

# The Danske Bank Money Laundering Scandal

## A Case Study

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# **THE DANSKE BANK MONEY LAUNDERING SCANDAL**

**A CASE STUDY**

**ELISABETTA BJERREGAARD & TOM KIRCHMAIER**

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## 1. CASE DESCRIPTION<sup>1</sup>

The case discusses the money laundering scandal at the Estonian branch of Danske Bank, the largest financial institution in Denmark.

The objective of the case is to help students utilize critical thinking skills to assess an ongoing corporate scandal. The case exposes students to the importance of an effective corporate governance process in an organization and especially the effectiveness of an organization overall control environment. The case can be used in an undergraduate or advance corporate governance or auditing class as well as a management course that discusses leadership and/or corporate governance issues.

The case is based on real events as reported in various media outlets and is intended to be used as the basis for class discussion rather than to illustrate either effective or ineffective handling of the situation. It is a “Library Case” based solely and exclusively on publicly available information.

## 2. CASE SYNOPSIS

Danske Bank money laundering scandal is one of the largest money laundering scandal in European history. It began in 2007 following the acquisition from Danske Bank of Finnish Sampo Bank, which also had an Estonian branch. Between 2007 and 2015 over €200bn of suspicious transactions originating from Russia, former Soviet states and elsewhere flowed through its Estonian branch non-resident portfolio.

Danske Bank stock price has been declining since March 2017 when the newspaper Berlingske first issued a series of articles on money laundering claims resulting in a significant destruction of shareholder value. Media reports widely misinterpreted the €200bn figure as representing entirely money laundering rather than a combination of legal and illicit transactions.

In September 2018, Danske Bank admitted that its procedures for oversight failed completely in this case and that its money laundering controls in Estonia has been insufficient. As a result, the CEO and the Chairman of the Board of Directors stepped down and a number of employees both at the Estonian branch and at Group level were found not in compliance with legal obligations forming part of their employment with the bank and therefore dismissed. On February 2019 the Estonian Financial Supervisory Authority (FSA) intimated Danske Bank to cease its activities in Estonia. At the same time, independently of the notification from the Estonian FSA, Danske Bank decided to cease its activities in Latvia, Lithuania and Russia in line with its strategy of focusing on its Nordic core market.

Danske Bank is currently under investigation from a range of authorities and it is expected that Danish, Estonian, European and US regulators will impose penalties. Moreover, twelve former employees in Estonia

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<sup>1</sup> This case was written by Elisabetta Bjerregaard under the supervision on Tom Kirchmaier. Many thanks to Steen Thompson for additional guidance, and the very helpful comments of many others. All remaining errors are our own.

are under investigation by the Estonian State Prosecutor. Furthermore, in May 2019 the former CEO and other nine group senior managers were preliminarily charged in the case by the State Prosecutor for Serious Economic and International Crime (SØIK).

Other European banks (Deutsche Bank, Swedbank, Raffeisen Bank) are being drawn into the case for allegedly helping transfer illicit funds from Danske Bank. It is unclear at this time how long the Danske Bank money laundering case will last or how many entities it will draw in.

### 3. INTRODUCTION

#### 3.1 SETTING THE SCENE

On 19 September 2018, Danske Bank Danske admitted that over €200bn of suspicious transactions originating from Russia, former Soviet states and elsewhere flowed through its Estonian branch non-resident portfolio between February 2007 and April 2016.<sup>2</sup> To put that figure into some perspective the Gross Domestic Product (GDP) of Estonia in 2017 was €29 billion and the figure in question is approaching two thirds of the GDP of Denmark itself at €324 billion. The bank has lost around 50% of its market value since the money laundering allegations first surfaced in the media in March 2017, equivalent to roughly \$17 billion.<sup>3</sup>

In media reports, the case is consistently referred to as the largest money laundering scandal in European history. However, it is important to note that the €200bn figure indicates how much was suspicious but it does not indicate it was actual money laundering which is notoriously difficult to prove due to the need to establish that the initial cash was in fact illegally obtained.<sup>4</sup>

Other European banks such as Deutsche Bank, Swedbank and Raffeisen Bank are being drawn into the case for allegedly helping transfer illicit funds from Danske Bank. A picture is emerging in which individuals, mostly from Russia, sought out the weakest links in the chain surrounding the EU to gain access to the wider Western financial system. The chaotic transition to capitalism in Russia and its neighbors triggered a flood of hundreds billion of dollars out of the former Soviet Union. It is estimated that Russians holds about \$1 trillion of capital outside their home country.<sup>5</sup> It is such an open secret that until the Danske Bank scandal relatively few European countries seemed perturbed by that money coursing through their financial systems and real estate markets.

If Danske Bank money laundering scandal is one of the largest in the European history, it is by no means the first money laundering exposé in recent years. In the decade since the 2008 financial crisis there have been

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<sup>2</sup> At the time of the case, the Danske Bank investigation is still ongoing and therefore the final amount of suspicious transactions has not yet been determined.

<sup>3</sup> Please refer to Appendix 11 for a detailed overview of Danske Bank share performance from 2007 to 2019.

<sup>4</sup> In this case, the expression “money laundering scandal” is used interchangeably with “suspicious transactions” under the understanding that no money laundering has been proven.

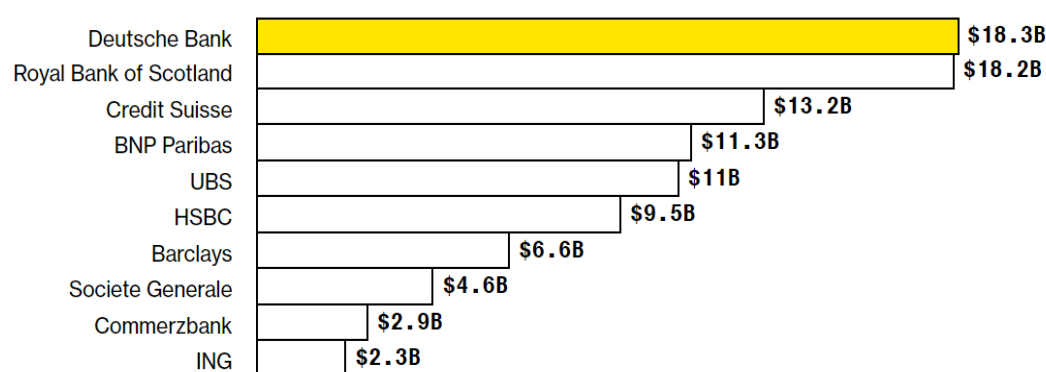
<sup>5</sup> To put this number into perspective, it is equal to the current wealth of all Russian households.

other sizeable money laundering scandals involving European banks.<sup>6</sup> During this period, a staggering \$26 billion in fines has been imposed worldwide on banks for non-compliance with anti-money laundering regulations. The United States fined banks around \$24 billion worldwide, while European countries collectively levied just \$1.7 billion. United States regulators have hit foreign banks hard, imposing fines on European banks nearly five times that imposed against United States banks.

The list of top 10 European banks with more than \$2 billion in fines and settlements paid between 2008 and 2018 for anti-money laundering violations is depicted in the figure below:

### The Cost of Bad Behavior

European banks with more than \$2 billion in fines and legal settlements paid, 2008-2018



Bloomberg Graphics

It seems that European regulators have often left the difficult and dirty AML work to their counterpart in the United States. However, in 2018 they have started to change the rules and the size of fines for misconduct. In September 2018, the German FSA took the unprecedented step of appointing an outside supervisor to oversee Deutsche Bank's efforts to improve money laundering and terrorism financing controls. In December 2018, the Dutch FSA imposed an \$880 million fine on ING for helping launder hundreds of millions of dollars in illicit cash from Russia through their Moscow branch. In February 2019 a French court imposed a \$5.1 billion penalty, the biggest ever levied in the country, on Switzerland's UBS Group for helping clients launder hidden assets. UBS has appealed the ruling.

<sup>6</sup> Few examples: in 2012, HSBC was fined \$1.9 billion for handling funds from drug traffickers, terror groups, and US sanctioned nations such as Iran; in 2014, BNP Paribas was fined almost \$9 billion for dealing with US sanctioned countries such as Iran, Cuba and Sudan. In 2015, Commerzbank was fined \$1.45 billion also for processing transactions from some of the same US sanctioned countries. In 2017, Deutsche Bank was fined \$630 million for so-called mirror trades that helped clients move money out of Russia.

### 3.2 WHAT IS MONEY LAUNDERING?

Money laundering, so-called after gangster Al Capone's practice of hiding criminal proceeds in cash-only laundromats in the 1920's, is a problem growing exponentially due to the globalization of the financial markets. Briefly put, money laundering is the process by which proceeds from a criminal activity are disguised to conceal their illicit origin. The maneuver is called "laundering" because its goal is to "clean" dirty funds – to imbue illicit gains with apparent legitimacy. There are two reasons why criminals have to launder money: the money trail is evidence of their crime and the money itself is vulnerable to seizure and has to be protected.<sup>7</sup>

Money laundering is a process that can be essentially decomposed in three stages: placement, layering and integration.



The initial stage of the process involves placement of illegally derived funds into the financial system, usually through a financial institution. This can be accomplished by depositing cash into a bank account or by converting cash into financial instruments, such as money orders or checks or by utilizing cash to purchase a security or a form of an insurance contract. This is the stage of the process most vulnerable to detection due to large-deposit reporting requirements.

The second money laundering stage occurs after the ill-gotten gains have entered the financial system, at which point the funds, security or insurance contract are layered, or shifted through a series of transactions designed to slice and dice the initial placement to complicate the paper trail for investigators.

The third stage involves the integration of funds into the legitimate economy. This is accomplished through the purchase of assets, such as real estate, securities or other financial assets, or luxury goods. Since it generally involves legal transactions, integration is regarded as the lowest-risk part of the laundering process.

Laundered funds are not considered "clean" until the integration step is completed. Not all money laundering transactions involve all three distinct steps and some may indeed involve more. However, the three stages outline is a useful description of what can sometimes be a very complex process.

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<sup>7</sup> Money laundering is a phenomenon that is difficult to accurately measure. According to the United Nations Office of Drugs and Crime (UNODC) the estimated amount of money laundered on a yearly basis worldwide is between 2 and 5% of global GDP, or \$800 billion - \$2 trillion in current US dollars. However, according to the Financial Action Task Force, these estimates should be treated with caution. They are intended to give an estimate of the magnitude of money laundering. Due to the illegal nature of the transactions, precise statistics are not available and it is therefore impossible to produce a definitive estimate of the amount of money that is globally laundered every year.



The methods used to launder proceeds of criminal activities are in constant evolution. The economy, financial markets, and anti-money laundering regimes heavily influence money-laundering typologies in any given location. Consequently, methods vary from place to place and over time. In Danske Bank case the main methods utilized were shell companies, trade based schemes and purchase of valuable assets.<sup>8</sup>

## 4. THE ORGANIZATION

### 4.1 BRIEF HISTORY OF DANSKE BANK

“Danske Bank is a Nordic bank with strong local roots and bridges to the rest of the world”. It is the largest financial institution in Denmark with focus on the Nordic region and presence in sixteen countries. Danske Bank is listed on the Nasdaq OMX Copenhagen stock exchange. In Denmark, Danske Bank offers, in addition to banking services, life insurance and pension, mortgage credit, wealth management, real estate and leasing services. Danske Bank has a total of 2.8 million personal and business customers, 237 branches, 20,683 employees, and 1,819 corporate and institutional customers. Danske Bank is licensed by the Financial Supervisory Authority in Denmark, which considers Danske Bank to be one of six systemically important financial institutions in Denmark. The bank has assets that are roughly 1 1/2 times Denmark’s total gross domestic product, making it the country’s most systemically important bank.<sup>9</sup>

Danske Bank’s history goes back to the founding of Den Danske Landmandsbank in 1871. In 1890 is already the largest bank in Denmark and by 1910 is the largest bank in Scandinavia. With the deregulation and globalization of the financial markets in the 1990s Danske Bank started expanding outside Danish territory looking for growth opportunities not available in the domestic saturated market.

The collapse of the Soviet bloc almost three decades ago opened up Eastern Europe to Western European banks, which carved up business along geographical and historical lines. The Scandinavian banks took the Baltics. The Baltics built thriving banking industries in part based on servicing flows out of Russia and the rest of the former Soviet Union after its collapse. On a quest to find alternative sources of revenue to traditional credit, Scandinavian banks saw Baltics banks transaction banking and trade finance operations a particularly

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<sup>8</sup> **Shell companies:** using companies that are incorporated but have no significant assets or operations to obscure the identity of persons controlling funds and exploit relatively low reporting requirements. **Trade based schemes:** using trade-based schemes (i.e., over/under invoicing, over/short shipping, ghost shipping, multiple invoicing etc.) to conceal criminal funds within the normal activity of existing businesses. **Purchase of valuable assets:** investing criminal proceeds in high-value negotiable goods (real estate, race horses, luxury cars, luxury yachts etc.) to take advantage of reduced reporting requirements to obscure the source of proceeds of crime.

<sup>9</sup> Please refer to Appendixes 9 and 10 for an overview of Danske Bank key financial highlights and ratios.

enticing growth opportunity probably underestimating the fact that Baltic's proximity to Russia had traditionally made them vulnerable to illegal financial flows from their neighbor.

It is within this context that on 26 November 2006 Danske Bank announced its acquisition of Finnish-based Sampo Bank. The acquisition was completed in February 2007. It included Sampo Bank's subsidiary in Estonia named Sampo Pank.

Sampo Pank in Estonia could trace its origin back to two Estonian banking entities established in 1992, in the immediate aftermath of the collapse of the Soviet Union, namely Eesti Foreksbank and Eesti Investeerimispank.<sup>10</sup> At the time, there were strong economic ties between Estonia and the Russian Federation. It appears that, following its establishment, Eesti Foreksbank prioritised and developed a significant client base of retail and corporate customers from Russia, with a focus on cross-border payments and foreign exchange transactions involving conversion of currencies. The Russian customers were notably from the Moscow region, where the bank opened an office in 1997, as well as the Saint Petersburg region. In 1998, Estonia experienced a banking crisis caused in part by a deteriorating Russian economy. Later the same year, the Estonian Central Bank acquired the majority of the shares of both Eesti Foreksbank and Eesti Investeerimispank, and the banks were merged under the name Optiva Pank, by then the third largest bank in Estonia. The majority share interest in this Estonian bank had been acquired by Sampo Bank from Estonian Central Bank back in 2000. In 2002, Sampo Bank had acquired the rest of the shares from minority shareholders. A year after the acquisition from Danske Bank, in 2008, Sampo Pank in Estonia was turned into a branch of Danske Bank. It changed its name to Danske Bank in November 2012.

## 4.2 LEADERSHIP AND GOVERNANCE STRUCTURE

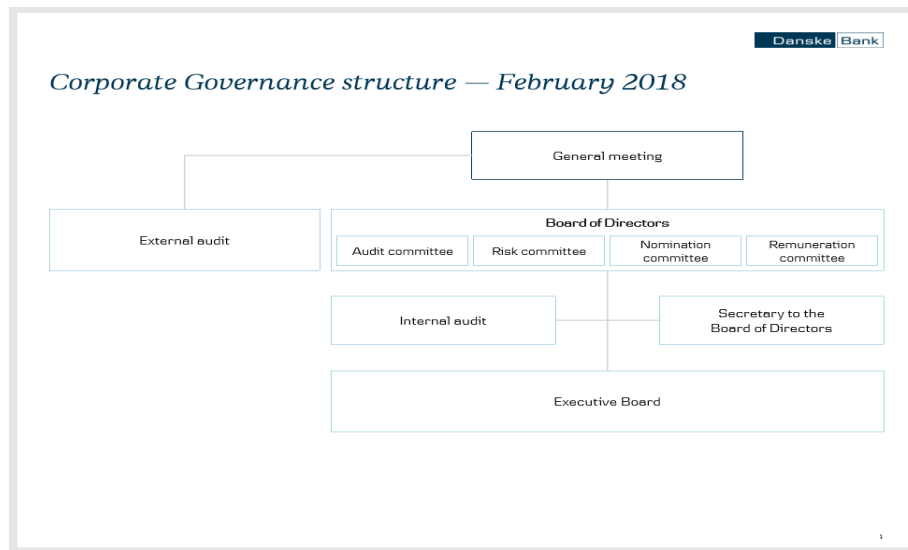
Danske Bank has a conventional two-tier management structure, with a Board of Directors and an Executive Board<sup>11</sup>. Under the management structure, the Board of Directors is responsible for the overall and strategic management of Danske Bank, while the Executive Board is in charge of its day-to-day management, observing the guidelines, policies and instructions issued by the Board of Directors. Danske Bank governance structure is depicted in the below figure<sup>12</sup>:

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<sup>10</sup> Sampo Pank history is taken from Bruun & Hjejle (2018). Report on the Non-resident portfolio at Danske Bank's Estonian Branch. [online] Danske Bank. Available at: <https://danskebank.com/-/media/danske-bank-com/file-cloud/2018/9/report-on-the-non-resident-portfolio-at-danske-banks-estonian-branch-.la=en.pdf> [Accessed: April 2019].

<sup>11</sup> Danske Bank refers to Board of Directors and Executive Board to describe its two-tier corporate governance structure. In the academic world, Board of Directors is sometime referred as "Supervisory Board" and Executive Board as "Management Board".

<sup>12</sup> From Danske Bank website. Available at: <https://danskebank.com/-/media/danske-bank-com/file-cloud/2013/8/corporate-governance-structure.pdf> [Accessed: April 2019].



There has not been any fundamental change in Danske Bank governance structure in the period covered by the scandal up to the time of this case.

#### 4.2.1 BOARD OF DIRECTORS (SUPERVISORY BOARD)

The Board of Directors consists of twelve members; the general meeting elects eight, and the employees elect four. Under Danish law, employees are entitled to elect from among themselves a number of representatives equal to half of the number of members elected by the general meeting at the time of the announcement of the employee representative election.<sup>13</sup>

For a review of Danske Board of Directors demographics please refer to Appendix 1. Since 2007 there have been three Chairmen of the Board of Directors: Alf Dutch-Pedersen from 2007 to 2010, Ole Andersen from 2011 to December 2018 and Karsten Dybvad from December 2018.

Danske Bank Board of Directors receive fixed remuneration only and are not covered by incentives programmes.

The Board of Directors conducts its oversight role through the following committees: audit, risk, nomination and remuneration.<sup>14</sup>

<sup>13</sup> It should be noted that in the period from 2007 to 2010 there were ten Directors elected by shareholders. In 2011, the number was reduced from ten to eight. Furthermore, in 2014 the number of employees' representatives was reduced from five to four members to adjust to the reduction in the number of directors elected by shareholders. As employees representatives are elected for four years, when in 2011 the number of directors elected by shareholders was reduced, the number of employee representatives could only be adjusted in 2014 as the previous election took place in 2010. This implies that de facto in 2011, 2012 and 2013 the number of employees representatives was higher than half of the number of Directors elected by shareholders.

<sup>14</sup> It should be noted that the name of some of the committee changed over time: the Risk Committee was named Credit Committee from 2006 to 2008, Credit and Risk Committee from 2009 to 2015 and finally Risk Committee from 2016;

#### 4.2.2 EXECUTIVE BOARD (MANAGEMENT BOARD)

The Executive Board is headed by the CEO. This position is supported by executive officers including the CFO and COO. Each executive has responsibility for a specific business area. For a review of Danske Bank Executive Board demographics please refer to Appendix 2. Since 2007 there have been five CEOs leading the Executive Board: Peter Straarup from 2007 to 2011, Eivind Kolding in 2012, Thomas Borgen from 2013 to October 2018, Jesper Nielsen (ad interim) from October 2018 to May 2019 and Chris Vogelzang from June 2019.

