

Danske Bank's money laundering scandal spooks investors

Allegations of suspicious transactions at Estonian branch are damaging lender's image



Political pressure is mounting on Danske Bank © Reuters

Richard Milne, Nordic and Baltic Correspondent JULY 8, 2018

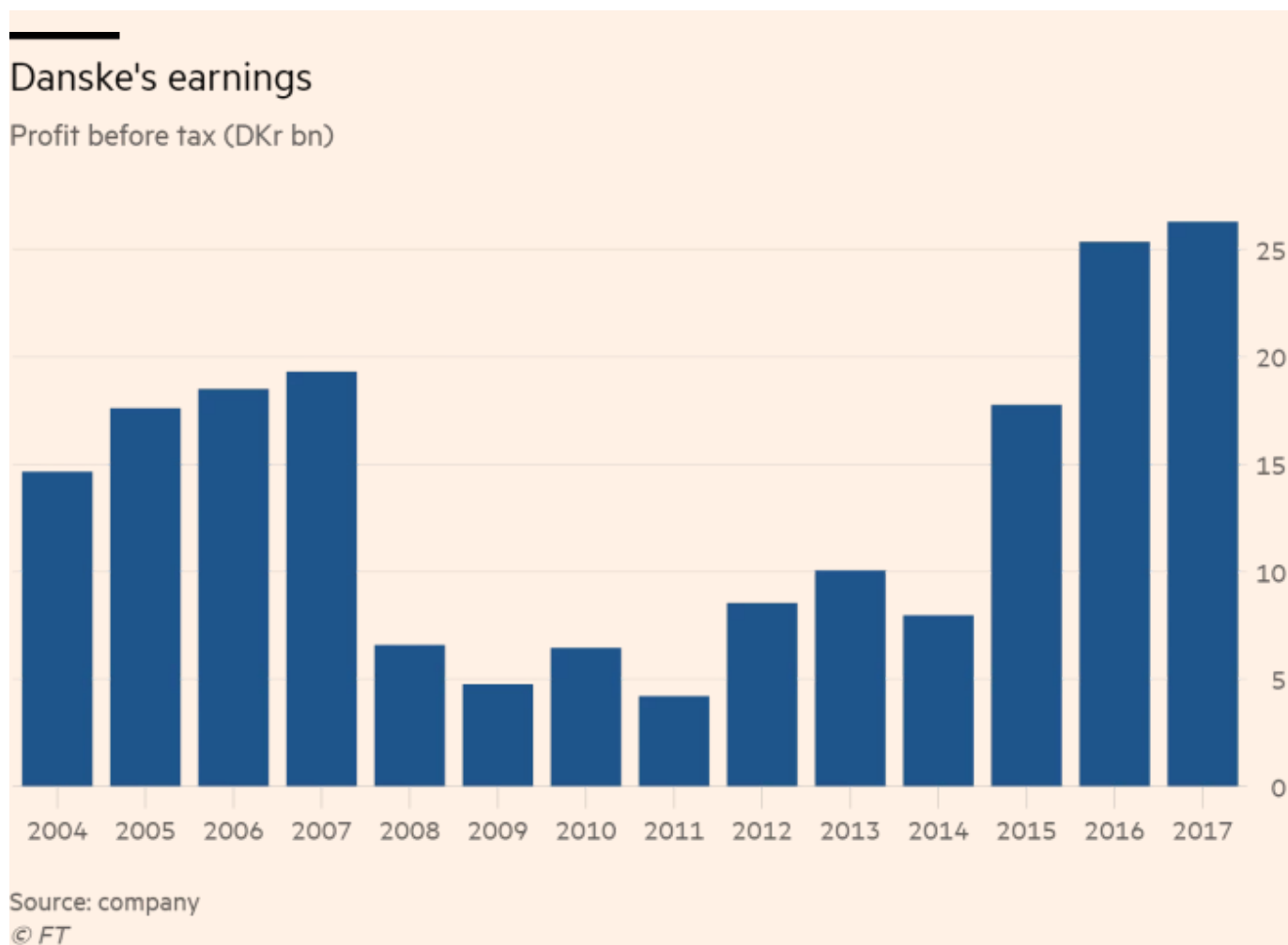
David Helgason, the Icelandic entrepreneur behind one of Denmark's biggest recent start-ups, had had enough. The co-founder of Unity Technologies, a video games group reportedly valued at \$2.6bn, last week decided to move his bank account from [Danske Bank](#).

He was far from unhappy with the customer service at Denmark's biggest bank and admitted he was "not looking forward" to the months of work it would take. But he decided to take a principled stance because of a growing money laundering scandal that has ensnared Danske and is causing its image increasing damage by the day.

"Management should not just ensure that their business follows the law (as you apparently have done), but also make sure their actions can withstand the light of day. And there you have failed so seriously that we your customers need to draw the consequences and move on," he wrote in an open letter on Facebook.

