

## Danske: anatomy of a money laundering scandal

How the Danish bank found itself at the centre of a €200bn money laundering scandal



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It is a terrific fall from grace. Danske Bank, Denmark's largest lender, has gone from being one of Europe's most respected financial institutions to getting caught red-handed in one of the world's biggest money laundering scandals.

A US Department of Justice investigation into the affair, which saw €200bn of non-resident money flow through Danske's Estonian branch from 2007 until 2015, [has embroiled](#) Deutsche Bank, Bank of America and JPMorgan Chase.

On Wednesday, Estonian prosecutors [detained 10 former employees](#) of Danske Bank on suspicion of knowingly enabling money laundering and threatened that more arrests were likely over the largest dirty money scandal yet uncovered.

### Early warning signs

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About \$8.3bn in suspicious transactions have been alleged to have flowed through Danske's Estonian branch between 2007 and 2015 © Bloomberg

## **2007**

Danske effectively established its Estonian unit by taking over Sampo Bank, including its Estonian branch.

Just months later, Estonia's financial regulator criticised Danske for underestimating compliance risks and having problems with know-your-customer rules.

Russia's central bank warned Danske that the Estonian branch was being used for dubious transactions either for widespread tax evasion or money laundering to the tune of billions of roubles a month.

## **2008**

A plan to move all three Baltic subsidiaries on to the same IT platform as the rest of the group was abandoned, meaning Estonia did not have the same anti-money laundering checks as the head office in Copenhagen.

## **2010**

Thomas Borgen, then head of international banking in charge of Estonia and later chief executive, discussed increasing the non-resident business, which was mostly focused on customers from Russia and other ex-Soviet states.

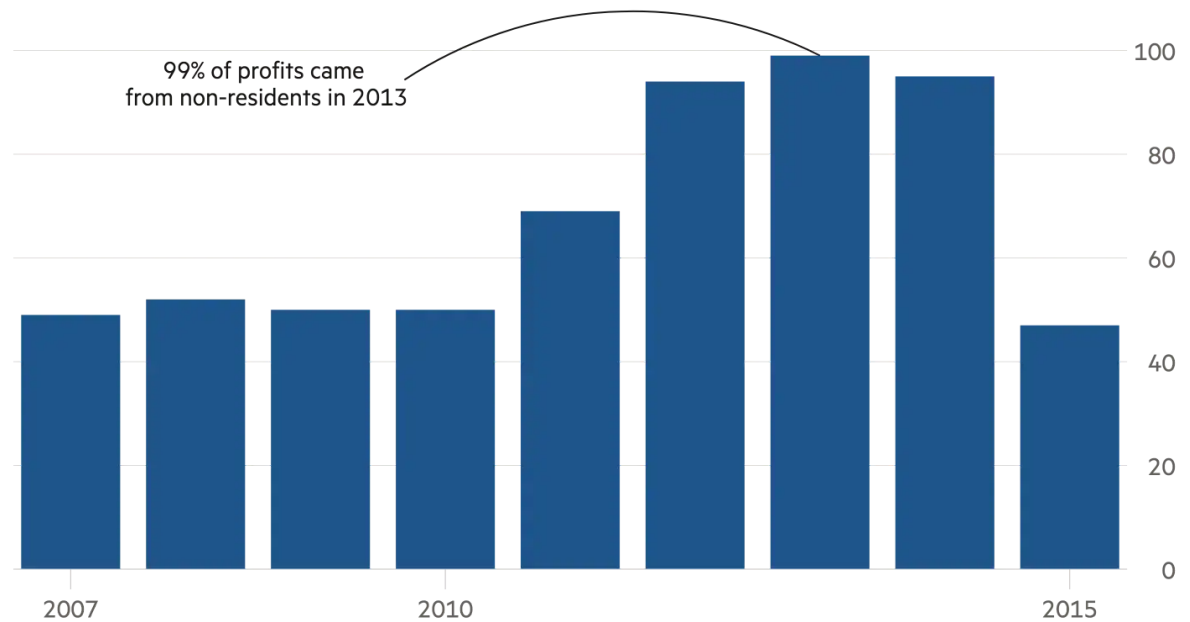
# **Danske board gets wind of dodgy dealings**

A meeting of Danske's executive board noted the high level of suspicious activity reported from Estonia but later in 2010, managers agreed they were "comfortable" with "substantial Russian deposits".

Meanwhile, the share of the Estonian branch's profits coming from foreign money began to increase dramatically.

## Much of Danske's Estonian profits came from non-residents

NPR profits before credit losses (%)



Sources: Danske Bank, Bruun & Hjejle, FT / Daniel Winter  
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### 2011

The Estonian branch generated 11 per cent of Danske's total profits before tax that year, despite only accounting for 0.5 per cent of the bank's assets.

### 2012

Danish regulator asked Danske for information following complaints from its Estonian counterpart about serious anti-money laundering issues.

### 2013

Danske head office had no person responsible for anti-money laundering (as required by Danish law) all year until November.

During this time, JPMorgan stopped being a correspondent bank for dollars to the Estonian branch, citing concerns with non-resident customers.

## The crucial meeting



Thomas Borgen, former chief executive of Danske Bank © AFP

The mounting external pressure didn't go unnoticed by Danske's management. Lars Morch, the new executive ultimately responsible for Estonia, said non-resident business needed to be "reviewed and potentially reduced", in minutes from the meeting first revealed [by the Financial Times](#). Mr Borgen (pictured) referred instead to "the need for a middle ground".