The remuneration of Executive Board members is composed by a fixed component plus short-term and long-term based performance incentives.

Starting from 2007 the size of Danske Bank Executive Board has gradually increase from four members in 2007 to ten members in 2018.

#### 4.3. ESTONIAN BRANCH NON-RESIDENT PORTFOLIO - KEY HIGHLIGHTS

In the period from 2007 through 2015, the number of customers in the non-resident portfolio was approximately 10,000. Non-resident customers also existed outside the non-resident portfolio. This increased the number of customers from 2007 through 2015 to approximately 15,000. During this period, it was not the same customers that constituted the non-resident portfolio at all times due to a considerable customer churn rate.

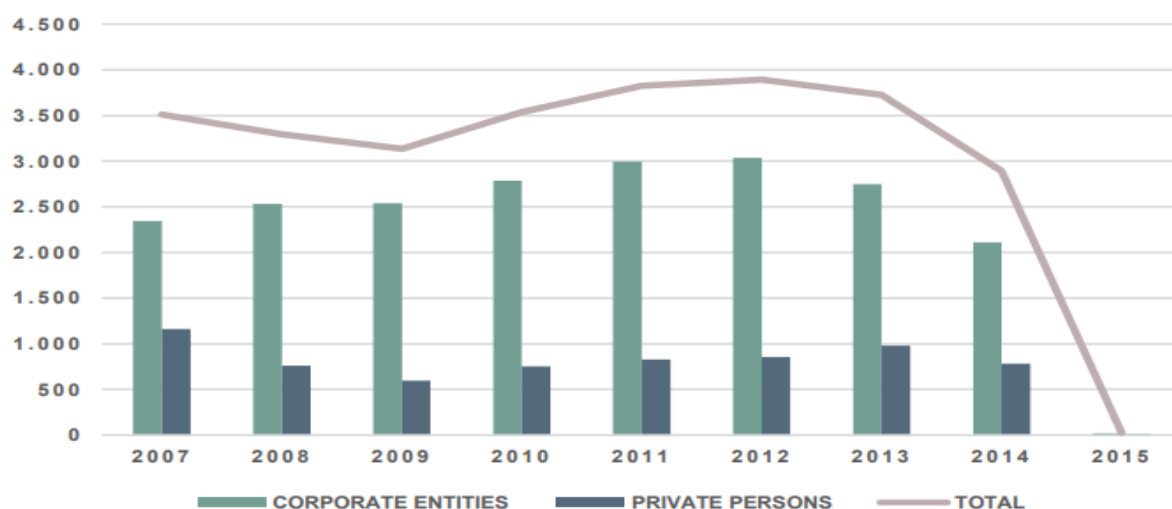
The Estonian branch did not keep list of non-resident customers before 2013, but similar lists for the period prior to 2013 were created by the Estonian branch applying the same methodology as used from 2013. The development of the non-resident portfolio over time is depicted in the graph below (customers in the non-resident portfolio at the end of each year):<sup>15</sup>

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the Remuneration Committee was named Salary and Bonus Committee from 2006 to 2008 and from 2009 the Remuneration Committee.

Furthermore, in the Bank's call for its Annual general Meeting on 19 March 2019 it is stated that Danske Bank Board of Directors will establish a new permanent committee with responsibility for behavior, compliance and culture in the bank. The Committee will be called the Conduct & Compliance Committee.

<sup>15</sup> Graph taken from Bruun & Hjejle (2018). Report on the Non-resident portfolio at Danske Bank's Estonian Branch. [online] Danske Bank. Available at: <https://danskebank.com/-/media/danske-bank-com/file-cloud/2018/9/report-on-the-non-resident-portfolio-at-danske-banks-estonian-branch.-la=en.pdf> [Accessed: April 2019].



In the period from 2007 through 2015, customers in the non-resident portfolio generated an increasing part of profits in Danske Bank's Estonian branch:<sup>16</sup>

Share in per cent	2007	2008	2009	2010	2011	2012	2013	2014	2015
Profits before credit losses	49 %	52 %	50 %	50 %	69 %	94 %	99 %	95 %	47 %
Profits before tax	51 %	79 %	n/a	67 %	42 %	51 %	76 %	71 %	40 %

However, the Estonian branch's share of the total profits generated by Danske Bank at Group level was relatively small:

Share in per cent	2007	2008	2009	2010	2011	2012	2013	2014	2015
Profits before credit loss	1.6 %	2.4 %	1 %	1.5 %	1.6 %	1.3 %	2.1 %	1.7 %	0.8 %
Profits before tax	1.6 %	9.9 %	n/a	3.5 %	10.7 %	6.0 %	4.2 %	3.5 %	0.9 %

<sup>16</sup> Ibidem.

## 5. COURSE OF EVENTS

In November 2006, Danske Bank announced its acquisition of Finnish-based Sampo Bank. The acquisition was completed in February 2007. It included Sampo Bank's subsidiary in Estonia named Sampo Pank. Since the 1990s, Sampo Pank in Estonia had a portfolio of non-resident customers. At the time of the acquisition, around 1,550 customers that would later be deemed suspicious were with Sampo Pank in Estonia. This is how Danske Bank inadvertently became part of what would become over a nine-year period one of the largest money laundering scandals in European history.

In September 2018, Danske Bank admitted that over €200 billion of suspicious transactions originating from Russia, former Soviet states and elsewhere flowed through its Estonian branch between February 2007 and April 2016. The numerous events that took place during this nine-year period and after the eruption of the scandal in the media in March 2017 can be grouped around four distinct phases:

- Acquisition of Sampo Pank - 2006-2008
- Expansion of non-resident portfolio - 2009-2013
- Closure of non-resident portfolio – 2014-2016
- Investigation of non-resident portfolio – 2017-2019

### 5.1 ACQUISITION OF SAMPO PANK 2006-2008

In this phase are covered the events that took place in the months immediately prior the announcement of the acquisition up to 2008 when Sampo Pank Estonia was turned into a branch of Danske Bank.<sup>17</sup> Please refer to Appendix 3 for a detailed description of key events during this period in chronological order.

The AML legal framework applicable during this phase is based upon AMLD3 transposed in Danish law in February 2006 and in Estonia law in December 2007. FATF Recommendations of 2003 are the international standards of reference applicable during this phase.

Rating agencies and analysts received Danske Bank's announcement of Sampo Bank acquisition very positively. The acquisition's strategic fit and the bank very successful track record in acquiring and rapidly

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<sup>17</sup> Branches vs subsidiaries: branches do not carry its own capital and are supervised by the home country while subsidiaries are freestanding units that are capitalized independently and supervised by the host country.

integrating banks in other countries, particularly on the IT side, were the common headlines. However, it was also noted that the increased level of operational and integration risk in the near term, with two major acquisitions in such a short time period<sup>18</sup>, will entail significant effort and dedication from management.

Estonia Sampo Bank was the most profitable of the three Sampo Bank Baltic subsidiaries. The Return on Equity (ROE) for Estonia Sampo Bank before and around the acquisition time (23% in 2005, 26% in 2006 and 30% in 2007) was well above industry average in the Baltic region and above the ROE of Danske Bank.

In the months leading to the announcement of the acquisition there were two important events that should be noted.

In August 2006, the International Monetary Fund (IMF) published the report “Denmark: Detailed Assessment of Anti-Money Laundering and Combating the Financing of Terrorism.” In the report it is noted that a more systematic review of policy and operations, including consideration of enhanced prosecution of the ML offense, a more pro-active supervision of financial and especially the non-financial sectors, and a re-evaluation of the role and responsibilities of the Financial Intelligence Unit (FIU) was needed to secure Denmark from future AML threats. It was concluded that given the high competence and dedication of the professionals working within the Danish system, such changes were clearly within Denmark’s grasp.

Furthermore, in October 2006 the Estonian newspaper Eesti Express reported that in June 2006 Russian Central Bank’s Deputy Governor, Andrei Kozlov, visited Tallin to demand the closure of suspicious accounts at Estonian banks including Sampo Bank. Andrei Kozlov met with the Head of Anti-Money Laundering at Estonian FSA, and informed him that since the beginning of 2006 large amount of money linked to tax evasion and possibly money laundering went from Russia to the West through Estonian banks. He warned that that it might be just the beginning of a massive flow of money as around presidential elections large flow of money routinely left the country to the West. Elections in Russia were scheduled for the end of 2007. Andrei Kozlov was assassinated in September 2006 in mysterious circumstances. Sampo Bank closed the suspicious accounts by October of that year after executives in Sampo Bank headquarters in Helsinki learned of the Deputy Governor visit following a meeting between the Head of Estonian FSA and Sampo Bank Chairman of the Board. It appears from the article that Estonian media had published several reports questioning Sampo Bank anti-money laundering standards before Danske Bank acquisition. In this context and with the benefit of hindsight, one wonders why Danske Bank did not pursue an independent audit of Sampo Bank to make sure of the soundness of its activities before the acquisition.

In March and April 2007, the Estonian FSA carried out an inspection at Sampo Bank in Estonia with focus on the non-resident portfolio and issued the final inspection report in August 2007. The inspection report was highly critical of Danske Bank Estonian subsidiary Know Your Customer (KYC) procedures indicating that

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<sup>18</sup> In 2004, Danske bank acquired two banks in Northern Ireland and in the Republic of Ireland.

the Bank's routine practice did not comply with legal requirements and international standards in particular with regard to non-resident customers. The inspection report was followed by a precept with orders for Danske Bank Estonian subsidiary to comply with. By December 2007, the bank informed the Estonian FSA of the steps taken to comply with the orders including the closure of 597 accounts of non-resident customers.

On a parallel front, in June 2007, the Danish FSA received information from the Russia Central Bank that clients of Sampo Bank permanently participated in financial transactions of doubtful origin estimated at billions of rubles per month. It was also informed that the mentioned transactions could be aimed at tax evasion or could be connected with the criminal activity in its pure form, including money laundering. Danish FSA forwarded the letter to Danske Bank Executive Board and asked for its comments. In August 2007, after both the Executive Board and Board of Directors formally discussed about the letter at their meetings, Group Legal and Group Compliance & AML replied to Danish FSA on behalf of the bank. The reply made reference to the recent inspection report from the Estonian FSA and stated that the Estonian FSA's conclusion of the inspection was that the bank complies with the existing laws and regulations, and that the Estonian FSA had had no material observations. The reply also stated that the AML concept of Danske Bank Group had been implemented in the Estonian subsidiary, and that reporting lines had been set up. The Danish FSA convened a meeting with the bank on September 2007, at which Group Legal provided equally comforting information. The Danish FSA had also talked to the bank's Group Internal Audit, which had informed the Danish FSA that local internal auditors with Sampo Bank in Estonia had looked more closely into the matter and found nothing of note.

The Russian Central Bank warning to Danish FSA and the AML inspection report of the Estonian FSA in 2007 were the first alarming signs that Estonian branch non-resident portfolio was from the start in breach of Estonia law and the international standards applicable at the time. However, it seems that Danske Bank Group did not notice these signs.

At the end of 2007 Danske Bank informed that the acquired banks had been integrated in its risk management process from the acquisition date and that the integration would be completed with the planned migration of the activities to the Group's IT platform during Easter 2008 in Finland and in the course of 2009 in the three Baltic banks.

However, based on a cost analysis, Danske Bank decided in the third quarter of 2008 to discontinue the migration to its shared IT platform of the activities of the three Baltics banks. This meant that the Estonian branch would never employ AML procedures developed at Group level, including customer systems and transaction and risk monitoring and would be left to operate on an outdated and inadequate system from an AML perspective with almost no automation and based on local language.

The approaching global financial crisis and the more challenging than expected integration of the Irish banks still in progress probably led Danske Bank to make that decision. Another factor that may have played a role



in that decision is the migration to Danske Bank IT platform of the activities in Finland, which turned out to be very challenging. A series of system-generated issues adversely affected customer service after the migration. The bank suffered a loss because it had to waive customer fees of DKK 75 million. Furthermore, the Group lost some 41,000 Sampo Bank customers because of the migration.

Whatever the reason, the decision not to integrate IT systems in the branch with those of the rest of the group impeded the effective monitoring of the business in Estonia. As it will appear later, the decision was not compensated for through stronger risk management.

## 5.2 EXPANSION OF NON-RESIDENT PORTFOLIO 2009-2013

In this phase are covered the events that took place from 2009 when the expansion of the non-resident portfolio was taken into consideration to the end of 2013 when despite the numerous warnings it was decided not to close it down. Please refer to Appendix 4 for a detailed description of key events during this period in chronological order.

The AML legal framework applicable during this period is still based upon AMLD3 transposed in Danish law on February 2006 and in Estonia law on December 2007 but with regard to the international standards it should be noted that the FAFT publishes in 2012 a revised version of its Recommendations which represented a substantial upgrade of the 2003 version.

At the beginning of 2009, the global economy and the financial markets were experiencing the worst crisis since the mid-1930s. The interconnectedness of the world's economies made the crisis spread at a speed and with an impact never seen before. To ensure financial stability in Denmark and help normalize lending activities, the Danish parliament passed the Bank Package I Act on October 10, 2008, and the Bank Package II Act on February 3, 2009. Danske Bank participated in both packages and was able to get safely out of a critical situation.

Furthermore, early in 2009 Danske Bank launched its "Future Programme", which focused on efficiency, cost savings and optimizing customer contacts and which would lead to a deep transformation and organizational changes in Danske Bank throughout 2013 including a new chairman of the Board and a new CEO from 2011 as well as a significantly renewed Board of Directors. Moreover, in 2011 Cevian Capital, a Swedish Investment firm, became the second largest shareholders with the declared intention of bringing the company back to the right level of profitability through a deep restructuring and transformation journey.

On a regulatory side, Danish FSA in 2009 established a so-called college of supervisors for Danske Bank. In the college, supervisory authorities from countries where Danske Bank operates participate to discuss relevant supervisory issues related to Danske Bank. The Danish FSA leads the college as the authority responsible for Danske Bank.

It is early 2010, when at an Executive Board meeting the Head of International Banking Activities talked about slowly expanding the non-resident portfolio as he had not come across anything that could give rise to concern.

That expansion saw about 6,500 non-resident customers added by the Estonian branch to the roughly 3,300 it inherited from Sampo Pank in 2007.<sup>19</sup>

The outdated, inadequate and not automated IT system at the Estonian branch together with the manifestly insufficient and inadequate AML procedures (already under severe scrutiny of the Estonian FSA since the acquisition) increased exponentially the risk of the Estonian branch being used for money laundering without the possibility of detecting it.

The expansion of the non-resident portfolio was also facilitated by the large independence of the Estonian branch from the Group and the tendency from Group management to grant Estonian branch with exceptions to any Group rules and procedures that would slow down the growth of the non-resident business.

One example is the exception granted in 2012 in regard to the use of Foreign Exchange lines (FX lines). The credit and risk function within Business Banking became aware that use of Foreign Exchange lines (FX lines) in the Estonian branch fell outside Group Credit Policy in that they were used by non-resident customers and irrespective of lack of financial statements. Promptly an exception was granted justified by the fact that a more comprehensive Know Your Customer (KYC) screening process (which already multiple group internal audits certified as not working at all) was applied and therefore the increased risk due to non-resident customers was mitigated.

Another example, is the OFZ memorandum issued by the Executive Committee of the Estonian branch in 2013. The memorandum described a solution for ten customers in the non-resident intermediaries segment using bonds as a faster, cheaper and more reliable way for their end-clients to transfer money overseas than making an international payment through a domestic Russian bank. Two main risks were indicated: (a) Lack of full knowledge about the end-clients of the Intermediary, and (b) potential reputational risk in being seen to be assisting 'capital flight' from Russia. However, the risks were not perceived so serious to refrain the Estonian branch to undertake the business.

In January 2012 Estonian FSA contacted Danish FSA regarding AML risks in the Estonian branch as the Estonian FSA was seriously concerned about the extent of non-resident customers in the branch. Danish FSA contacted Danske Bank, which responded that they were fully aware that the customer database of Sampo Pank Estonia included a number of high-risk customers but they were confident that the control setup corresponded to the actual risk.

The same response is provided on March 2013 when Estonian FSA contacted Danish FSA again regarding AML risks in the Estonian branch based on a warning from the Russian Central Bank regarding certain suspicious Russian customers and transactions at the Estonian branch. The warning letter from the Russian

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<sup>19</sup> To put numbers into perspective, by the end of 2013, the Non-resident portfolio within Danske Bank's Estonian branch held 44% of the total deposits from non-resident customers in Estonian banks (up from 27% in 2007) and 9% of the total deposits from non-resident customers in Baltic banks (up from 5% in 2007).

Central Bank alleged the suspicious transactions amounted to more than \$3 billion in 2011 and 2012 alone. After investigating, Estonian FSA inexplicably concluded that no significant breaches of internal procedures or legal requirements were found and that despite Estonian FSA remained concerned, there was no reason for immediate regulatory action.

The year 2013 is, in many ways, a crucial year, also because JP Morgan terminated its corresponding banking relationship with the Estonian branch on grounds of AML. Early January 2013, few months before ending its relationship with Danske Bank, JP Morgan was hit with a cease-and-desist order from United States banking regulators demanding improvements to its anti-money laundering controls, after finding that its overall practices were too weak to prevent suspect transactions. It seems that JPMorgan did not adequately fix dozens of anti-money laundering issues cited previously by regulators, forcing them to take action. As a result, JP Morgan undertook a widespread process known as “de-risking”, in which it reviewed client accounts and closed hundreds that it deemed suspect. This is probably the reason why JP Morgan had to end the corresponding banking relationship with Danske Bank Estonian branch, which was handling the non-resident transactions in breach of Estonian law and the international standards.

When JP Morgan terminated its banking correspondent contract in August 2013, another Danske Bank’s correspondent bank, Bank of America, agreed to expand its dollar-clearing business with the branch. It is unclear whether Bank of America was aware of JPMorgan’s concerns.

Danske Bank Executive Board, prompted by JPMorgan’s withdrawal, undertook a separate review of the non-resident business in Estonia. At a meeting on 23 October 2013, the Head of the International Business noted that the Estonian branch non-resident portfolio was bigger than its rivals’ were and needed to be reviewed and potentially reduced. However, the CEO emphasized the need for a middle ground and wanted to discuss this further outside that forum. In 2013 the non-resident portfolio generated 99% of the profit before credit losses (94% in 2012) of the Estonian branch and probably this was an element that the CEO took in careful consideration when pointing to a middle ground and de facto deciding not to stop the non-resident business.

A week after JP Morgan termination of its corresponding banking relationship with the Estonian branch, Danske Bank’s Board of Directors decided to withdraw the application for a branch in New York for reasons not related to AML. At its meeting on September 2012, the Board of Directors rejected the first AML action plan presented to it. In minutes of the meeting, it is stated that “the AML issues had been known for a long time, actually several years” and that the Board of Directors was not comfortable with issuing a declaration to the Federal Reserve about the AML issues “at the present stage”. At a subsequent meeting, on October 2012, the Board of Directors approved a new action plan.