The scandal facing Danske was already serious enough but last week it intensified, forcing investors to take notice and in the final three days of the week they sent its [shares down 5 per cent](#). The bank's problems centre on its Estonian branch where billions of dollars of suspicious transactions are alleged to have taken place between 2007 and 2015 involving money mostly from former Soviet states such as Russia, Azerbaijan, and Moldova.

“It is very serious. If you look at this scandal, you can compare it to the most serious money laundering [scandals in Europe](#). It’s a disaster for the bank,” said Jakob Dedenroth Bernhoft, a Danish expert on money laundering.



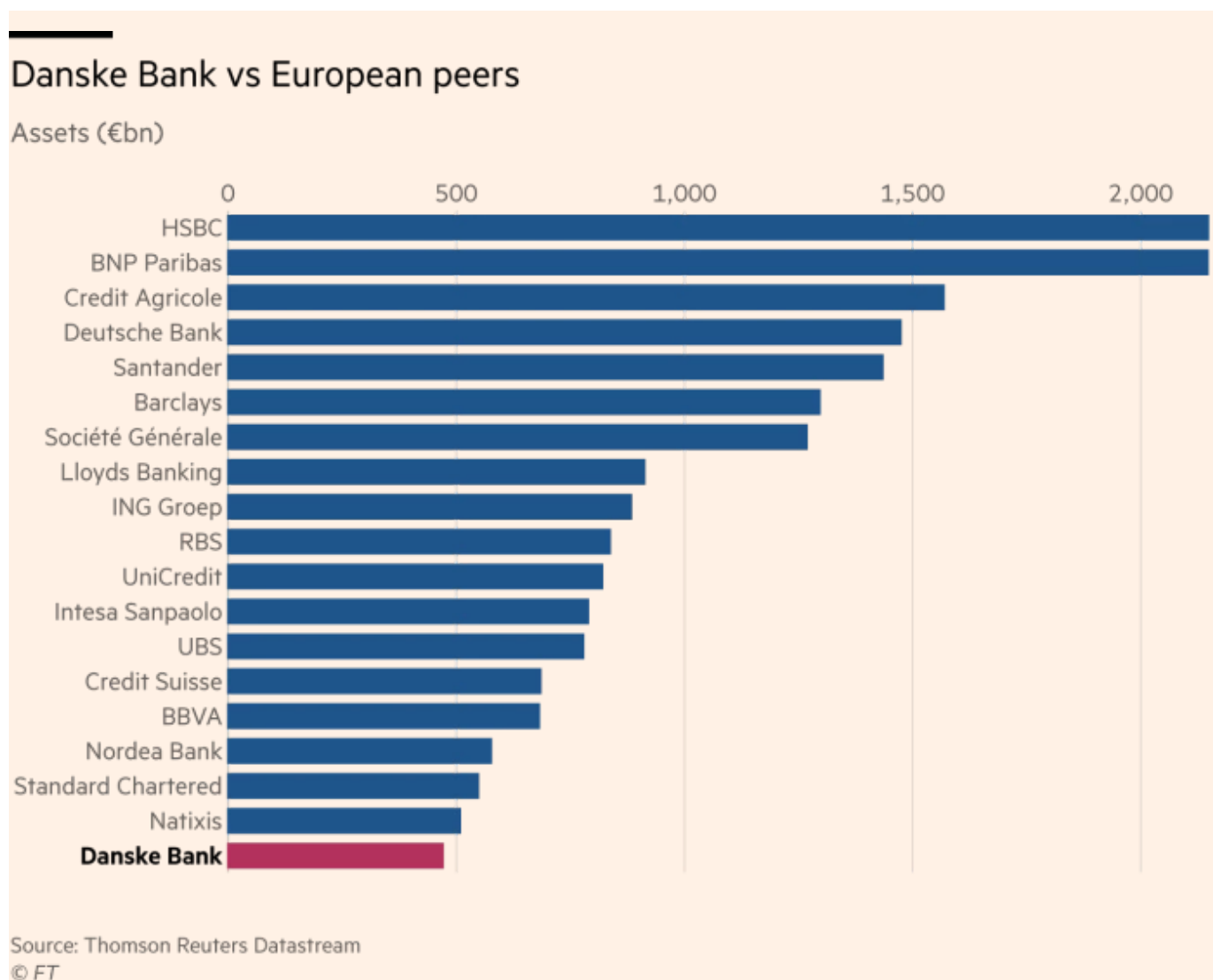
Political pressure is mounting on Danske with the Danish government threatening to confiscate any profits it made while investors worry about the potential for the US to start investigating alongside Denmark, Estonia and France. Deutsche Bank was fined \$630m by US and UK regulators last year for so-called mirror trades allegedly used to launder \$10bn out of Russia. [HSBC in 2012](#) paid \$1.9bn for laundering at least \$880m of drug money as well as \$660m of sanctions breaches.