A person familiar with the investigation would later brand this the critical moment when Mr Borgen rejected calls to scale back the business.

## 2014

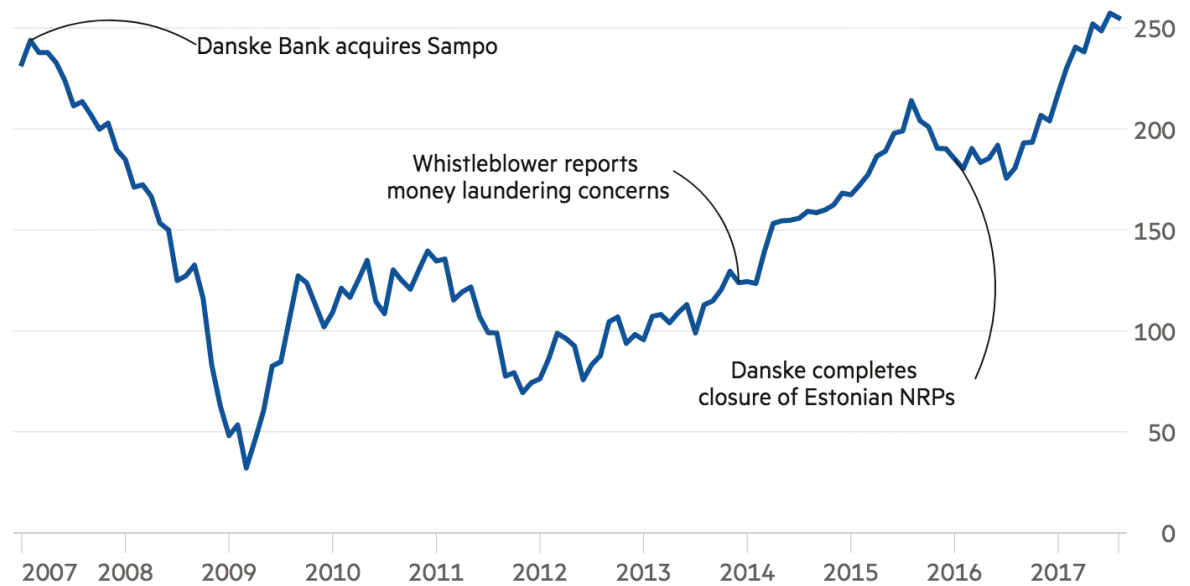
[A whistleblower](#) contacted senior management in Estonia about the use of the branch by a UK limited liability partnership with alleged links to the family of Russian president Vladimir Putin and Russia's intelligence services.

In reaction to these increasing allegations of wrongdoing, Danske's internal auditors produced a critical report about the non-resident business.

A board meeting heard the recommendation of one executive to exit the "offshore business" but Mr Borgen, now chief executive, "found it unwise to speed up an exit strategy as this might significantly impact any sales price".

## Investors turn a blind eye to Danske Bank accusations

Share price (€)



Source: Thomson Reuters Datastream  
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### 2015

A strategy update for the board in January stated that the Estonian branch was “exiting the non-resident segment”, and the number of such customers reduces steadily throughout the year. Estonian financial regulators issue a critical precept — or report — pushing Danske to exit the non-resident business.

### 2016

Danske completed the closure of its non-resident business in Estonia. Meanwhile, the bank’s share price continued to rise as it recovered from the financial crisis.

### 2017

#### MARCH

Danish newspaper Berlingske published first in a series of reports looking at money laundering claims from Russia, Azerbaijan and Moldova against Danske.

#### JUNE

Promontory, a US consultancy, presented a root-cause analysis to Danske that showed about \$30bn in non-resident money passed through the Estonian branch at the scandal’s peak in 2013.

## Scandal engulfs executives



Thomas Borgen © AP

## 2018

### MAY

Danish financial regulator reprimanded Danske but took no action against its management.

### SEPTEMBER

[Financial Times reported](#) on the 2013 meeting at which the chief executive rejected calls to scale back the Estonian non-resident business.

Danske published its own report into the scandal, outlining how €200bn of non-resident money flowed through the Estonian branch between 2007 and 2015.

As a result, Mr Borgen offered to resign as chief executive while Ole Andersen said he might resign as chairman after the investigation is finished.

### OCTOBER

Danske's board terminated Mr Borgen's reign with immediate effect. Jesper Nielsen, head of Danish banking, was named interim chief executive but the bank emphasised that he was not a candidate for the permanent position.

Danske also disclosed that it is facing a criminal investigation from the US Department of Justice, raising the possibility of a large fine.

The Financial Times reported [on a memo](#) that showed how Danske used controversial mirror trades to move up to \$8.5bn out of Russia in just 2013.

Danish regulators unusually blocked the first choice of Danske's board for a new chief executive, saying it wanted someone with greater experience than Jacob Aarup-Andersen, a bank insider.

### NOVEMBER



Ole Andersen was ousted as Danske's chairman by the bank's main shareholder, the Maersk family. The family proposed Karsten Dybvad, head of the main Danish business lobby group, as his successor.

Howard Wilkinson, the whistleblower, [told Danish parliament](#) that up to \$150bn of money from the Danske scandal passed through the US subsidiary of a European bank — Deutsche Bank, the FT has ascertained — as he took aim at Danske Bank itself, Danish regulators, and some of the world's largest financial institutions in punchy testimony.

DECEMBER

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