If Estonian branch AML procedures were inadequate and in breach of Estonian law and international standards there were also problems with Danske Bank AML procedures in Denmark which should be noted as they provide a context for understanding the weakness of AML culture in Danske Bank Group. In June 2012, the

Danish FSA issues nine orders and four pieces of risk information on AML following two inspections conducted in 2010 and 2011.<sup>20</sup> At both inspections, the Danish FSA found that in a number of areas, the group had insufficient AML procedures. Danish FSA stated that Danske Bank has historically not lived up to its obligations in the AML area. In response, Danske Bank's Board of Directors decided to not only comply with the orders; it also expressed an ambition to become "Best in Class" within AML. It would take six more years and additional orders and reprimands from Danish FSA before that ambition started being fulfilled.

### 5.3 CLOSURE OF NON-RESIDENT PORTFOLIO – 2014-2016

In this phase are covered the events that took place from 2014 with the investigation of the whistleblower allegations to the end of 2016 when the non-resident portfolio of the Estonian branch was closed down and the Estonian branch was trying to adjust to the new reality. Please refer to Appendix 5 for a detailed description of key events during this period in chronological order.

The AML legal framework applicable during this phase is still based upon AMLD3 transposed in Danish law on February 2006 and in Estonia law on December 2007. FATF Recommendations of 2012 are the international standards of reference.

There are two events that impacted in the background the overall AML approach at the start of this phase: new stricter anti-money laundering rules from around 2013 and Russia's annexation of Crimea a year later, which changed the tolerance for Russian money in the financial system to a great extent. It is not coincidence that some regulators and banks appear to have woken up to the risks in 2014 and in 2015.

At the start of 2014 Danske Bank is still fully occupied with the transformation initiative launched at the end of 2011. A new CEO was appointed toward the end of 2013 with the mandate of completing the transformation of the company and bringing the profitability at a satisfactory level. Thus, new ambitious cost-efficiency program was line up to start in 2014. Moreover, a Business Integrity Board was established in 2014 with the CEO as chairman to secure that the bank was running a sound and profitable business based on strong core values.

In this context, the year 2014 started abruptly with the investigation of the whistleblower allegations.<sup>21</sup>

The whistleblower reported about AML issues in relation to a customer in the Estonian branch's Non-resident portfolio. The case involved a company incorporated in the UK as a limited liability partnership company (LLP). The whistleblower stated that during the summer of 2012, he became aware that the customer was providing false information about balance sheet items to the UK Companies House, the UK equivalent of the Danish Business Authority. At the close of the annual financial statements at the end of May 2012, the customer had stated that the company was a "dormant" company. In fact, the company had deposits of USD

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<sup>20</sup> See Appendix 7 for a detailed overview of the content of the nine orders issued by Denmark FSA to Danske Bank.

<sup>21</sup> Danske bank whistleblower filed the first report on 27 December 2013. Three additional reports were filed between January and April 2014.

965,418 with the branch at the end of May 2012 and had an extensive transaction history. The whistleblower stated that he had disclosed this information to the account manager and to the compliance officer at International Banking, who both worked at the branch, and who would arrange for the matter to be rectified. The company had to submit an adjusted report. The branch Head of International Banking was on holiday, but the whistleblower briefed him on his return. In his report, the whistleblower stated that he recently discovered that the adjusted report was clearly erroneous too since the adjusted accounting figures showed cash holdings of about USD 25,000 and not the amount of USD 965,418 deposited in the account at the end of May 2012. Among other things, it was this information that led the whistleblower to submit his whistleblower report. Danske Bank seemed to take rapid action with Group Internal Audit immediate investigation of the whistleblower allegations and the Executive Board forming a working group and hiring an external consultancy to evaluate internal AML procedures and controls at the Estonian branch.

However, the action was not follow through properly. It emerged a picture where at Executive Board level company profitability was to be preserved at all costs. An example is when in February 2014, after investigating the whistleblower allegations, Group Internal Audit issued a report recommended a full independent review of all non-resident customers. This did not happen until September 2017 (and the independent aspect is even in question) and was prompted by the revelations in the Danish media more than by the company own initiative.

Another example is the handling of the report issued in April 2014 by the external consultancy group hired in February 2014 by the working group created to coordinate the investigation around the whistleblower allegations. In the report, it was indicated that (a) there had been insufficient knowledge of customers, their beneficial owners and controlling interests, and of sources of funds; (b) screening of customers and payments had mainly been done manually and had been insufficient; and (c) there had been lack of response to suspicious customers and transactions. Moreover, the external consultancy found that procedures for accepting new clients and opening new accounts for non-residents customers were overall followed. However, the report also noted shortcomings in relation to, inter alia, unclear instructions in relation to account agreement and KYC questionnaire and insufficient monitoring of transactions. The report identified 17 “control deficiencies” that all were assessed as “critical or significant”. Despite the seriousness of the findings the report (not in its draft and not in its final format), did not reach the Executive Board or the Board of Directors.

Another (stunning) example is what happened when Group Internal Audit finalized the investigation into the whistleblower allegations and passed in May 2014 the baton to Group Legal. Group Legal contracted an external consultancy to conduct an inquiry into allegations of misconduct based on the whistleblower and critical information on a number of irregularities involving senior members of staff at the Estonian branch. Two members of the Executive Board, however, overturned this.

In parallel, Estonian FSA, which had a new Head from the start of 2014, seemed to run out of patience with Estonian branch inaction toward insufficient and inadequate AML procedures with regard to non-resident customers. In July and September 2014, Estonian FSA issues two devastating draft audit reports, which eventually lead Danske Bank to the decision of closing down the non-resident portfolio in the Estonian branch at the end of 2015. The determination of Estonian FSA was courageous considering that at that time the regulator was being sued in six or seven separate court cases by another foreign bank over its non-resident business and therefore was not in a comfortable position.

Despite the two draft audit reports the Estonian branch does not seem to understand the seriousness of the situation and instead of taking action and seriously addressing once for all Estonian FSA findings it decided to challenge the audit observations: the branch stated that it agreed with only one observation, partially agreed with six observations and rejected 28 observations. The challenge of the observations was not a very successful initiative. The final audit reports issued by Estonian FSA in December 2014 did not change much the overall conclusions compared to the draft versions.

The precept issued in July 2015 by Estonian FSA based on the two audit report provided a clear picture of the insufficient and inadequate AML procedures at the Estonian branch with regard to non-resident customers. From the review of the documentation publicly available, it does not appear that the decision of closing down the non-resident portfolio was officially made in Danske Bank at a specific point in time. However, it seems that the termination of the remaining corresponding banking relationships in May 2015 by Bank of America and September 2015 by Deutsche Bank, both on AML ground, was the final blow to the fate of the non-resident portfolio as the Estonian branch was left without a mean of conducting transactions in USD.

On a parallel track, the Danish FSA conducted in February 2015 a follow up AML inspection of Danish activities. However, material relating to the Estonian branch, in the form of the inspection report from the Estonian FSA from December 2014 and also the report from the external consultancy from April 2014, was added to the inspection after an introductory meeting in January 2015, at which Group Compliance & AML provided a timeline of critical events in 2014 in the Estonian branch. The final investigation report was issued in March 2016 and contained a reprimand for deficiencies in the overall governance of the AML risks in the group with reference to the problems in the Estonian branch. The Danish FSA found that the bank's Board of Directors had not identified and dealt with the risk and compliance-related deficiencies appropriately, which had created increased reputational risk for the bank. It is not clear why the Danish FSA decided to issue a simple reprimand instead of initiating an in-depth investigation into the governance of the AML risks in the Estonian Branch, taking into consideration the key warnings related to the Non-resident portfolio in the

Estonian branch before February 2015 including the two warning from the Russia Central Bank as well as Estonian FSA 2014 audit reports and the report from the external consultancy from April 2014.

The February 2015 Danish FSA investigation included also a follow up audit to the 2012 orders concerning the Danish activities which should also be mentioned despite it is not concerning the Estonian branch as it provides the context of the AML status in Danske Bank Group. Danish FSA found that, contrary to what Danske Bank had stated in November 2012, the bank did not sufficiently live up to several of the orders issued in 2012, including in particular the order regarding monitoring transactions related to correspondent banking relationships, and that significant risk information in the 2012 report remained relevant. On this background, the Danish FSA reported the bank to the police. In addition to the police report, the Danish FSA also issued Danske Bank with a number of orders for other deficiencies in the bank's AML procedures concerning Danish activities.

#### 5.4 INVESTIGATION OF NON-RESIDENT PORTFOLIO – 2017-2019

In this phase are covered the events that took place from the start of 2017 when the first revelations about the scandal appeared in the press to end April 2019 where investigations on all front (internal, regulator, judicial, investor) are pending. Please refer to Appendix 6 for a detailed description of key events during this period in chronological order.

The AML legal framework applicable during this phase is based upon AMLD4 transposed in Danish law in June 2017 and in Estonia law on October 2017. FATF Recommendations of 2012 are still the international standards of reference. However, as Danske Bank money laundering scandal took place from 2007 to early 2016 the legal framework based upon AMLD3 is the one still applicable for the events that took place during that period.

Before proceeding with the narration of the events of the last phase of the scandal, it is important to spend few words about the Financial Action Task Force 2017 Mutual Evaluation Report of Denmark as it is an important element to understand the overall status of AML rules and regulators in Denmark around the time of Danske Bank money laundering scandal.

The inspection to evaluate Danish AML legislation and AML supervision is conducted by FATF in November 2016. In January 2017, the inspection report was leaked in its draft form to the Danish media which noted that while FATF does not make rankings of the countries with the most effective effort, a review of the most recently published evaluation reports show Denmark's ratings in the draft report are on par with Honduras, Bangladesh and significantly worse than USA, Switzerland, Spain and Italy.

The final report was issued in June 2017 and with no significant changes to the evaluation made in the draft version. Denmark was criticized (rated Partly Compliant or PC) for 19 of the 42 standards. Furthermore,

Denmark received major criticism for having a low efficiency in 2 (i.e., supervision and preventive measures) of the FATFs 11 immediate outcomes and medium criticism for 6 of the immediate outcome. Of the countries that have recently undergone FATF re-assessments, Denmark is the only one that received a failing grade in the supervision area.<sup>22</sup> With this background context we can now resume the narration of the events of the last phase of the scandal.

Throughout 2017 the Danish media make multiple revelations linking Danske Bank to three money laundering scandals — laundromats in Russia and Azerbaijan, scams that funneled tens of billions of dollars out of those countries, and the alleged \$230m Russian fraud uncovered by lawyer Sergei Magnitsky before his death in a Russian prison cell in 2009. The revelations were stunning for what had been one of the most respected institution in the Nordics. Danske Bank was forced in the uncomfortable position of continuously having to react to the revelations in the media without being able to provide convincing and informed explanations, as it did not have the necessary insights into the non-resident business of the Estonian branch.

Under the mounting pressure of the media revelations Danske Bank hired in April 2017 Promontory Financial Group to conduct a root and cause analysis of Estonian branch non-resident portfolio.

In June 2017 the first investigation touched Danske Bank: the French Tribunal de Grandes Instances de Paris informed the bank of the intention to open an investigation in relation to the Russian fraud uncovered by Sergei Magnitski.

In September 2017, Danske Bank released the results of the root cause analysis made by the Promontory Financial Group and acknowledged that major deficiencies in controls and governance made it possible to use Danske Bank's branch in Estonia for criminal activities such as money laundering. Danske Bank announced the decision to expand the investigation and informed to expect to complete it in the course of nine to twelve months. The decision of the Board of Directors to initiate an internal investigation and not an independent investigation has been heavily criticized by many.<sup>23</sup>

The release of the results of the root and cause analysis immediately prompted the Danish FSA to open an “investigation of the bank's governance of matters” in the branch in Estonia.

On October 2017 the French Tribunal de Grandes Instances de Paris informed Danske Bank to be officially under investigation.

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<sup>22</sup> In November 2018, the FATF approved increased scores for Denmark's mutual evaluation, based on new laws Denmark has put in place since its evaluation (i.e. Broad Political Agreement of 21 June 2017), but its overall effectiveness score will not be revisited by FATF for several years.

<sup>23</sup> Danske Bank internal investigation was overseen, supervised and directed by the law firm Bruun & Hjejle. As the firm has been a long time legal advisor of Danske Bank, the internal investigation was not presented as impartial and not as fully independent.



The “investigation of the bank's governance of matters” resulted on May 2018 in a report with eight orders and eight reprimands due to a lack of comprehensive governance of the bank in relation to the situation in the Estonian branch.<sup>24</sup> The Danish FSA founded it particularly worthy of criticism the following:

- that there were such significant deficiencies in all three lines of defense at the Estonian branch that customers had the opportunity to use the branch for criminal activities involving vast amounts;
- that it was not until September 2017 that the bank initiated an investigation into the extent of suspicious transactions and customer relationships as a result of the insufficient handling of AML at the branch, that is, more than four years after the termination by one of the branch’s correspondent banks of its correspondent bank relations and almost four years after the whistleblower report;
- that with the exception of the termination of the cooperation with Russian intermediaries, the bank deferred the decision to close down the part of the non-resident portfolio that related to customers who did not have personal or business-related links to the Baltic countries until January 2015, and that the close down was not completed until January 2016;
- that the bank’s governance in the form of internal reporting, decision-making processes and corporate culture failed to ensure that the problems of the non-resident portfolio were sufficiently identified and handled in a satisfactory way, including by reporting suspicion of criminal activities to relevant authorities. This applies to both the period up until the close down in early 2016 as well as the period since the beginning of 2017;
- that the bank did not inform the Danish FSA of the identified AML issues, even though in early 2014, it should have been clear to some Executive Board members and other senior employees that the information previously provided by the bank to the Danish FSA and the Estonian FSA in 2012 and 2013 was misleading and that it should have been clear to them that the supervisory authorities focused on the area;
- that the bank’s information to the Danish FSA since the beginning of 2017 has been inadequate.

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<sup>24</sup> See enclosed Appendix 8 for the detailed list of the eight orders and eight reprimands.

Danish FSA also ordered Danske Bank to add minimum DKK 5 billion as a Pillar II add-on due to increase in solvency need taking into account the compliance and reputational risks deriving from the money laundering scandal.

Shortly before the issuance of the eight orders and eight reprimands, Danske Bank announced officially that it would scale down its Baltic banking activities focusing exclusively on supporting subsidiaries of Nordic customers and global corporates with a significant Nordic footprint.

In the meantime, more investigations appeared in the horizon for Danske Bank. In July 2018, the Estonian FSA opened an investigation into Estonian branch to assess compliance with AML rules; in August 2018, the Danish State Prosecutor for Special Economic and International Crime (SØIK) initiated a criminal investigation against Danske Bank for possible violation of the Money Laundering Act; in September 2018, the US Justice Department, Treasury Department and SEC initiated probing of Danske Bank.

When in September 2018 Danske Bank published the results of the internal investigation revealing for the first time the full scale of the scandal, Danske Bank's share value plummeted. Danske Bank acknowledged that a series of major deficiencies in the bank's governance and control systems made it possible to use Danske Bank's branch in Estonia for suspicious transactions and to have clearly failed to live up to its responsibility in this matter. In detail, the key findings of Danske Bank internal investigation report highlight the following:

- a series of major deficiencies in the bank's governance and control systems made it possible to use Danske Bank's branch in Estonia for suspicious transactions;
- for a long time, from the acquisition of Sampo Bank in 2007 until the termination of the non-resident portfolio in 2015, the bank had a large number of non-resident customers in Estonia that should have never had, and that they carried out large volumes of transactions that should have never happened;
- only part of the suspicious customers and transactions were historically reported to the authorities as they should have been;
- in general, the Estonian branch had insufficient focus on the risk of money laundering, and branch management was more concerned with procedures than with identifying actual risk;
- the Estonian control functions did not have a satisfactory degree of independence from the Estonian organization;

- that the branch operated too independently from the rest of the Group with its own culture and systems without adequate control and management focus from the Group;
- there is suspicion that there have been employees in Estonia who have assisted or colluded with customers;
- there have been breaches at management level in several Group functions;
- there were a number of more or less serious indications during the years, that were not identified or reacted on or escalated as could have been expected by the Group;
- as a result, the Group was slow to realize the problems and rectify the shortcomings. Although a number of initiatives were taken at the time, it is now clear that it was too little and too late.

Danske Bank CEO step down.<sup>25</sup> Ultimately, Danske Bank's share price halved and investors in Denmark holding direct shares in the bank and foreign investors holding depositary shares lost almost \$9 billion. Furthermore, Moody's downgraded Danske bank's issuer rating from A1 to A2 and changed the outlook to negative, while Fitch and S&P both maintained their issuer ratings of Danske Bank but also changed the outlook to negative.

With the publication of the investigation report, Danske Bank Board of Directors informed that the gross income from the non-resident portfolio in the period 2007 to 2015 estimated at DKK 1.5 billion will be donated. The amount will be transferred to an independent foundation to support initiatives aimed at combating financial crime, including money laundering, including in Denmark and Estonia.<sup>26</sup>

From the publication of the internal investigation report until the end of 2018, a deluge of investigations in addition to the ones already initiated earlier engulfed Danske Bank.

In September 2018, Danish FSA reopened its investigation in order to clarify whether there was any new information, which might give rise to additional supervisory responses. Moreover, the UK Crime Agency initiated probing of Danske Bank and the European Banking Authority (EBA) opened an investigation to verify

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<sup>25</sup> In September 2018, with the publication of results of the internal investigation, Thomas Borgen announced that he would step down when a successor was found but he was ousted a month later after shareholder outrage.

<sup>26</sup> People involved in the lawsuits against Danske Bank argued that gross profits of only about 1 per cent of the total flow of money through Danske's non-resident portfolio appear low when banks typically charge customers 3-4 per cent for currency transactions. They suggested that some of the spreads may have been booked by Danske outside Estonia. Danske Bank rejected that, saying DKK 1.5bn was the total gross income from the non-resident portfolio so it is all included.

if Danish FSA and Estonian FSA have handle the supervision of AML in the Danske Bank case in accordance to EU law.

In October 2018 the Danish FSA followed up the 3 May 2018 orders and in this connection ordered the bank to increase the solvency need by at least DKK 10 billion (rather than the minimum of DKK 5 billion ordered in the decision in May 2018) as a result of increased compliance and reputational risks for Danske Bank as a result of the AML case.<sup>27</sup> The Danish FSA also found that the bank did not fully meet the order to strengthen the bank's governance in order to ensure that decision-making basis, discussions at meetings and made decisions were adequately documented. The bank's Board of Directors and Executive Board were therefore obliged to further detail measures taken with a view to generally strengthening governance regarding decision-making processes.

Moreover, in October 2018, Danish Business Authority (DBA) initiated an investigation of Danske Bank accounts and external auditors.

Furthermore, also in October 2018 the Danish FSA rejected the candidature of Jacob Aarup-Andersen proposed unanimously by the Board of Directors for the position of CEO of Danske Bank due to lack of experience. An embarrassing blow for Danske Bank Board of Directors according to some.

In November 2018, the Danish State Prosecutor for Serious Economic and International Crime (SØIK) charged Danske Bank with violating the Danish Anti-Money Laundering Act on four counts all relating to Danske Bank's Estonian branch from 1 February 2007 to end of January 2016. Also in November 2018, European Commission decided to send a reasoned opinion to Estonia and a letter of formal notice to Denmark for the country's failure to completely transpose the European's Union's 4<sup>th</sup> Money Laundering Directive into national law.