Danske’s scandal is potentially just as large. [Bill Browder](#), a prominent critic of the Russian government, and Berlingske, the Danish newspaper that has published many of the allegations against Danske, both claim that about DKr53bn (\$8.3bn) of suspicious transactions flowed through its Estonian branch. Danske declined to comment on the amount but executives have acknowledged that it was “somewhat larger” than previous estimates, which were about DKr25bn (\$3.9bn).

Danske made its move into Estonia in 2007 when it bought Sampo, Finland's third-largest bank, which had a substantial Baltic portfolio. Estonia, Latvia and Lithuania had all positioned themselves as potential gateways for money between the former Soviet Union and the EU.

The business was lucrative. Danske's Estonia business represented just 0.5 per cent of its assets in 2013 but accounted for 2 per cent of profits.

Its non-resident portfolio — dealing with customers from outside Estonia — made profits of DKr325m that year, 99 per cent of the total in Estonia. Its return on allocated capital was 402 per cent versus 7 per cent for the bank as a whole. Danske says in large part this was because of the Estonian business not requiring much capital.



Both Mr Bernhoft and L Burke Files, a US money laundering expert, have reviewed many of the documents that Berlingske has obtained. They say there is a certain pattern to many of the suspicious transactions they have reviewed.

Many of the customers involved were shell companies that appeared to have no real business purpose, they said. Often, the transactions had generic reasons attached to them such as “automobile parts” or “building equipment”. In one case, said Mr Bernhoft, a shell company had 2,207 pages of transactions in just one year.

“Danske, their management, their compliance department look like fools. The accounts I’ve seen are textbook money laundering,” said Mr Files.

He added that across 20 businesses — involving shell companies registered in the likes of Scotland and the British Virgin Islands — “the architecture and language used is really similar. Instead of saying women’s clothing or carpet they put in textiles. Instead of toilets or sinks they put in sanitary fixtures. There’s an incredible uniformity of structure and language that leads me to say it’s more than an accident.”

Mr Bernhoft said: “They hadn’t done anything to prevent this money laundering. It’s like they just opened the door, all the money came through the bank, but they didn’t do anything to find out who the customers were.”

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Danske is largely keeping its counsel ahead of the release of two investigations it has ordered from external law firms in September. One focuses on governance — who knew what when, and did individuals do enough — while the other focuses on its portfolio — analysing thousands of transactions for patterns and potential signs of internal collusion. The investigations are sifting through 7m emails and 7,000 documents.

Ole Andersen, Danske’s chairman, said in a statement to the Financial Times: “We take this matter very seriously, and the case does not in any way reflect the bank we want to be . . . Unfortunately, the investigations are taking longer than we would have preferred, but it is of the utmost importance and in everybody’s interest that the investigations are as thorough and as exhaustive as possible. The severity of the case requires that.”



On the alleged pattern of [suspicious transactions](#), Danske said: “Historically, there is no doubt that we were not sufficiently effective in preventing our branch in Estonia from potentially being used for money laundering. We find this deeply regrettable. We are not allowed to comment on specific customers. However, the entire portfolio was closed down by the end of 2015.”

Danske management under the spotlight

The money laundering scandal raises questions not just for Danske Bank but for its management, board, and regulators too.

Thomas Borgen, Danske’s chief executive for the past five years, was in charge of international banking — including Estonia — from 2009 until 2013. He has said he would step aside if it would help resolve the case — and has told his board he would go if they wanted him to — but he has added that he wants to show accountability by leading the bank through the crisis. “There is no doubt that I need to go through what I have done, not done, and should have done better,” he told state broadcaster DR recently.

Senior management at the bank received an email in December 2013 from a whistleblower complaining about anti-money laundering issues in Estonia. The bank’s own audit department investigated and confirmed in February 2014 the problems the whistleblower had spotted including not knowing or registering the beneficial owners of customers. A critical report from Estonian regulators followed in September 2014, but it took until September 2017 before Danske started its own larger investigation.

According to Danish regulators, Danske's board discussed the Baltics twice in 2014 but the minutes of their meeting recorded no comments on the "significant" anti-money laundering challenges. The bank conceded last week that with hindsight "it is clear than we should have acted faster and more forcefully".

There are also questions about the regulators and law enforcement authorities in Estonia and Denmark with the only criminal investigation currently publicised taking place in France.

Denmark's Financial Supervisory Authority was chaired from 2016 until earlier this year by the former chief financial officer of Danske, Henrik Ramlau-Hansen. He stepped down in May, saying he would "take my part of the responsibility" for the FSA's critical report on Danske.

Jakob Bernhoft, a Danish money laundering expert, criticised the report as not "good enough", arguing that the FSA should have spoken to the whistleblower.

Jesper Berg, the FSA's director-general, responded that under the division of responsibility in Europe it supervises the bank's management while Estonian regulators look into money laundering.

He added that the FSA did not contact the whistleblower as Danske "did not materially question the whistleblower's description of the situation in the Estonian branch", and that it had no "clear legal basis to approach him".

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