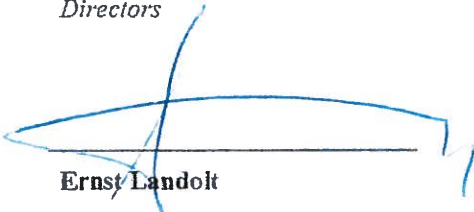
Dr. Rinaldo Riguzzi

Chairman of the Board of Directors



Markus Furrer

Deputy to the Chairman of the Board of Directors



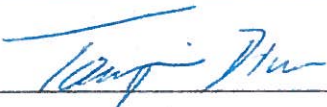
Ernst Landolt

Member of the Board of Directors




Dr. Florian Hotz

Member of the Board of Directors



Dino Tamagni

Member of the Board of Directors



Markus Müller

Member of the Board of Directors