In December 2018, the Estonia Prosecutor arrested ten former Estonian branch employees on suspicion of knowingly enabling money laundering. Furthermore, the Public Accountants Committee asked the National Audit Office (Rigsrevisionen) to examine the Danish AML supervision at a general level. Moreover, Danske Bank's Chairman of the Board and the Chairman of the Audit Committee step down at an extraordinary general meeting called few weeks earlier by the bank's main shareholder AP Møller Holdings explaining that extraordinary and extensive changes to the composition of the Board of Directors were necessary as part of the process of recovering the confidence of all the Bank's stakeholders.

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<sup>27</sup> Danske bank has also taken additional steps to increase its financial strength beside the increase of Pillar II requirement by DKK 10 billion. In October 2018 discontinued the share buy-back programme for the remaining part of the year and informed that will not launch a share buy-back programme in 2019. Furthermore, it revised the CET1 capital ratio target from 14-15% to 16% and the total capital ratio target from above 19% to above 20%.

The year 2019 starts with a US pension fund filing a lawsuit against Danske Bank and four former managers. In addition, the French Tribunal des Grande Instance de Paris placed again Danske Bank under formal investigation after having previously changed Danske Bank's status in the case to that of an assisted witness. Shortly after, in February 2019, Estonian FSA issue a precept to Danske Bank to prohibit the activities of the bank's branch in Estonia. Danske Bank must cease its activities in Estonia within eight months of the issue of the precept, taking into account the interests of its current customers.

At the same time, Danske Bank announced the decision to close down all the remaining activities in Lithuania, Latvia and Russia in line with its strategy of focusing on its Nordic core markets. This de facto implied a complete withdrawal of Danske Bank from the Baltic region.<sup>28</sup>

In March 2019, investors in 19 countries sued Danske Bank over money laundering scandal seeking \$475 million in damages. Moreover, at the 18 March 2019 Annual General Meeting Danske Bank announced that the Executive Board has decided to waive the bonuses that could have been paid for 2018.

In April 2019, Danish Business Authority asked State Prosecutor for Special Economic and International Crime (SØIK) to investigate EY 2014 audit of Danske Bank. Moreover, the EBA cleared Danish and Estonian FSAs of breaking any EU laws in their handling of Danske bank money laundering scandal. EBA voted to close the investigation initiated in November 2018 without adopting any findings, a move that has drawn sharp criticism from senior EU policy makers. EBA indicated that its board of supervisors felt the failings uncovered did not amount to breaches of EU law, contradicting the conclusions of a draft report prepared by its own services. EBA also said that members of the board were reluctant to go further given that the investigation concerned events that took place several years ago, when an older version of EU legislation against money laundering was in force, and that some of the legal requirements were not clear and unconditional. The explanation did not ease the critics that believe problematic that EBA had chosen not to act. The European Commission was incensed by EBA decision to reject its own draft report showing failings in how Danish and Estonian authorities supervised Danske Bank. "The case of Danske Bank is not closed for us regardless of the decision of EBA. I will make sure that this case will not be swept under the carpet", stated the EU Justice Commissioner.

In May 2019, the State Prosecutor for Special Economic and International Crime (SØIK) preliminarily charged former Danske Bank CEO, Thomas Borgen, after having raided his home earlier in March. According to the media nine other former managers of Danske Bank have been also preliminary charged including the former CFO, Henrik Ramlau-Hansen who was Chairman of Danish FSA from 2016 to 2018. It seems that the charges

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<sup>28</sup> However, Danske Bank's shared services centre in Lithuania, which undertakes a number of administrative functions for Danske Bank, will continue its operations.

were brought soon after US authorities requested to conduct interviews in the case, hinting at a combined approach between the Washington-based Department of Justice and Danish authorities.

Moreover, the Estonian Prosecutor informed that two new suspects have been added to the case bringing the total of former employees in Estonia under investigation to twelve.

At the same time, a new Danske Bank CEO was appointed ending a seven-months hunt for a new chief.

This is where Danske Bank money laundering scandal is standing as of 30 May 2019.<sup>29</sup>

## **6. TRIGGERED CHANGES AT DANSKE BANK, DENMARK AND EU LEVEL**

Since the full magnitude of the money laundering scandal became known in September 2018, Danske Bank's ecosystem of corporate governance mechanisms has been put under severe scrutiny. It has been questioned how could the world's 53rd largest bank by total assets fall victim to a scandal like this and in particular how a money laundering operation so vast could continue for so long in the biggest financial institution in Denmark. "It is possible to think of corporate governance mechanisms using lines of defense as a metaphor."<sup>30</sup> Some mechanisms are more important than others, and some are logically prior to others but each of them plays a vital defense role, which contribute to defend the overall business enterprise. The list of the main corporate governance mechanisms is depicted in the figure below<sup>31</sup>:

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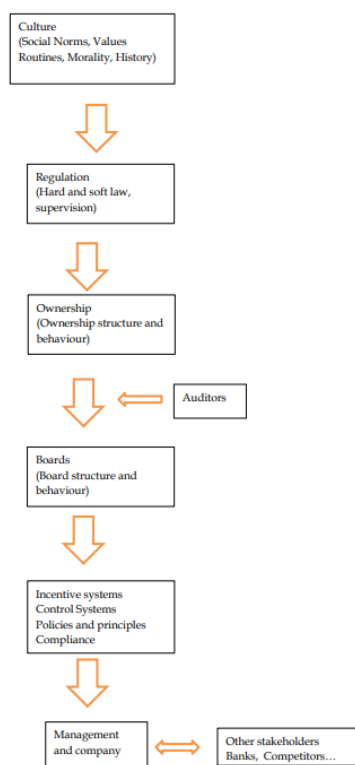
<sup>29</sup> On 14 May 2019, the Danish media reported a new potential case of suspicious transactions in Danske Bank in Denmark. A 23-year-old Lithuanian strawman was allowed to set up a company account at Danske Bank's business department in Copenhagen, where in 12 months, suspicious transactions for DKK 50 million ran through. The case happened in 2016 after Danske Bank closed down the non-resident portfolio in Estonia and some argue that this demonstrate that Danske Bank did not have effective controls in place not only in Estonia but also in rest of Danske Bank group. Danish politicians requested immediately an investigation and the Minister of Business confirmed that the Danish FSA is already investigating and will provide a report in due course.

Furthermore, on 27 May 2019, the Danish media reported another potential case of suspicious transactions in Danske Bank also in Denmark. A Danish-Pakistani businessman, along with other backers, in just five months in 2009 sent \$ 830 million through the Danske Bank account of Swefin, a Danish registered company. The documents from the various investigations show how Swefin acted as a payment platform - a kind of shadow bank - that VAT fraudsters used to hide their cash flows from the authorities.

<sup>30</sup> Thomsen, S. and Conyon, M. (2019). *Corporate Governance and Board Decisions*. Copenhagen: Djøf Publishing, Page 81.

<sup>31</sup> Ibidem. Page 80.

Figure 3.1 Corporate Governance Mechanisms



As described in the “Course of Events” chapter of this case, there is ample evidence that in the case of Danske Bank’s money laundering scandal all lines of defense (i.e., all corporate governance mechanisms) failed in different forms and to a different extent. The Danske Bank’s scandal “it is a near-perfect example of how different type of failures can amplify each other, creating a scandal for the ages.”<sup>32</sup>

Thus, numerous changes to the anti-money laundering framework and governance in Danske Bank, in Denmark and in the European Union have been initiated and/or implemented.

## 6.1 TRIGGERED CHANGES - DANSKE BANK

In Danske Bank Estonian branch significant changes were made with regard to the organization, AML processes and controls, and IT systems:

- governance and oversight in relation to the Baltics was strengthened with the introduction of a new pan-Baltic management;

<sup>32</sup> Kelly, M. (2018). How Did Danske Bank Go Wrong? Let Us Count the Ways...[online] Navex Global. Available at: <https://www.navexglobal.com/blog/article/how-did-danske-bank-go-wrong-let-us-count-the-ways/> [Accessed: April 2019].

- the independence of control functions in the Baltics was strengthened and processes and controls were raised to Group level to ensure the same level of risk management and control as in other parts of the Group;
- the Baltic units was migrated to a single shared IT platform, which enabled increased transparency and oversight.

Despite the changes, in February 2019 Estonian FSA issued a precept to Danske Bank to prohibit the activities of the bank's branch in Estonia. Danske Bank must cease its activities in Estonia within eight months of the issue of the precept. At the same time Danske Bank announced a complete withdrawal from the Baltic region therefore the above changes are not relevant any longer.

Major changes were also made and/or are in the process of being implemented at Danske Bank Group level in the form of new organizational structures, new routines and procedures, as well as the implementation of new IT systems:

- the three lines of defense model was strengthened, which also included ensuring increased independence of control functions and making sure that whistleblower reports and correspondence with supervisory authorities form part of reporting to the Board of Directors;
- the whistleblower setup was strengthened by transferring the responsibility for investigating reports to Group Compliance and implementing a stronger governance setup to handle reports. Whistleblower policy and system mandatory training for all employees was also introduced;
- the reporting line of Group Compliance was changed from CFO to CEO. The Head of Group Compliance has title to Chief Compliance Officer (CCO), is a member of the Executive Board, and in cooperation with and under responsibility of the Chief Executive Officer (CEO) of Danske Bank, reports to the Board of Directors;
- a Compliance Incident Management unit was established to control and coordinate in respect of material compliance across the Group;
- customer onboarding, ongoing due diligence and transaction monitoring processes were enhanced and further automated;



- resources dedicated to combat financial crime, including ML, were significantly increased from less than 200 in 2016 to 550 in 2017 to 1,200 in 2018 and planned to reach 1,700 between 2019 and 2020;
- AML knowledge and culture across the organization was strengthened, among other things through a strong management focus and extensive mandatory training. In 2018 alone, internal and external training service providers provided almost 70 different AML training courses across the organization. Approximately 20,000 employees received training. In addition to basic and mandatory training, a newly created AML Academy provides on an ongoing basis specialized training in detecting and combating financial crime for relevant employees;
- AML improvements efforts for the period 2019-2021 were fast tracked through earmarked investments up to DKK 2 billion;
- risk management and compliance was included in the performance agreements of all members of the Executive Board and senior managers;
- a new permanent Board of Directors committee with responsibility for behavior, compliance and culture in the bank was established. The Committee is called the Conduct & Compliance Committee;
- the Compliance Policy, the Whistleblowing Policy, AML CTF Sanctions Policy, the Stakeholders Policy, The Sustainable Investment Policy, the Conflict of Interest Policy, the Code of Conduct Policy, the Remuneration Policy were revised.

## 6.2 TRIGGERED CHANGES – DENMARK

Denmark's political establishment is struggling to come to terms with the scandal. The case, which triggered regulatory, political and financial shockwaves, is a risk for Denmark's entire financial sector, the Systemic Risk Council, which monitors threats to the stability of the country's financial system, said.

Denmark has made clear it wants to set some Europe's toughest standards in the fight against money laundering, after the country's reputation was tainted by the Danske Bank scandal. Danish lawmakers are adopting a slew of measures after Danske Bank money laundering scandal came to light in its full scale. This is also in response to the Financial Action Task Force (FATF) report of June 2017 in which Denmark AML legal and enforcement framework did not fare well.

The new measures were agreed under the following three political agreements:

## **I. Political Agreement of 21 June 2017**

Shortly after the implementation in Danish law of AMLD4 with Act no. 651 of 08-06-2017 on Measures to Prevent Money Laundering and Financing of Terrorism, the Danish Parliament agreed to:

- introduce an independent provision on money laundering in the criminal code;
- increase of the range of penalties for money laundering: fine or imprisonment of up to 1 year and 6 months; the punishment may rise to imprisonment for 8 years when the laundering is of a particularly serious nature (previously 6 years);
- introduce the ability for the Danish FSA of withdrawing a financial institution license for gross violations of the AML Act
- make stricter fit and proper requirements so that members of the Executive Board and Board of Directors of a financial institution can be removed from their position.
- increase resources devoted to AML/CTF in the Danish FSA. The number of staff in the AML/CFT division has risen from 3-4 employees before July 2017 to 15 employees from July 2017. This increase in staffing has made it possible to increase the number of inspections substantially, from on average of 7,6 per annum to 45 in 2018;
- introduce a requirement for currency exchange entities to have a license to operate. This has led half of the currency exchange entities to close down as the Danish FSA did not find that they could be in compliance with the requirements
- issue of a new and very comprehensive guideline covering the entire Anti-Money Laundering Act has been developed. The guideline constitutes an important contribution to guiding the obliged institutions in observing the law. The supervisory authorities must conduct annual risk assessments of the institutions and perform the supervision on the basis of this guideline.

This Agreement was translated into law with Act no. 706/2018 and Act no. 1535/2018 in relation to the fit & proper rules, withdrawal of license, and increase range of penalties and Act 711/ 2018 in relation to money laundering becoming a criminal offense). All these Acts are already in force.

## II. Political Agreement 19 September 2018

Under this political agreement the Danish Parliament agreed to:

- increase fines for violation of the Anti-Money Laundering Act by up to 700 percent, ensuring that the Danish level of fines will be among the absolute top in Europe. The rule is not retroactive and therefore not applicable to Danske Bank case;
- introduce a fast-track scheme with the State Prosecutor for Serious Economic and International Crime (SØIK) for handling notifications about suspicious transactions;
- increase resources for the State Prosecutor for Serious Economic and International Crime (SØIK);
- extend the fit & proper requirements to include employees with executive powers responsible for combating money laundering as well as all key senior managers in banks;
- require banks and payment service providers to adopt a policy for sound corporate culture;
- require documented follow-up on inquiries made to companies' whistleblower scheme;
- ban the use of 500 euro banknotes in Denmark;<sup>33</sup>
- examine the possibilities for tightening the collaborative responsibility in case of omissions or inactivity in money laundering cases;
- participate actively in the forthcoming international work to strengthen cooperation in combating money laundering across countries in particular in the Nordic region.<sup>34</sup>

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<sup>33</sup> Denmark decided to ban 500-euro notes in an attempt to fight money laundering in the country. The decision was made despite a request by the European Central Bank (ECB) not to ban the note, citing the principle of "sincere cooperation" that is part of the bloc's treaty. The agency has also said that there's no evidence the notes are used more frequently in Denmark for illegal activities than anywhere else. However, Danish authorities believe the bills' use for criminal activities justifies the ban, adding that the ECB even decided to stop printing the notes in 2016 under the recommendation of the Financial Action Task Force. The reason behind the Danish authorities decision is related to the fact that in 2016 the Danish authorities convicted the owners of several exchange agencies in Copenhagen for having helped criminal networks launder million of dollars of suspicious funds by using 500-euro banknotes.

<sup>34</sup> At the time of this case, financial regulators in Nordic and Baltic States are mulling an in-depth data sharing agreement about sharing transaction-level banking data as part of anti-money laundering efforts.

This agreement was translated into law as Act no. 189/2019 and Act no. 204/2019, which will enter into force latest on 10 January 2020.

### **III. Political Agreement 27 March 2019**

Significant changes will be introduced to the AML legal and enforcement framework in Denmark under this political agreement. This agreement is expected to be translated into law on October 2019. Under this agreement the Danish Parliament has agreed to:

- grant the Danish FSA broad access to issue administrative fines;
- expand the disclosure obligation of financial institution towards the Financial Supervisory Authority to oblige them to correct previously submitted incorrect information;
- grant the Danish FSA the right to appoint an expert who, following a mandate from the FSA, can follow the day-to-day operations of the institutions for a shorter period, where there is a need to follow an institution where there are risks of financial crime;
- strengthen the whistleblower schemes through a ban on secrecy clauses;
- empower the Danish FSA to issue an order that a financial institution must not take new customers if serious violations of money laundering rules have been found in the institution;
- assign to the Danish FSA the task to support the financial sector by building a common infrastructure that can strengthen the companies' processes for customer knowledge;
- strengthen criminal liability for submitting incorrect information to the Danish Financial Supervisory Authority;
- increase the status of limitation for gross violations of the Money Laundering Act and the Financial Business Act to 10 years;
- strengthen sanctions against auditors who violate the Money Laundering Act so that they can be deprived of their license to operate;

- establish a working group responsible for proposing how it can be more assured that management in financial institutions can be held liable from a criminal point of view;
- change Danish FSA organization with a view to a stronger focus on preventing and combating financial crime and in order to ensure that more data-driven supervisory methods are used;
- increase resources in the Danish FSA and the Ministry of Justice's department to strengthen the efforts against financial crime, including an ad hoc round of money laundering inspections in the largest banks. Danish FSA will get DKK 48 million (\$7.25 million) extra funding each year. This will allow the FSA to double the number of people working to fight money laundering to 24;
- require that the members of the Danish FSA's Board of Directors meet the same fit & proper requirements that apply to the Board of Directors of financial institution. Moreover, it is required that the chairman and the deputy chairman of the Board of Directors of the Danish FSA have not been employed by a financial company or have been a member of the board of directors of a major financial company for the past 5 years. In addition, the Board of Directors of the Danish FSA must be expanded with up to two members who have special insight into the fight against financial crime and data analysis and cyber risks;
- introduce a knowledge clause is introduced for the Executive Board and key employees of the Danish FSA. These employees must hold a break before changing jobs if they want employment in the financial sector;
- strengthen the cooperation and coordination between authorities and financial institutions in the Money Laundering Forum;
- strengthen expertise during court proceedings for violation of financial legislation including AML Act;
- reassess the overall AML legal and enforcement framework at the end of 2020/early 2021. Foreign experts will participate into the assessment.

Additional measures to combat money laundering are expected in the near future. On 9 May 2019 the Danish FSA issued a report concluding that after conducting 55 inspections between mid-2017 to end of 2018 the Danish FSA Denmark's financial institutions are not doing enough to ensure that they are not used to launder

money. Managers are aware of the risks but do not know in practice what exactly they need to do. The Danish FSA will conduct 35 more inspections in 2019 after which additional measures may be brought forward for discussion in the Danish Parliament.

### 6.3 TRIGGERED CHANGES – EUROPEAN UNION (EU)

The sheer scale of the money laundering scandal at Danske Bank in Estonia has also shaken Europe to its core. While the EU has strong anti-money laundering rules in place, recent cases involving money laundering in some EU banks, including the one in Danske Bank Estonian branch, have raised concerns that those rules are not always supervised and enforced effectively across the EU.

The main issue lies in the fact that AML supervision and enforcement rests largely with national authorities of individual member states which often lack the resources and training to tackle money launderers or are unwilling to police big, politically connected financial institutions. This means that AML supervisory weakness in any one EU/EEA member state lead to that country becoming attractive for money launderers who can then use it to access the entire European single market.

It has been argued that anti-money laundering supervision and enforcement should be consolidated under a single EU regulator with its own financial police force in order to provide coherence and certainty to such a fragmented system. The regulator should have high standards of governance and independence, publish all of its decisions, and be empowered to impose sufficiently large fines to deter malpractice. It would also act as a catalyst for further harmonization of the AML legal regime across EU member states. A single regulator would eliminate problems of information sharing between AML supervisors and allocation of tasks between home and host authorities as well as with counterparts in other jurisdictions. Furthermore, supervisory integration should help increase the size and consistency of AML fines and ensure the transparent publication of individual AML decisions. This will not solve all the illicit financial challenges facing Europe but will contribute substantially to enhance the effectiveness of the European Union's AML efforts.

In this context, on 12 September 2018 the European Commission made a proposal to concentrate anti-money laundering powers in relation to the financial sector within the European Banking Authority and to strengthen its mandate to ensure that risks of money-laundering are effectively and consistently supervised by all relevant authorities and that the relevant authorities cooperate and share information.

Based on this proposal, on 21 March 2019, the EU Parliament and Member States reached a political agreement on a stronger and more integrated European supervisory architecture in the financial sector, including on anti-money laundering. In particular, to ensure high quality anti-money laundering supervision and effective coordination among different authorities across all member states, anti-money laundering responsibilities in

the financial sector will be entrusted specifically to one of the three European Supervisory Authorities<sup>35</sup>, namely the European Banking Authority (EBA), as it is in the banking sector that money-laundering and terrorist financing risks are the most likely to have a systemic impact. The new rules strengthen the EBA's role and give to EBA the necessary tools and resources to ensure effective cooperation and convergence of supervisory standards. Specifically, the new rules will:

- ensure that breaches of anti-money laundering rules are consistently investigated. EBA will be able to request national anti-money laundering supervisors to investigate potential material breaches and to request them to consider targeted actions - such as sanctions;
- provide that the national anti-money laundering supervisors comply with EU rules and cooperate properly with prudential supervisors. EBA's existing powers will be reinforced so that, as a last resort if national authorities do not act, the EBA will be able to address decisions directly to individual financial sector operators;
- enhance the quality of supervision through common standards, periodic reviews of national supervisory authorities and risk-assessments;
- enable the collection of information on anti-money laundering risks and trends and fostering exchange of such information between national supervisory authorities (so-called data hubs);
- facilitate cooperation with non-EU countries on cross-border cases;
- establish a new permanent committee that brings together national anti-money laundering supervisory authorities. The committee It will be composed of high-level representatives of national supervisory authorities responsible for ensuring compliance with laws against money laundering and terrorist financing as well as high-level representatives of the three European Supervisory Agencies (ESAs). In decisions relating to matter under the competence of ESMA or EIOPA, EBA final decision will be taken in agreement with ESMA or EIOPA respectively.

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<sup>35</sup> The European System of Financial Supervision (ESFS) was set up in November 2010 in the wake of the financial crisis. This system was created to strengthen financial supervision, better protect European citizens and ultimately rebuild trust in the EU financial system. The ESFS consists of:

a) the three European Supervisory Agencies (ESAs) which supervise individual sectors and institutions ("micro-prudential" pillar). The three ESAs are the European Banking Authority ("EBA"), the European Insurance and Occupational Pensions Authority ("EIOPA") and the European Securities and Markets Authority ("ESMA");

b) the European Systemic Risk Board (ESRB), which oversees the financial system as a whole and coordinates EU policies for financial stability ("macro-prudential" pillar).

- Ensure that the EBA will have enough resources to carry out these new tasks.

Some argue that the new rules are a step in the right direction but not enough to address the problem comprehensively. The new rules bring about improvements to the supervisory framework but there is a need to examine the whole system. Banks, financial supervisors and law enforcement agencies all have a role to play in combating money laundering threats on a pan-European level. Moreover, to be effective the new rules require a transformation of EBA's current decision-making structure. A particular problem is that its board of supervisors is composed of representatives of national watchdogs who are reluctant to pass judgment on each other. The limits of a mostly national supervision of financial crimes that are largely cross-border have long been criticized by the European Central Bank (ECB) and the EU Parliament, but EU states keep defending their national competences. EU is looking at possible options for reform, after governments in late 2018 rejected proposals to give EBA more full-time decision makers who were not linked to national supervisors.<sup>36</sup> Furthermore, on 12 April 2019 the EU Parliament approved the proposal directive introducing EU-wide minimum standards for whistle blowing. It is believed that Danske Bank whistleblower case was the main reason for the sudden acceleration of the directive approval process from the EU Parliament.

According to the new directive, all organizations with more than 50 employees will have to set up internal channels to allow people to report irregularities related to areas including tax fraud, money laundering, environmental protection and public health. The rules will complement existing frameworks that exist for specific sectors, such as financial services, where the EU introduced some protection following the financial crisis. Key aspects of the newly approved protection include: a ban on all forms of retaliation, a three tier reporting system that ensures confidential reporting channels for: internal reporting within the organization, external reporting to authorities, reporting to the public or media. The burden of proof to be on the organization, which must prove that it is not acting in a retaliatory way against the whistleblower. One point of contention during the political negotiations was whether employees would be required to first report internally before turning to external channels. Whistleblowers will be protected either way under the final version. Member states will have two year to transpose the directive into national law.

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<sup>36</sup> The European Commission is reviewing money laundering cases at EU banks between 2012 and 2018 with the aim of producing a report in the summer of 2019 that identifies the factors that contributed to the banks failure in preventing financial crime and use it to propose possible tweaks to EU rules.



## 7. EPILOGUE

Danske Bank money laundering scandal has been dominating headlines in the financial crime and compliance space for months.<sup>37</sup> It seems increasingly clear that Danske Bank was far from alone in its involvement in one of the largest money laundering scandal in European history.

According to the Basel AML 2018 Index 83 of 129 countries worldwide have a risk score of at least 5 on a 10-point scale, and not a single country can claim zero risk status. This means that the AML frameworks in most countries carry a ‘significant risk’ and are largely inadequate to deal with sophisticated money laundering.

The scandal has left Denmark in a state of shock. A substantial concern is that the scandal risk undermining a central tenet of Nordic culture: trust. “Trust is perhaps the most important resource in the Nordic societies – a Nordic gold – and is a key factor in understanding the modern successes of the Nordic countries, both socially and economically<sup>38</sup>.” Learning the full lessons from this case will take Danske Bank, regulators, the Danish public and the financial system a long while yet. The scandal continues to weigh on the bank business. The first quarter 2019 results were below expectations due in part to the effects of the impact of the scandal in particular higher funding costs and additional investments in the compliance area.

The outlook for Danske Bank is not particularly good. Denmark’s largest financial institution is bracing itself for a deluge of money laundering linked convictions and penalties from both European and United States authorities. It has already transferred about \$2.7 billion to a capital buffer to absorb potential fines as it deals with the fallout, and may have to add to this as events unfold. There is great uncertainty over potential fines: according to Bloomberg Intelligence total fines may end up in the region of \$2 billion to 2.5 billion, but there is the potential for the final amount to be multiples of that. Financial Times reported that consensus is looking for an aggregate fine of around \$5bn. Goldman Sachs estimated that Danske Bank can absorb fines of up to \$6 billion before core capital against the pillar 1 requirement is threatened. Jyske Bank analysts estimated that the market is factoring in \$6.2bn-\$7.8bn in fines globally as well as other effects from the scandal.

However, fines may be the least-worst scenario. The US Treasury could order banks that clear dollars on behalf of Danske to stop. That is what it did in February 2019 in the case of ABLV, the largest non-resident bank in Latvia that was forced to liquidate itself earlier this year after being accused by the US of breaking sanctions against North Korea. This possibility is viewed by many as highly unlikely for several reasons. Denmark is not Latvia in general. This is a nation that normally has strict regulations. Latvia seems to have had more of a

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<sup>37</sup> At the time of this case Danske Bank internal investigation is ongoing. However, Danske Bank indicated that will not provide any more public updates about the case as its report in September 2018 — in which it had only reviewed 6,200 out of 15,000 non-resident customers at its Estonian branch, finding that 6,200 were suspicious — was sufficiently detailed. This implies that also no information will be provided about the investigation of Danske Bank Non-resident portfolio in Latvia and Lithuania.

<sup>38</sup> Andreasson, U. (2017) Trust – The Nordic Gold. [online] Available at: <https://norden.divaportal.org/smash/get/diva2:1095959/FULLTEXT02.pdf> [Accessed: April 2019].

structural issue. Others argue that the real threat to Danske Bank survival is that they can become so cheap that they are a clear takeover target.

Much remains unknown in Danske Bank scandal, from the source of the money to where it ended up. A big concern is just how far dirty money has spread. At its peak in 2013, Danske had a market share of about 9 per cent of non-resident money in the Baltics. As enormous as the sums involved in its scandal are, some wonder what more is out there. We only know about Danske Bank because of a whistleblower, but how many other banks in the Baltics were doing exactly the same thing?

At the time of the case it is unclear how long the Danske Bank money laundering case will last or how many entities it will draw in.

## 8. APPENDICES

### Appendix 1 – Danske Bank Board of Directors – Shareholders Elected Directors Selected Indicators 2007-2018

Danske Bank Board of Directors - Shareholders Elected Directors Profile - Selected Indicators									
2007									
Name	Gender	Age	Nationality	Independence	Profession	Banking Experience	Duration in The Board	Other Board Positions	Major Shareholder Appointee
Alf Duch-Pedersen	M	61	Danish	x	General Manager		9	4	
Jørgen Nue Møller	M	63	Danish	x	General Manager		8	4	RealDania
Eivind Kolding	M	48	Danish	x	Partner		7	4	AP Møller Holdings
Henning Christophersen	M	68	Danish	x	Partner		12	4	
Peter Højland	M	57	Danish	x	General Manager		8	16	
Niels Chr. Nielsen	M	65	Danish	x	Professor		18	8	
Sten Schibye	M	56	Danish	x	CEO		10	6	
Majken Schultz	F	49	Danish	x	Professor		8	4	
Claus Vastrup	M	65	Danish	x	Professor		5	1	
Birgit Aagaard-Svendsen	F	51	Danish	x	EVP, CFO		13	5	
2008									
Name	Gender	Age	Nationality	Independence	Profession	Banking Experience	Duration in The Board	Other Board Positions	Major Shareholder Appointee
Alf Duch-Pedersen	M	62	Danish	x	Professional Board Member		10	3	
Eivind Kolding	M	49	Danish	x	Partner		8	4	AP Møller Holdings
Henning Christophersen	M	69	Danish	x	Partner		13	3	
Peter Højland	M	58	Danish	x	Professional Board Member		9	10	
Mats Jansson	M	57	Swedish	x	CEO		1	2	
Niels Chr. Nielsen	M	66	Danish	x	Professor		19	8	
Sten Schibye	M	57	Danish	x	Professional Board Member		11	8	
Majken Schultz	F	50	Danish	x	Professor		9	5	
Claus Vastrup	M	66	Danish	x	Professor		6	1	
Birgit Aagaard-Svendsen	F	52	Danish	x	EVP, CFO		14	4	
2009									
Name	Gender	Age	Nationality	Independence	Profession	Banking Experience	Duration in The Board	Other Board Positions	Major Shareholder Appointee
Alf Duch-Pedersen	M	63	Danish	x	Professional Board Member		11	2	
Eivind Kolding	M	50	Danish	x	Partner		9	6	AP Møller Holdings
Henning Christophersen	M	70	Danish	x	Partner		14	4	
Peter Højland	M	59	Danish	x	Professional Board Member		10	9	
Mats Jansson	M	58	Swedish	x	CEO		2	1	
Niels Chr. Nielsen	M	67	Danish	x	Professor		20	7	
Sten Schibye	M	58	Danish	x	Professional Board Member		12	11	
Majken Schultz	F	51	Danish	x	Professor		10	6	
Claus Vastrup	M	67	Danish	x	Professor		6	1	
Birgit Aagaard-Svendsen	F	53	Danish	x	EVP, CFO		15	4	

2010									
Name	Gender	Age	Nationality	Independence	Profession	Banking Experience	Duration in The Board	Other Board Positions	Major Shareholder Appointee
Alf Duch-Pedersen	M	64	Danish	x	Professional Board Member		12	2	
Eivind Kolding	M	51	Danish	x	Partner		10	5	AP Møller Holdings
Ole Gjessø Andersen	M	54	Danish	x	Managing Director		1	5	
Michael Fairey	M	62	British	x	Professional Board Member	x	1	7	
Peter Højland	M	60	Danish	x	Professional Board Member		11	15	
Mats Jansson	M	59	Swedish	x	Professional Board Member		3	1	
Sten Schibye	M	59	Danish		Professional Board Member		13	13	
Majken Schultz	F	52	Danish	x	Professor		11	4	
Claus Vastrup	M	68	Danish		Professor		7	1	
Birgit Aagaard-Svendsen	F	54	Danish		EVP, CFO		16	7	

2011									
Name	Gender	Age	Nationality	Independence	Profession	Banking Experience	Duration in The Board	Other Board Positions	Major Shareholder Appointee
Ole Andersen	M	55	Danish	x	Managing Director		1	3	
Niels B. Christiansen	M	45	Danish	x	CEO		1	6	
Michael Fairey	M	63	British	x	Professional Board Member	x	2	7	
Peter Højland	M	61	Danish	x	Professional Board Member		12	18	
Mats Jansson	M	60	Swedish	x	Professional Board Member		4	2	
Eivind Kolding	M	52	Danish	x	Partner		11	1	AP Møller Holdings
Majken Schultz	F	53	Danish	x	Professor		12	3	
Claus Vastrup	M	69	Danish		Professor		8	1	

2012									
Name	Gender	Age	Nationality	Independence	Profession	Banking Experience	Duration in The Board	Other Board Positions	Major Shareholder Appointee
Ole Andersen	M	56	Danish	x	Managing Director		2	6	
Niels B. Christiansen	M	46	Danish	x	CEO		2	7	
Urban Bäckström	M	58	Swedish	x	Director General		1	2	
Michael Fairey	M	64	British	x	Professional Board Member	x	3	6	
Mats Jansson	M	61	Swedish	x	Professional Board Member		5	2	
Jørn P. Jensen	M	48	Danish	x	CFO		1	4	
Majken Schultz	F	54	Danish	x	Professor		13	6	
Trond Ø. Westlie	M	51	Norwegian		CFO		1	6	AP Møller Holdings

2013									
Name	Gender	Age	Nationality	Independence	Profession	Banking Experience	Duration in The Board	Other Board Positions	Major Shareholder Appointee
Ole Andersen	M	57	Danish	x	Professional Board Member		3	5	
Niels B. Christiansen	M	47	Danish	x	CEO		3	5	
Urban Bäckström	M	59	Swedish	x	Director General		2	2	
Lars Förberg	M	48	Swedish	x	Managing Partner		1	4	Cevian
Jørn P. Jensen	M	49	Danish	x	CFO		2	4	
Carol Sergeant	F	61	British	x	Professional Board Member	x	1	5	
Jim Hagemann Snabe	M	48	Danish	x	CEO		1	2	
Trond Ø. Westlie	M	52	Norwegian	x	CFO		2	5	AP Møller Holdings

## 2014

Name	Gender	Age	Nationality	Independence	Profession	Banking Experience	Duration in The Board	Other Board Positions	Major Shareholder Appointee
Ole Andersen	M	58	Danish	x	Professional Board Member		4	6	
Trond Ø. Westlie	M	53	Norwegian	x	CFO		3	4	AP Møller Holdings
Urban Bäckström	M	60	Swedish	x	Professional Board Member		3	2	
Lars Förberg	M	49	Swedish	x	Managing Partner		2	4	Cevian
Jørn P. Jensen	M	50	Danish	x	CFO		3	4	
Rolv Erik Ryssdal	M	52	Norwegian	x	CEO		1	2	
Carol Sergeant	F	62	British	x	Professional Board Member	x	2	7	
Jim Hagemann Snabe	M	49	Danish	x	CEO		2	5	

## 2015

Name	Gender	Age	Nationality	Independence	Profession	Banking Experience	Duration in The Board	Other Board Positions	Major Shareholder Appointee
Ole Andersen	M	59	Danish	x	Professional Board Member		5	5	
Trond Ø. Westlie	M	54	Norwegian	x	CFO		4	3	AP Møller Holdings
Urban Bäckström	M	61	Swedish	x	Professional Board Member		4	4	
Lars Förberg	M	50	Swedish	x	Managing Partner		3	4	Cevian
Jørn P. Jensen	M	51	Danish	x	Professional Board Member		4	2	
Rolv Erik Ryssdal	M	53	Norwegian	x	CEO		2	2	
Carol Sergeant	F	63	British	x	Professional Board Member	x	3	7	
Jim Hagemann Snabe	M	50	Danish	x	Professional Board Member		3	5	

## 2016

Name	Gender	Age	Nationality	Independence	Profession	Banking Experience	Duration in The Board	Other Board Positions	Major Shareholder Appointee
Ole Andersen	M	60	Danish	x	Professional Board Member		6	3	
Trond Ø. Westlie	M	55	Norwegian	x	Professional Board Member		5	1	AP Møller Holdings
Lars-Erik Brenøe	M	55	Danish	x	Executive Vice President, Head of Chairman's Office		1	4	
Urban Bäckström	M	62	Swedish	x	Professional Board Member		5	2	
Jørn P. Jensen	M	52	Danish	x	Professional Board Member		5	2	
Rolv Erik Ryssdal	M	54	Norwegian	x	CEO		3	1	
Carol Sergeant	F	64	British	x	Professional Board Member	x	4	7	
Hilde Merete Tonne	F	51	Norwegian	x	Professional Board Member		1	1	

## 2017

Name	Gender	Age	Nationality	Independence	Profession	Banking Experience	Duration in The Board	Other Board Positions	Major Shareholder Appointee
Ole Andersen	M	61	Danish	x	Professional Board Member		7	3	
Urban Bäckström	M	63	Swedish	x	Professional Board Member		6	2	
Lars-Erik Brenøe	M	56	Danish	x	Executive Vice President, Head of Chairman's Office		2	3	AP Møller Holdings
Jørn P. Jensen	M	53	Danish	x	Professional Board Member		6	3	
Rolv Erik Ryssdal	M	55	Norwegian	x	CEO		4	1	
Carol Sergeant	F	65	British	x	Professional Board Member	x	5	3	
Martin Tivéus	M	47	Swedish	x	Professional Board Member		1	2	
Hilde Merete Tonne	F	52	Norwegian	x	Executive Director and Chief Innovation Officer		2	1	

2018									
Name	Gender	Age	Nationality	Independence	Profession	Banking Experience	Duration in The Board	Other Board Positions	Major Shareholder Appointee
Karsten Dybvad	M	62	Danish	x	Professional Board Member		1	3	
Carol Sergeant	F	66	British	x	Professional Board Member	x	6	2	
Jan Thorsgaard Nielsen	M	44	Danish		Chief Investment Officer		1	4	AP Møller Holdings
Ingrid Bonde	F	59	Danish	x	Professional Board Member		1	4	
Lars-Erik Brenøe	M	57	Danish		Executive Vice President, Head of Chairman's Office		3	4	AP Møller Holdings
Jens Due Olsen	M	55	Danish	x	Professional Board Member		1	6	
Rolv Erik Ryssdal	M	56	Norwegian	x	CEO		5	2	
Hilde Merete Tonne	F	53	Norwegian	x	Executive Director and Chief Innovation Officer		3	1	

## Appendix 2 – Danske Bank Executive Board Selected Indicators 2007-2018

<b>Danske Bank Executive Board -</b>				
<b>2007</b>				
Name	Gender	Age	Nationality	Duration in The Board
Peter Staarup	M	56	Danish	22
Tonny Thierry Andersen	M	43	Danish	2
Svend Lystbæk	M	56	Danish	2
Per Skovhus	M	48	Danish	2
<b>2008</b>				
Name	Gender	Age	Nationality	Duration in The Board
Peter Staarup	M	57	Danish	23
Tonny Thierry Andersen	M	44	Danish	3
Svend Lystbæk	M	57	Danish	3
Per Skovhus	M	49	Danish	3
<b>2009</b>				
Name	Gender	Age	Nationality	Duration in The Board
Peter Staarup	M	58	Danish	24
Tonny Thierry Andersen	M	45	Danish	4
Thomas Borgen	M	45	Norwegian	1
Svend Lystbæk	M	58	Danish	4
Per Skovhus	M	50	Danish	4
<b>2010</b>				
Name	Gender	Age	Nationality	Duration in The Board
Peter Staarup	M	59	Danish	25
Tonny Thierry Andersen	M	46	Danish	5
Thomas Borgen	M	46	Norwegian	2
Georg Schubiger	M	42	British	1
Per Skovhus	M	51	Danish	5
<b>2011</b>				
Name	Gender	Age	Nationality	Duration in The Board
Peter Staarup	M	60	Danish	26
Tonny Thierry Andersen	M	47	Danish	6
Thomas Borgen	M	47	Norwegian	3
Henrik Ramlau-Hansen	M	55	Danish	1
Georg Schubiger	M	43	Danish	2
Per Skovhus	M	52	Danish	6

2012				
Name	Gender	Age	Nationality	Duration in The Board
Eivind Kolding	M	53	Danish	1
Tonny Thierry Andersen	M	48	Danish	7
Thomas Borgen	M	48	Norwegian	4
Robert Endersby	M	53	English	1
Lars Mørch	M	40	Danish	1
Henrik Ramlau-Hansen	M	56	Danish	2
2013				
Name	Gender	Age	Nationality	Duration in The Board
Thomas Borgen	M	49	Norwegian	5
Tonny Thierry Andersen	M	49	Danish	8
Robert Endersby	M	54	English	2
Lars Mørch	M	41	Danish	2
Henrik Ramlau-Hansen	M	57	Danish	3
Glenn Söderholm	M	49	Swedish	1
2014				
Name	Gender	Age	Nationality	Duration in The Board
Thomas Borgen	M	50	Norwegian	6
Tonny Thierry Andersen	M	50	Danish	9
James Ditmore	M	54	American	1
Lars Mørch	M	42	Danish	3
Henrik Ramlau-Hansen	M	58	Danish	4
Glenn Söderholm	M	50	Swedish	2
2015				
Name	Gender	Age	Nationality	Duration in The Board
Thomas Borgen	M	51	Norwegian	7
Tonny Thierry Andersen	M	51	Danish	10
James Ditmore	M	55	American	2
Gilbert Kohnke	M	57	Canadian	1
Lars Mørch	M	43	Danish	4
Henrik Ramlau-Hansen	M	59	Danish	5
Glenn Söderholm	M	51	Swedish	3
2016				
Name	Gender	Age	Nationality	Duration in The Board
Thomas Borgen	M	52	Norwegian	8
Jakob Aarup-Andersen	M	39	Danish	1
Tonny Thierry Andersen	M	52	Danish	11
James Ditmore	M	56	American	3
Gilbert Kohnke	M	58	Canadian	2
Lars Mørch	M	44	Danish	5
Jesper Nielsen	M	48	Danish	1
Glenn Söderholm	M	52	Swedish	4



## Appendix 3 – Course of Events – Acquisition of Sampo Bank 2006-2008

<b>APPENDIX 3</b> <b>COURSE OF EVENTS - ACQUISITION OF SAMPO BANK</b> <b>2006-2008</b>		
DATE	WHO	WHAT
9 November 2006	Danske Bank	Announce the acquisition of Sampo Bank subject to regulatory approval
1 February 2007	Danske Bank	Announce completion of Sampo Bank acquisition with effect from 1 February 2007
8 June 2007	Russian Central Bank	Share information with Danish FSA that clients of Sampo Bank permanently participate in financial transactions of doubtful origin estimated at billions of rubles per month. It further states that the mentioned transactions can be aimed at tax evasion or they can be connected with the criminal activity in its pure form, including money laundering
16 August 2007	Estonia FSA	Issue inspection report highly critical of Danske Bank Estonian subsidiary Know Your Customer (KYC) procedures indicating that the Bank's routine practice has not complied with legal requirements and international standards in particular with regard to non-resident customers. The inspection report is followed by a precept with orders for Danske Bank Estonian subsidiary to comply with. By December 2007, the bank informed the EFSA of the steps taken to comply with the orders including the closure of 597 accounts of non-resident customers
27 August 2007	Group Legal and Group Compliance & AML	Reply to Danish FSA on behalf of the bank with regard to the Russia Central Bank letter. The reply made reference to the recent inspection report from the Estonian FSA and stated that the Estonian FSA's conclusion of the inspection was that the bank complies with the existing laws and regulations, and that the Estonian FSA had had no "material observations". The reply also stated that the AML concept of Danske Bank Group had been implemented in the Estonian subsidiary, and that reporting lines had been set up
January 2008	Sampo Bank	Is turned into a branch. It will change its name to Danske Bank in November 2012
April 2008	Group Internal Audit	Issue a report on AML procedures in the Estonian branch with a "satisfactory" rating (the second best rating out of five). It was observed that the non-resident customers department has improved considerably in applying Know Your Customer (KYC) principles although a few shortcomings were also noted. At the same time, reports on AML from the Estonian branch were predominantly green (the best rating out of three)
September 2008	Danske Bank	Decide, based on a cost analysis, to discontinue the migration to its shared IT platform of the activities of the three Baltics banks. This implies de facto that the Estonian branch did not employ AML procedures developed at Group level, including customer systems and transaction and risk monitoring. However, it was made clear at the time that the cancelled IT migration called for additional initiative in the area of compliance

## Appendix 4 - Course of Events – Expansion of Non-resident portfolio 2009-2013

<b>APPENDIX 4</b> <b>COURSE OF EVENTS - EXPANSION OF NON-RESIDENT PORTFOLIO</b> <b>2009-2013</b>		
DATE	WHO	WHAT
January 2009	Danish FSA	Establish a so-called college of supervisors for Danske Bank. In the college, supervisory authorities from countries where Danske Bank operates participate to discuss relevant supervisory issues related to Danske Bank. The Danish FSA leads the college as the authority responsible for Danske Bank. Since 2012, the European Banking Authority, EBA, also participates in the college.
October 2009	Estonia FSA	Issue a report on a follow up AML inspection and concludes that the bank has followed the orders from 2007 precept. It also found that the branch had changed or updated its internal procedures in line with the legal amendments made in 2008 albeit with some deficiencies. It further noted that the documents and information about customers and their activities reviewed in the course of the on-site inspection did not comply with the requirements of legislation and/or the internal procedures of the branch in all cases
21 January 2010	Danske Bank Executive Board	Discuss on focus areas and profitability, including the Baltics where it is mentioned the possibility of a slow expansion in Estonia, while making it clear that such expansion should not be at the cost of AML
9 March 2010	Danske Bank Executive Board	Discuss the number of Suspicious Activity Reports (SARs) filed by the Estonian branch on the basis of reporting. It is mentioned that the reason for this high share is that the standard of Danske Bank is high compared to other banks in Estonia. The Russian Central Bank had been contacted, and it had agreed to these transfers. A member stated that he had not come across anything that could give rise to concern.
21 September 2010	Danske Bank Executive Board	Discuss again around the number of SARs. Head of Baltic Banking confirmed that they are comfortable with the situation in Estonia with substantial Russian deposits. This was also underlined by the approval received from the Russian Central Bank to establish a representative office in Moscow
26 August 2011	Group Internal Audit	Issue a report on compliance and AML in the Estonian branch with a “satisfactory” rating (the second best rating out of five) for compliance and a “fair” rating (the third best rating out of five) for AML. With regard to AML, it is stated that, “although the risk analyzes are made, the AML procedures are done and the regular reporting to local management and Group Compliance is in place, there are several deficiencies in mandatory documentation
14 November 2011	Group Internal Audit	Issue a report on customer engagement at the Estonian branch, also reviewing Customer Due Diligence and procedures with a “satisfactory” rating (the second best rating out of five) to the internal control environment. It was noted that “the requirements were generally followed” and that “the shortcomings detected in the course of the controls were mostly fixed although there was a room for further improvement in AML process
January 2012	Estonia FSA	Contact DFSA regarding AML risks in the Estonia branch as the EFSA was seriously concerned about the extent of non-resident customers in the branch

20 February 2012	Group Legal and Group Compliance &AML	Respond to DFSA with regard to the January EFSA enquiry write they are fully aware that the customer database of Sampo Pank Estonia includes a number of high-risk customers but they are confident that the control setup corresponds to the actual risk. A detailed overview of the AML control procedures in the Estonian branch is also provided
7 May 2012	Group Compliance &AML	Visit the Estonia branch and report as of today incoming payments are not screened and this might be one of the focus areas going forward. Moreover, in regard to non-resident customers it is commented that due diligence and monitoring procedures are adjusted to mitigate the risk involved. According to the overview of the risk analysis, all areas in the Estonian branch were green (the best rating out of three) with the exception of two areas, which were yellow (the second best rating out of three)
15 June 2012	Danish FSA	Issue nine orders to Danske Bank on AML following two inspections conducted in 2010 and 2011 of <u>Danish activities only</u> . At both inspections, the Danish FSA found that in a number of areas, the group had insufficient AML procedures. Danish FSA states that Danske Bank has historically not lived up to its obligations in the AML area. In response, Danske Bank's Board of Directors decided to not only comply with the orders; it also expressed an ambition to become "Best in Class" within AML.
6 September 2012	Danske Bank Board of Directors	Reject the first AML action plan prepared in connection with Danske Bank's application to open a branch in New York mentioning that "the AML issues had been known for a long time, actually several years" and that the Board of Directors was not comfortable with issuing a declaration to the Federal Reserve about the AML issues "at the present stage". At a subsequent meeting, on 12 October, the Board of Directors approved a new action plan
26 October 2012	Business Banking Business Unit	Issue a memorandum on the use of foreign exchange lines (FX lines) after becoming aware that in the Estonian branch FX lines were used by non-resident customers and irrespective of lack of financial statements in clear violation of Group credit policy. It is mentioned that risk mitigation is achieved by screening customers using the KYC process and that the process was presented to Estonia FSA and Danish FSA and is more comprehensive than what is currently being used in other business areas
30 November 2012	Danish FSA	Follow up on the 9 orders from June and, based on the bank's information, found that Danske Bank lived up to all orders.
30 November 2012	Group Internal Audit	Issue a report on AML in the Estonian branch with an overall rating of "extensive" (the best rating out of four). The report included no recommendations for improvement
March 2013	Estonia FSA	Approach Danish FSA again regarding AML risks in the Estonia branch based on a warning from the Russian Central Bank regarding certain suspicious Russian customers of the Estonian branch. After investigating, EFSA concluded that no significant breaches of internal procedures or legal requirements were found and that despite Estonia FSA remained concerned, there was no reason for immediate regulatory action
1 August 2013	JP Morgan	Terminate its corresponding banking relationship with Danske Bank Estonia on grounds of AML

1 August 2013	Group Internal Audit	Issue a report on KYC controls for non-resident customers in the Estonia branch and conclude that KYC procedures and related internal controls were “reasonable” (the second best rating out of four), and the KYC documentation was described as “generally sufficient”. At the same time, note that there were several issues in which further improvement was needed
15 August 2013	Baltic Executive Committee	Note a rapid increase in income from bond trading activities and suggest a review of the Baltic business to ensure proper management of risks
September 2013	Brown Rudnick Law Firm (on behalf of Hermitage Capital)	Send to the State Prosecutor for Special Economic and International Crime (SØIK), the Danish FSA, The Ministry of Justice extensive documentation that Danske Bank Estonia branch had been used by Russian criminals to launder money. SØIK reject to investigate the case due to statute of limitations
15 October 2013	Executive Committee Estonian branch	Issue OFZ memorandum describing a solution for ten customers in the non-resident intermediaries segment using bonds as a faster, cheaper and more reliable way for their end-clients to transfer money overseas than making an international payment through a domestic Russian bank. Two main risks were indicated: (a) We do not have full knowledge about the end-clients of the Intermediary, and (b) there is potential reputational risk in being seen to be assisting ‘capital flight’ from Russia
23 October 2013	Business Banking Business Unit	Discuss non-resident portfolio in Estonia branch. One Executive Board member stated that the size of Danske Bank business undertaken with this category of customer is larger than peers, and the proportion of business needed to be reviewed and potentially reduced. The CEO emphasized the need for a middle ground, and wanted to discuss this further outside of that forum.
13 December 2013	Baltic Banking	Forward material on the business review of the Non-Resident Portfolio to three members of the Executive Board, and on 17 December 2013, and supposedly after a meeting, two of these members also received the OFZ memo from October 2013 about the use of intermediaries
27 December 2013	Wistleblower	File a report titled “Whistleblowing disclosure – knowingly dealing with criminals in Estonia Branch”. Three additional reports are filed shortly after

## Appendix 5 – Course of Events – Closure of Non-resident portfolio 2014-2016

### APPENDIX 5 COURSE OF EVENTS - CLOSURE OF NON-RESIDENT PORTFOLIO 2014-2016

DATE	WHO	WHAT
13 January 2014	Group Internal Audit	Issue a letter confirming some of the whistleblower allegations. Point to the potential risk of a customer having been “tipped off” (hereby implying that the customers had been colluding with employees at the Estonian branch). It also noted that ongoing monitoring was performed manually by account managers, who were responsible for so many customers that it was in fact impossible to perform the monitoring in an effective and efficient way
3-6 February 2014	Group Internal Audit	Conduct an AML audit at the Estonian branch. In the draft report note that regard to the OLZ memorandum on intermediaries it is not possible to identify actual source of funds or beneficial owners and also that an employee with the branch had confirmed verbally in the presence of all three auditors that the reason underlying beneficial owners are not identified is that it could cause problems for clients if Russian authorities requests information. Conclude recommending a full independent review of all non-resident customers
7 February 2014	Executive Board	Form a working group to address Group Internal Audit findings and recommendations of the February audit draft report. Decide to engage an external consultancy (Promontory Financial ) with a view to evaluate internal AML procedures and controls at the Estonian branch. Also decides to closed down with immediate effect the cooperation with Russian Intermediaries (OLZ memorandum).
10 March 2014	Group Internal Audit	Issue an audit report about non-resident customers based on the February inspection. The rating used was “Action needed” (the worst rating out of three) the following six observations with first-priority recommendations were included: (a) Documentation of due diligence on non-resident customers structured with LLPs, (b) Segregation of duties, (c) Risk assessment, (d) Customer monitoring, (e) Closure of accounts, and (f) FX lines granting
16 April 2014	External Consultancy	Issue a report stating that (a) there had been insufficient knowledge of customers, their beneficial owners and controlling interests, and of sources of funds; (b) screening of customers and payments had mainly been done manually and had been insufficient; and (c) there had been lack of response to suspicious customers and transactions. The external consultancy found that procedures for accepting new clients and opening new accounts for non-residents customers were overall followed. However, the report also noted shortcomings in relation to, inter alia, unclear instructions in relation to account agreement and KYC questionnaire and insufficient monitoring of transactions. The report identified 17 “control deficiencies” that all were assessed as “critical or significant”.
May 2014	Group Legal	Hire an external consultancy to conduct an inquiry into allegations of misconduct based on the whistleblower and critical information on a number of irregularities involving senior members of staff at the Estonian branch. Two members of the Executive Board, however, overturned this
1 July 2014	Group Internal Audit	Make a follow up AML audit and indicate that there are no major comments to the quality of the due diligence requirements applied and completeness of the documentation collected and filed regarding non-resident customers onboarded since 1 March. However, make critical comments on the ongoing existing customer review
21 July 2014	Estonian FSA	Issue an inspection report where it state that the branch management had not ensured that each employee performed only those tasks for which they have sufficient education, required abilities, personal qualities, experience and for which they have professional suitability

11 September 2014	Estonian FSA	Issue an draft AML inspection report indicating that Danske Bank Estonia branch systematically established business relationships with persons in whose activities it is possible to see the simplest and most common suspicious circumstances. Make the observation that they have systematically identified situations during the on-site inspection where Danske Bank's system for monitoring transactions and persons is effectively not working. Raise the concern that the branch economic interests seem to prevail over the obligation to apply enhanced due diligence measures
12 December 2014	Estonian FSA	Issue the final AML inspection report (the draft of which had been issued on 11 September 2014). The draft version and the final report were overall very similar and contained the same introductory paragraphs. The Estonian FSA's overall conclusion involved was further developed, as the three original concluding points had been deleted and replaced by more specific findings. A few days later, it was agreed within Group Legal to provide the Danish FSA with information about the inspection report from the Estonian FSA
15 December 2014	Baltic Banking Unit	Issue a new policy on how to serve customers in the Non-Resident Portfolio. It states that a) the bank would not establish customer relationships with persons appearing on various "dark grey" or "grey" lists; b) the bank must be confident that it fully understands the customer area of activity and its transaction profile; c) the bank must make sure that it fully understands ownership and beneficial owners of its business customers; d) when establishing customer relationship and opening an account the bank must make sure that the customer has legitimate business reasons to operate in Baltic countries or neighbouring region; e) that the source of funds would also have to be identified. As for existing customers, indicate that strategically the bank foresees winding down relationships by end of second quarter 2015.
29 January 2015	Board of Directors	Approve the Baltic non-resident portfolio repositioning strategy recommended by the Executive Board. Three main options were considered: a) exit Baltics, b) reposition towards a corporate Baltic bank (and leave out other activities), and c) optimize current position
18-19 February 2015	Danish FSA	Conduct a follow up AML inspection of Danish activities only. Material relating to the Estonian branch, in the form of the inspection report from the Estonian FSA from December 2014 and also the report from the external consultancy from April 2014, had been added to the inspection after an introductory meeting on 16 January 2015, at which Group Compliance & AML had provided a timeline of critical events 2014 in the Estonian branch. the scope of the inspection is expanded to the overall governance of the AML risks in Danske Bank Group
6 May 2015	Bank of America	Request the Estonian branch that "all payments on behalf any Shell Company does not get routed" via the correspondent bank determining de facto the termination of the banking corresponding relationship
19 June 2015	Group Internal Audit	Issue an inspection report with a rating "Action needed" (the worst rating out of three) and make a number of observations concerning the non-resident portfolio, including the customer review which had been completed at that point in time: a) On-boarding process for new non-resident customers needs strengthening (priority 1) - more had to be done in implementing the policy adopted in December 2014 to serve non-resident customers, notably the customer's areas of activity and its transactions profile; b) periodical reassessment for high-risk non-residents needs to be improved (priority 1) - the memos from the customer review (clean-up process of high risk non-resident customers) did not always include sufficiently detailed information on the scope of the activities for the customers or for identification of the underlying trading activities. It was also noted that the identification of ultimate beneficial owners (and 'controlling interests') remains in some cases unclear

15 July 2015	Estonian FSA	Issue a precept based on the inspection report of December 2014 and order the Estonian branch to make a number of changes to its AML framework to ensure compliance
17 August 2015	Group Compliance & ALM	Produce a short term action plan for AML review of Baltic Banking with a view to finding out whether the run-off of non-resident customers and adjusted business procedures are sufficient. It was noted that most notable gaps are to be found in the area of monitoring while the run-off seems well underway. However, the closing schedule for the coming months was quite challenging. It was noted that accounts of 590 non-resident private persons and 1,591 non-resident companies were open as at 31 July 2015 and that it was estimated that around 120 non-resident private persons and around 70 non-resident companies will remain according to the new core customer criteria.
August 2015	Group Compliance & ALM	Held 2 meetings with DFSA. For the second meeting, Group Compliance & ALM had prepared a presentation titled "AML in Estonia". The presentation included a timeline of critical events in 2014 and 2015 and listed the actions taken. It was stated in the presentation that the Bank agrees that it would have been prudent to share the information from the internal audit report of 10 March 2014 earlier than January 2015 in order to ensure the right flow of information
September 2015	Deutsche Bank	Terminate its corresponding banking relationship with Danske Bank Estonia on grounds of AML
16 March 2016	Group Internal Audit	Issue a letter with information that the Estonia branch has decided to exit the high-risk non-resident customers and that the very few customers still on-board will leave the branch by 15 April 2016
March 2016	Danish FSA	Issue a reprimand to Danske Bank for deficiencies in the overall governance of the AML risks in the group with reference to the problems in the Estonian branch as part of the audit conducted in February 2015. The Danish FSA found that the bank's Board of Directors had not identified and dealt with the risk and compliance-related deficiencies appropriately, which had created increased reputational risk for the bank.

## Appendix 6 – Course of Events – Investigation of Non-resident portfolio 2017-2019

### APPENDIX 6 COURSE OF EVENTS - INVESTIGATION OF NON-RESIDENT PORTFOLIO 2017-2019

DATE	WHO	WHAT
1 April 2017	Danske Bank	Hire Promontory Financial Group to conduct a root cause analysis of Estonia branch non-resident portfolio
7 June 2017	Promontory Financial Group	Present the results of the root cause analysis
June 2017	Financial Action Task Force (FATF)	Publish the Mutual Evaluation Report of Denmark with severe criticism to the Danish AML legislation and AML supervision.
21 September 2017	Danske Bank	Acknowledged in a press release that it was major deficiencies in controls and governance that made it possible to use Danske Bank's branch in Estonia for criminal activities such as money laundering. Reference is made to 3 main deficiencies identified by the Promontory Financial analysis: a) The lack of a proper culture for and focus on anti-money laundering at the Estonian branch; b) Inadequate governance in relation to compliance and risk; c) Management follow-up and control were highly dependent on local country management. The investigation is expanded and expected to be completed in nine-twelve months.
25 September 2017	Danish FSA	Open an investigation of the bank's governance of matters in the branch in Estonia
11 October 2017	Tribunal de Grande Instance de Paris	Place Danske Bank under formal investigation in relation to suspicious transaction in the Estonia branch
March 2018	Danish FSA	Issued AML Inspection Report concluding that the bank had complied with all orders issued previously, apart from part of an order relating to correspondent banks where the reporting to the bank's management was still not satisfactory
26 April 2018	Danske Bank	Announce officially that the bank would scale down its Baltic banking activities focusing exclusively on supporting subsidiaries of Nordic customers and global corporates with a significant Nordic footprint
3 May 2018	Danish FSA	Based on investigation launched on September 2017, DFSA issue Danske Bank with eight orders and eight reprimands due to a lack of comprehensive governance of the bank in relation to the situation in the Estonian branch. DFSA order Danske Bank to add minimum DKK 5 billion as a Pillar II add-on due to increase in solvency need taking into account the compliance and reputational risks deriving from the money laundering scandal.
31 July 2018	Estonia FSA	Open an investigation into Danske Bank to assess compliance with AML rules.
6 August 2018	Danish State Prosecutor for Special Economic and International Crime (SØIK)	Initiate a criminal investigation against Danske Bank for possible violation of the Money Laundering Act
14 September 2018	US Justice Department, Treasury Department and SEC	Initiate probing of Danske Bank
19 September 2018	Danske Bank	Publish a report on internal investigation in the Estonia branch. Acknowledge that a series of major deficiencies in the bank's governance and control systems made it possible to use Danske Bank's branch in Estonia for suspicious transactions and to have clearly failed to live up to its responsibility in this matter. The Board of Directors decided to donate the gross income from the non-resident portfolio in the period from 2007 to 2015, which is estimated at DKK 1.5 billion.



19 September 2018	Danske Bank CEO	Resigned at the same time that the internal report investigation is published. A temporary CEO is appointed.
20 September 2018	Danish FSA	Decide to reopen its investigation in order to clarify whether there was any new information which might give rise to additional supervisory responses.
21 September 2018	UK Crime Agency	Initiate probing of Danske Bank
24 September 2018	European Banking Authority (EBA)	Open an investigation to verify if DFSA and EFSA have handle the supervision of AML in the danske Bank case in accordance to EU law
5 October 2018	Danish Business Authority (DBA)	Initiate an investigation of danske bank accounts and external auditors
8 October 2018	DFSFA	Order the bank to increase the solvency need by at least DKK 10 billion (rather than the minimum of DKK 5 billion ordered in the decision in May 2018) as a result of increased compliance and reputational risks for Danske Bank as a result of the AML case. The Danish FSA also found that the bank did not fully meet the order to strengthen the bank's governance in order to ensure that decision-making basis, discussions at meetings and made decisions were adequately documented.
17 October 2018	Board of Directors	Withdraw the candidature of the selected CEO to replace Thomas Borgen due to the fact that DFSFA refused to clear it due to not having sufficient experience in certain areas of banking activities.
6 November 2018	AP Møller Holdings (largest Danske Bank shareholders)	Request an extraordinary general meeting of shareholders to elect two new board members to replace the Chairman of the Board and the Chairman of the Audit Committee.
28 November 2018	Danish State Prosecutor for Special Economic and International Crime (SØIK)	Charge Danske Bank with violating the Danish Anti-Money Laundering Act on four counts all relating to Danske Bank's Estonia branch from 1 February 2007 to end of January 2016: 1) Danske's management in Copenhagen failed to have adequate control of the branch's compliance with guidelines and failed to instruct and train staff members in the rules of the Danish Anti-Money Laundering Act. 2) The bank failed in establishing procedures to determine whether its non-resident customers or the beneficial owners of its non-resident customers were politically exposed persons. 3) Danske didn't have sufficient knowledge of the customers in the non-resident portfolio. 4) The bank didn't on a regular basis perform adequate investigations into the business and transactions of the branch's non-resident customers, including transactions processed by Danske's systems in Denmark.
7 December 2018	Shareholders Extraordinary General Meeting (EGM)	Elect two new board members and Chairman of the Board and the Chairman of the Audit Committee step down. Immediately after the EGM, the Board of Directors elected Karsten Dybvad as new chairman and Jan Thorsgaard Nielsen as vice chairman.
19 December 2018	Estonian Prosecutor	Detain 10 former employees of Danske Bank on suspicion of knowingly enabling money laundering and threatened that more arrests were likely
7 December 2018	Board of Directors	The Chairman of the Board and the Chairman of the Audit Committee step down
9 January 2019	US Pension Fund	File a lawsuit against Danske Bank and four former managers
11 January 2019	Tribunal de Grande Instance de Paris	Re-open AML investigation into Danske Bank after having previously changed Danske Bank status in the case to that of an assisted witness.
19 February 2019	EFSA	Issue a precept to Danske Bank to prohibit the activities of the bank's branch in Estonia. The Bank must cease its activities in Estonia within eight months of the issue of the precept, taking into account the interests of its current customers
19 February 2019	Danske Bank	Announce the decision to close down all the remaining activities in Lithuania, Latvia and Russia. It stresses that the decision is made independently of the notification from the Estonian FSA and in line with its strategy of focusing on its Nordic core markets
21 February 2019	Danske Bank	Inform to be officially under SEC investigation
14 March 2019	Investors (in 19 countries)	Sue Danske Bank over money laundering scandal seeking \$475 million in damages
18 March 2019	Danske Bank Annual General Meeting	Announce that the Executive Board has decided to waive the bonuses that could have been paid for 2018
12 April 2019	Danish Business Authority (DBA)	Ask State Prosecutor for Special Economic and International Crime (SØIK) to investigate EY audit of Danske Bank 2014
17 April 2019	European Banking Authority (EBA)	Clear Danish and Estonia FSAs of breaking any EU laws in their handling of Danske bank money laundering scandal
7 May 2019	State Prosecutor for Special Economic and International Crime (SØIK)	Charge preliminarily the former CEO and 9 other senior managers in connection with the money laundering scandal
9 May 2019	Estonian Prosecutor	Inform that two additional suspects have been added to the case bringing the total of former employees in Estonia under investigation to twelve
10 May 2019	Danske Bank Board of Directors	Announce that Chris Vogelzang is new Danske Bank CEO starting 1 June 2019

## Appendix 7 – Danish FSA Orders 2012 Following Inspections in 2010 and 2011

### APPENDIX 7

#### **Danish FSA June 2012 Orders to Danske Bank Following 2010 and 2011 AML Inspections**

Danish FSA ordered Danske Bank to:

- Prepare adequate written internal rules on control of training programmes being observed, including at management level, the consequences of non-participation, and whether and when to update the teaching material
- Establish procedures to ensure that, at appropriate intervals, the bank carries out appropriate training and instruction programmes tailored to employees engaged in specific business areas, including Danske Markets, Trade Finance, Financial Institutions and Transaction Services
- Ensure that there is no expansion of the engagement with existing customers who are not sufficiently legitimised, and that existing engagements are discontinued, if it is not possible to obtain the necessary identification within a short deadline set by the bank
- Establish adequate procedures in relation to the creation of customers without a civil registration number, as the bank must ensure that these customers, in addition to documenting the name and national identity number, are also identified by address
- Establish procedures so that in the creation of personal customers, it is documented whether the customer has been physically present for identification or not, and to structure its written internal rules so as to clearly state what the bank's policy for acceptance of distance customers is, as well as documentation requirements connected herewith
- Ensure that the bank's procedures for corporate customers, including institutional customers, adequately describe the requirements for identification of foreign customers, clarification of ownership and control structure and stricter requirements for identification, and that the files contain evidence of the bank's information about ownership and control structure as well as identification of beneficial owners
- Ensure that, in the files, sufficient information is registered about the purpose of the business relationship and the intended extent of it for corporate customers, including institutional customers, as the basis for ongoing monitoring of customer transactions. It is the Danish FSA's opinion that the order issued thereon in the inspection report of 23 September 2010 has not been adequately addressed
- Establish adequate procedures in order to ensure that the bank complies with the Anti-Money Laundering Act's rules on cross-border correspondent banking relationships
- Establish procedures to ensure adequate monitoring of securities transactions in Danske Markets, customer transactions in Trade Finance and transactions in relation to cross-border correspondent banking relationships.

## APPENDIX 8

### DANISH FSA - 3 MAY 2018 REPORT - ORDERS AND REPRIMANDS

The Danish FSA's assessment of Danske Bank's management and governance in relation to the AML case at the Estonian branch give rise to the orders and reprimands listed below.

The Danish FSA ordered the bank's Board of Directors and Executive Board to:

- strengthen the Executive Board's governance with regard to competencies in the compliance area and at the same time ensure that on the Executive Board, the area responsibilities for compliance are sufficiently independent of business and profitability interests;
- re-assess the bank's and the banking group's solvency need in order to ensure an adequate internal capital coverage of compliance and reputational risks as a result of weaknesses in the bank's governance. The Danish FSA estimated that the solvency need should at least be increased by DKK 5 billion;
- ensure that when there is suspicion of the bank's managers or employees colluding with customers in criminal activities or knowing of customers' criminal activities, the bank conducts adequate investigations and takes the suspicion into consideration on an ongoing basis when allocating tasks to these managers or employees;
- strengthen the bank's governance in order to ensure accurate and timely reporting of potentially problematic cases to the Board of Directors and the Executive Board;
- strengthen the bank's governance in order to ensure that the basis for decisions as well as discussions at meetings and decisions made are sufficiently documented and that sufficient attention is given to the bank's compliance with applicable legislation;
- assess management and government at the Estonian branch;
- ensure that the bank provides adequate information to the Danish FSA;
- strengthen the Board of Directors' and the Executive Board's governance in order to ensure sufficient involvement in written replies to enquiries from the Danish FSA to the Board of Directors or the Executive Board.

The Danish FSA reprimanded the following issues:

- the bank's Executive Board not performing its responsibilities to a sufficient extent when it
  - o failed to ensure sufficient focus on AML risks for high-risk customers at the branch in Estonia and monitoring of the branch at Business Banking in Copenhagen
  - o failed to ensure integration of compliance and AML of the Baltic units into the group functions and to ensure sufficient quality
  - o failed to ensure adequate follow-up on the allegations made by the whistleblower and to ensure investigation into suspicions of the bank's employees colluding with customers in criminal activities
  - o knowing of customers' criminal activities and relocation of employees under suspicion
  - o failed to ensure that the Danish FSA was informed of the matter until January 2015
  - o failed to adequately notify the Board of Directors of the severity of the case and ensure a prompt close down of the part of the nonresident portfolio that related to customers who did not have personal or business-related links to the Baltic countries;

- that the Board of Directors failed to adequately live up to their responsibilities as they: a) failed, at meetings of the Board of Directors and of the Board of Directors' Audit Committee, to discuss the bank's legislative compliance at the branch in Estonia on the basis of reporting from Internal Audit and Group Compliance & AML or to ensure that such discussions were recorded in the minutes b) failed to ensure a sufficiently prompt close down of the part of the non-resident portfolio that related to customers who did not have personal or business-related links to the Baltic countries on the basis of reporting received by the Board of Directors from Internal Audit and Group Compliance & AML, and in view of the lack of a decision from the Executive Board;
- Group Internal Audit not ensuring the necessary integration and quality of internal audit in the Baltic units prior to the whistleblower report and for not making the Executive Board ensure that the Board of Directors and the Board of Directors' Audit Committee received adequate reporting of AML in the branch after the whistleblower report, and for not drawing the Board of Directors' and the Audit Committee's attention to the inadequacies;
- Group Compliance & AML and Group Legal not sufficiently performing their responsibility in connection with AML at the Estonian branch in the period prior to the whistleblower report and in relation to mitigating the consequences of the inadequate efforts in connection with AML;
- the bank failing to appoint a person responsible for AML activities from the end of 2012 until 7 November 2013, and for only informing the Danish FSA about this on 7 February 2018 after the FSA had asked the Board of Directors and the Executive Board;
- the inadequacies in all three lines of defense at the Estonian branch up until the whistleblower report in December 2013;
- the bank not replacing the management in Estonia until more than one and a half years after the whistleblower report;
- the Board of Directors and the Executive Board not ensuring adequate and timely investigations into conditions at the branch to mitigate the consequences of inadequate AML measures and form a general overview of what had happened. Not until four and a half years after one of the branch's correspondent banks' termination of its correspondent bank relations, four years after the whistleblower report, two and a half years after another correspondent bank's termination of its correspondent bank relations and after external pressure did the bank launch an investigation into 31/69 the extent of suspicious transactions and customer relations resulting from the inadequate handling of AML risks at the branch.

## Appendix 9 – Danske Bank Key Financial Highlights

**S&P  
Capital IQ**

### Danske Bank A/S (CPSE:DANSKE) > Financials > Key Stats

*In Millions of the trading currency,  
except per share items.*

**Currency:** Trading Currency  
**Order:** Latest on Right  
**Decimals:** Capital IQ (Default)

**Conversion:** Today's Spot Rate  
**Units:** S&P Capital IQ (Default)  
**Dilution:** Basic

#### Key Financials<sup>1</sup>

For the Fiscal Period Ending	12 months Dec-31-2007A DKK	12 months Dec-31-2008A DKK	12 months Dec-31- 2009A DKK	12 months Dec-31- 2010A DKK	12 months Dec-31- 2011A DKK	12 months Dec-31-2012A DKK
Currency						
<b>Total Revenue</b>	<b>44.393,0</b>	<b>31.726,0</b>	<b>34.904,0</b>	<b>33.518,0</b>	<b>31.574,0</b>	<b>37.982,0</b>
<i>Growth Over Prior Year</i>	18,2%	(28,5%)	10,0%	(4,0%)	(5,8%)	20,3%
<b>EBT Excl. Unusual Items</b>	<b>18.315,0</b>	<b>5.717,0</b>	<b>7.188,0</b>	<b>6.871,0</b>	<b>4.198,0</b>	<b>13.340,0</b>
<i>Margin %</i>	41,3%	18,0%	20,6%	20,5%	13,3%	35,1%
<b>Earnings from Cont. Ops.</b>	<b>14.870,0</b>	<b>1.036,0</b>	<b>1.713,0</b>	<b>3.664,0</b>	<b>1.723,0</b>	<b>9.526,0</b>
<i>Margin %</i>	33,5%	3,3%	4,9%	10,9%	5,5%	25,1%
<b>Net Income</b>	<b>14.813,0</b>	<b>1.011,0</b>	<b>1.727,0</b>	<b>3.661,0</b>	<b>1.712,0</b>	<b>9.526,0</b>
<i>Margin %</i>	33,4%	3,2%	4,9%	10,9%	5,4%	25,1%
<b>Diluted EPS Excl. Extra Items<sup>3</sup></b>	<b>21,6</b>	<b>1,47</b>	<b>2,5</b>	<b>4,9</b>	<b>1,9</b>	<b>5,0</b>
<i>Growth Over Prior Year</i>	0,9%	(93,2%)	69,9%	95,8%	(61,2%)	163,2%
<b>Total Assets</b>	<b>3.349.530,0</b>	<b>3.543.974,0</b>	<b>3.098.477,0</b>	<b>3.213.886,0</b>	<b>3.424.403,0</b>	<b>3.484.949,0</b>
<i>Growth Over Prior Year</i>	22,3%	5,8%	(12,6%)	3,7%	6,6%	1,8%

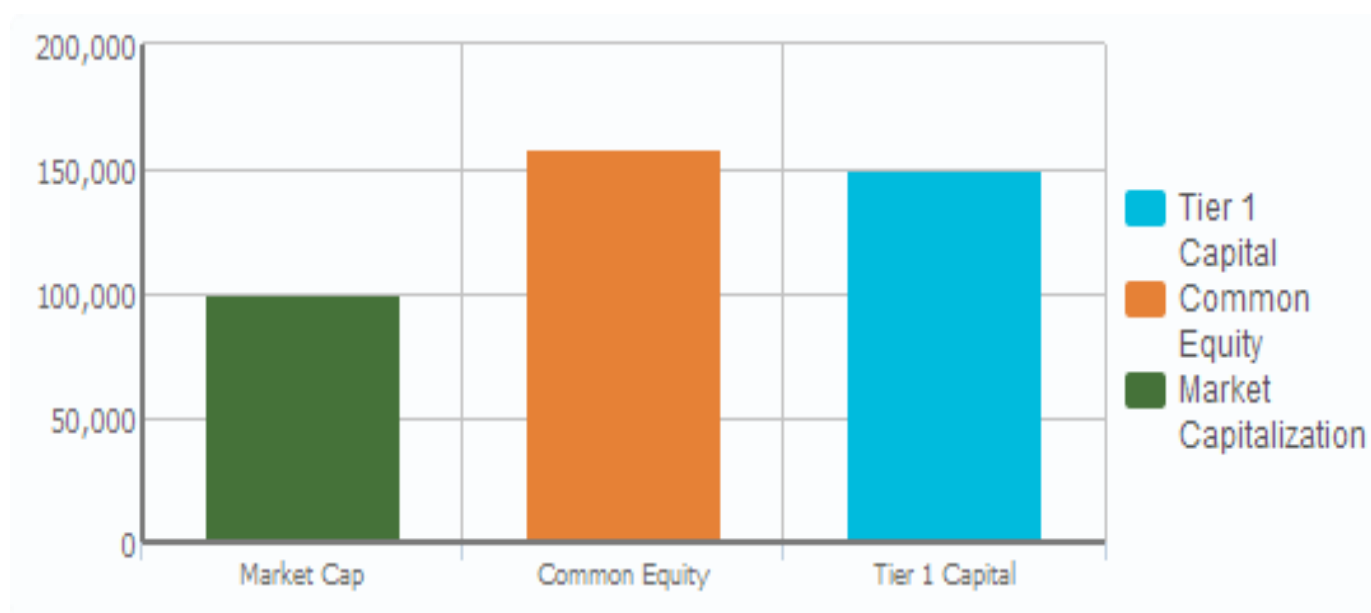
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LTM <sup>2</sup>							
12 months Dec-31-2013A DKK	12 months Dec-31- 2014A DKK	12 months Dec-31- 2015A DKK	12 months Dec-31- 2016A DKK	12 months Dec-31-2017A DKK	12 months Dec-31- 2018A DKK	12 months Mar-31- 2019A DKK	12 months† Dec-31- 2019E DKK
35.629,0 (6,2%)	42.747,0 20,0%	47.071,0 10,1%	49.830,0 5,9%	52.009,0 4,4%	47.332,0 (9,0%)	46.176,0 (8,8%)	45.124,62 1,71%
11.836,0 33,2%	17.175,0 40,2%	22.175,0 47,1%	25.183,0 50,5%	26.133,0 50,2%	19.312,0 40,8%	17.522,0 37,9%	- -
8.892,0 25,0%	3.949,0 9,2%	13.123,0 27,9%	19.858,0 39,9%	20.900,0 40,2%	14.689,0 31,0%	13.109,0 28,4%	- -
8.892,0 25,0%	3.947,0 9,2%	13.123,0 27,9%	19.858,0 39,9%	20.900,0 40,2%	14.689,0 31,0%	13.109,0 28,4%	14.071,07 31,18%
7,1 42,0%	3,69 (48,0%)	12,65 242,9%	20,05 58,5%	21,97 9,6%	15,96 (27,3%)	14,23 (32,8%)	16,19 (7,50%)
3.227.057,0 (7,4%)	3.453.015,0 7,0%	3.292.878,0 (4,6%)	3.483.670,0 5,8%	3.539.528,0 1,6%	3.578.467,0 1,1%	3.714.914,0 5,0%	- -

- All results are taken from the most recently filed statement for each period. When there has been more than one, earlier filings can be viewed on the individual statement pages.
- Growth rates for the LTM period are calculated against the LTM period ending 12 months before.
- All forward period figures are consensus mean estimates provided by the brokers and may not be on a comparable basis as financials.
- Growth rates for forward periods are calculated against prior period estimates or actual pro forma results as disclosed on the Estimates Consensus page.

<b>Current Capitalization (Millions of DKK)</b>	
<b>Currency</b>	<b>DKK</b>
Share Price	117,55
Shares Out.	854,8
<b>Market Capitalization</b>	<b>100.481,2</b>
Book Value of Common Equity	158.577,0
+ Book Value of Pref. Equity	-
<b>= Total Equity</b>	<b>158.577,0</b>
<b>Tier 1 Capital</b>	<b>150.224,0</b>
<b>Tier 2 Capital</b>	<b>14.741,0</b>
<b>Total Capital</b>	<b>164.965,0</b>
<b>Tier 1 Capital Ratio %</b>	<b>19,8%</b>
<b>Total Capital Ratio %</b>	<b>21,8%</b>
<b>Leverage Ratio %</b>	<b>-</b>

\*\*For companies that have multiple share classes that publicly trade, we are incorporating the different prices to calculate our company level market capitalization. Please click on the value to see the detailed calculation. Prices shown on this page are the close price of the company's primary stock class. Shares shown on this page are total company as-reported share values.



#### Valuation Multiples based on Current Capitalization

For the Fiscal Period Ending	12 months Dec-31-2018A	LTM 12 months Mar-31-2019A	12 months Dec-31-2019E	12 months Dec-31-2020E	12 months Dec-31-2021E
Market Cap / Total Revenue	2,1x	2,2x	2,23x	2,17x	2,12x
Market Cap / EBT Excl. Unusual Items	5,2x	5,7x	-	-	-
P/Diluted EPS Before Extra	7,4x	8,3x	7,26x	6,73x	6,51x
P/BV	0,6x	0,6x	0,65x	0,62x	0,59x
Price/Tang BV	0,7x	0,7x	-	-	-



## Appendix 10 – Danske Bank Key Financial Ratios

Danske Bank A/S (CPSE:DANSKE) > Financials > Balance Sheet				
<i>In Millions of the reported currency, except per share items.</i>	<b>Template:</b>	Bank	<b>Restatement:</b>	Latest Filings
	<b>Period Type:</b>	Annual	<b>Order:</b>	Latest on Right
	<b>Currency:</b>	Reported Currency	<b>Conversion:</b>	Today's Spot Rate
	<b>Units:</b>	S&P Capital IQ (Default)	<b>Decimals:</b>	Capital IQ (Default)
	<b>Source:</b>	Capital IQ & Proprietary Data		

### Balance Sheet

Balance Sheet as of:	Reclassified Dec-31-2007 DKK	Reclassified dec-31-2008 DKK	Reclassified Dec-31-2010 DKK	Reclassified Dec-31-2011 DKK
<b>Currency</b>				
<b>ASSETS</b>				
Cash And Equivalents	113.797,0	192.760,0	96.464,0	81.453,0
Investment Securities	543.719,0	375.703,0	426.558,0	366.280,0
Trading Asset Securities	652.137,0	860.788,0	641.993,0	909.755,0
<b>Total Investments</b>	<b>1.195.856,0</b>	<b>1.236.491,0</b>	<b>1.068.551,0</b>	<b>1.276.035,0</b>
Gross Loans	1.705.609,0	1.800.448,0	1.719.626,0	1.745.636,0
Allowance For Loan Losses	(4.610,0)	(15.125,0)	(39.661,0)	(47.611,0)
<b>Net Loans</b>	<b>1.700.999,0</b>	<b>1.785.323,0</b>	<b>1.679.965,0</b>	<b>1.698.025,0</b>
Gross Property, Plant & Equipment	13.670,0	13.565,0	13.055,0	12.436,0
Accumulated Depreciation	(4.358,0)	(4.504,0)	(5.194,0)	(5.169,0)
<b>Net Property, Plant &amp; Equipment</b>	<b>9.312,0</b>	<b>9.061,0</b>	<b>7.861,0</b>	<b>7.267,0</b>
Goodwill	23.301,0	19.573,0	18.773,0	18.631,0
Other Intangibles	5.995,0	5.521,0	4.163,0	3.602,0
Investment in Real Estate	4.904,0	4.470,0	4.799,0	4.624,0
Accrued Interest Receivable	13.007,0	14.504,0	6.370,0	7.209,0
Other Receivables	43.385,0	48.579,0	21.077,0	13.657,0
Restricted Cash	6.813,0	9.968,0	25.662,0	18.015,0
Other Current Assets	59,0	119,0	472,0	466,0
Deferred Tax Assets, LT	635,0	1.248,0	1.693,0	1.791,0
Other Real Estate Owned And Foreclosed	6,0	29,0	408,0	445,0
Other Long-Term Assets	231.461,0	216.328,0	277.628,0	293.183,0
<b>Total Assets</b>	<b>3.349.530,0</b>	<b>3.543.974,0</b>	<b>3.213.886,0</b>	<b>3.424.403,0</b>

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Restated Dec-31-2012 DKK	Reclassified Dec-31-2013 DKK	Restated Dec-31-2014 DKK	Reclassified Dec-31-2015 DKK	dec-31-2016 DKK	Reclassified Dec-31-2017 DKK	dec-31-2018 DKK	mar-31-2019 DKK		
-	-	120.249,0	112.636,0	253.199,0	339.827,0	232.638,0	237.637,0		
414.901,0	477.996,0	573.485,0	532.202,0	543.544,0	497.297,0	538.244,0	265.290,0		
812.966,0	695.722,0	742.513,0	547.019,0	509.679,0	449.292,0	415.818,0	468.444,0		
1.227.867,0	1.173.718,0	1.315.998,0	1.079.221,0	1.053.223,0	946.589,0	954.062,0	733.734,0		
1.640.656,0	1.536.773,0	1.633.627,0	1.663.969,0	1.733.476,0	1.747.808,0	1.801.237,0	2.085.001,0		
-	-	(40.289,0)	(30.741,0)	(25.460,0)	(20.057,0)	(19.096,0)	(21.178,0)		
1.640.656,0	1.536.773,0	1.593.338,0	1.633.228,0	1.708.016,0	1.727.751,0	1.782.141,0	2.063.823,0		
-	-	-	-	-	-	-	-		
-	-	-	-	-	-	-	-		
-	-	6.625,0	5.082,0	5.850,0	7.047,0	7.768,0	13.887,0		
-	-	9.453,0	5.364,0	5.349,0	5.347,0	7.756,0	7.800,0		
-	-	1.800,0	1.141,0	1.441,0	1.830,0	3.468,0	3.350,0		
-	-	3.536,0	4.681,0	4.937,0	4.461,0	3.167,0	3.050,0		
-	-	6.256,0	4.821,0	5.212,0	5.015,0	1.098,0	-		
113.657,0	53.714,0	4.235,0	2.882,0	2.229,0	4.170,0	4.196,0	5.369,0		
-	-	23.294,0	66.199,0	43.879,0	73.767,0	32.198,0	39.785,0		
-	-	16.744,0	16.829,0	12.932,0	12.358,0	76.454,0	69.053,0		
-	-	401,0	529,0	666,0	448,0	546,0	-		
-	-	626,0	464,0	141,0	82,0	26,0	21,0		
502.769,0	462.852,0	350.460,0	359.801,0	386.596,0	410.836,0	472.949,0	537.405,0		
3.484.949,0	3.227.057,0	3.453.015,0	3.292.878,0	3.483.670,0	3.539.528,0	3.578.467,0	3.714.914,0		
LIABILITIES									
Accrued Exp.		2.609,0		2.628,0		2.632,0		2.629,0	-
Interest Bearing Deposits		974.255,0		916.517,0		928.330,0		918.205,0	1.143.035,0
Total Deposits		974.255,0		916.517,0		928.330,0		918.205,0	1.143.035,0
Short-term Borrowings		154.605,0		128.392,0		624.483,0		819.357,0	-
Curr. Port. of LT Debt		889.537,0		862.206,0		390.923,0		480.057,0	-
Long-Term Debt		613.322,0		636.128,0		704.559,0		619.982,0	1.263.353,0
Curr. Income Taxes Payable		1.142,0		930,0		858,0		423,0	-
Accrued Interest Payable		21.803,0		18.434,0		16.089,0		16.024,0	-
Other Current Liabilities		347.298,0		637.768,0		180.573,0		193.511,0	531.860,0
Pension & Other Post-Retire. Benefits		1.675,0		1.178,0		594,0		472,0	-
Def. Tax Liability, Non-Curr.		3.397,0		3.082,0		6.003,0		6.278,0	-
Other Non-Current Liabilities		235.532,0		238.464,0		254.100,0		241.610,0	408.701,0
Total Liabilities		3.245.175,0		3.445.727,0		3.109.144,0		3.298.548,0	3.346.949,0
Common Stock		6.988,0		6.988,0		6.988,0		9.317,0	138.000,0
Additional Paid In Capital		-		-		-		-	-
Retained Earnings		97.265,0		93.464,0		99.205,0		118.917,0	-
Treasury Stock		-		-		-		-	-
Comprehensive Inc. and Other		(30,0)		(2.227,0)		(1.466,0)		(2.439,0)	-
Total Common Equity		104.223,0		98.225,0		104.727,0		125.795,0	138.000,0
Minority Interest		132,0		22,0		15,0		60,0	-
Total Equity		104.355,0		98.247,0		104.742,0		125.855,0	138.000,0
Total Liabilities And Equity		3.349.530,0		3.543.974,0		3.213.886,0		3.424.403,0	3.484.949,0

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-	3.249,0	3.186,0	-	3.077,0	2.960,0	2.630,0
1.107.503,0	1.052.630,0	917.455,0	968.219,0	1.033.678,0	994.734,0	1.154.306,0
<b>1.107.503,0</b>	<b>1.052.630,0</b>	<b>917.455,0</b>	<b>968.219,0</b>	<b>1.033.678,0</b>	<b>994.734,0</b>	<b>1.154.306,0</b>
-	617.612,0	558.565,0	602.851,0	566.386,0	523.533,0	271.991,0
-	355.496,0	350.574,0	365.605,0	364.966,0	321.437,0	-
1.122.846,0	772.886,0	824.137,0	871.646,0	881.879,0	901.510,0	1.136.280,0
-	494,0	637,0	476,0	1.040,0	1.011,0	8.068,0
-	13.323,0	12.569,0	-	8.520,0	7.159,0	7.468,0
435.183,0	204.395,0	196.243,0	246.461,0	213.258,0	311.740,0	423.359,0
-	449,0	229,0	-	701,0	631,0	-
-	8.153,0	7.696,0	7.675,0	7.594,0	7.869,0	-
415.868,0	271.945,0	260.757,0	254.122,0	290.173,0	342.607,0	552.235,0
<b>3.081.400,0</b>	<b>3.300.632,0</b>	<b>3.132.048,0</b>	<b>3.317.055,0</b>	<b>3.371.272,0</b>	<b>3.415.191,0</b>	<b>3.556.337,0</b>
145.657,0	10.086,0	10.086,0	9.837,0	9.368,0	8.960,0	8.960,0
-	-	-	-	-	-	-
-	137.415,0	140.421,0	142.881,0	145.099,0	140.672,0	135.981,0
-	-	-	-	-	-	-
-	4.880,0	10.323,0	13.897,0	13.789,0	13.644,0	13.636,0
<b>145.657,0</b>	<b>152.381,0</b>	<b>160.830,0</b>	<b>166.615,0</b>	<b>168.256,0</b>	<b>163.276,0</b>	<b>158.577,0</b>
-	2,0	-	-	-	-	-
<b>145.657,0</b>	<b>152.383,0</b>	<b>160.830,0</b>	<b>166.615,0</b>	<b>168.256,0</b>	<b>163.276,0</b>	<b>158.577,0</b>
<b>3.227.057,0</b>	<b>3.453.015,0</b>	<b>3.292.878,0</b>	<b>3.483.670,0</b>	<b>3.539.528,0</b>	<b>3.578.467,0</b>	<b>3.714.914,0</b>

#### Supplemental Items

Total Shares Out. on Filing Date	683,6	689,8	691,8
Total Shares Out. on Balance Sheet Date	683,6	689,8	691,8
Book Value/Share	152,46	142,4	151,39
Book Value/Share (Reported)	152,7	142,4	-
Tangible Book Value	74.927,0	73.131,0	81.791,0
Tangible Book Value/Share	109,61	106,02	118,23
Average Assets	NA	NA	NA
Average Loans	NA	NA	NA
Total Debt	1.657.464,0	1.626.726,0	1.719.965,0
Cash Deposits Int. Bearing	324.466,0	186.349,0	NA
Debt Equiv. of Unfunded Proj. Benefit Obligation	929,0	416,0	NA
Net Debt	386.590,0	339.207,0	674.546,0
Equity Method Investments	1.128,0	939,0	1.040,0
Full Time Employees	23.632	23.624	21.522
Number of Branches	836	804	670
Assets on Oper. Lease, Gross	5.653,0	6.417,0	5.871,0
Assets on Oper. Lease, Accum. Depr.	(1.347,0)	(1.800,0)	(2.047,0)
Filing Date	feb-05-2009	feb-05-2010	feb-20-2012
Restatement Type	RC	NC	RCA
Calculation Type	REP	REP	REP

(Continues on the next page)

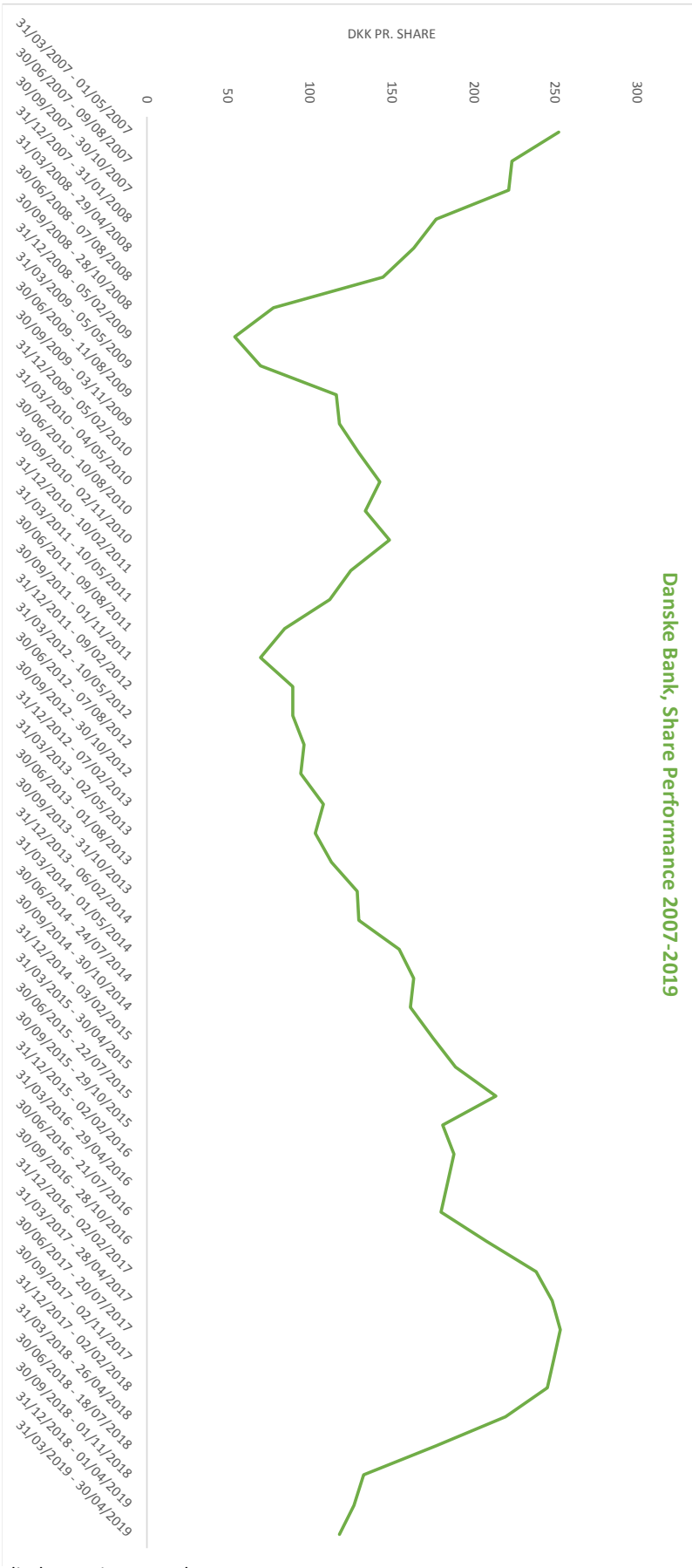
927,1	1.001,7	1.000,4	999,4	976,0
927,1	1.001,7	1.000,4	999,4	976,0
135,68	137,77	145,6	152,47	164,78
-	138,0	145,6	146,8	153,2
103.562,0	138.000,0	145.657,0	141.128,0	154.325,0
111,7	137,77	145,6	141,21	158,12
NA	NA	NA	NA	NA
NA	NA	NA	NA	NA
1.919.396,0	1.263.353,0	1.122.846,0	1.745.994,0	1.733.276,0
NA	NA	129.779,0	109.667,0	101.998,0
NA	NA	(1.048,0)	(1.412,0)	(2.106,0)
672.161,0	143.210,0	111.045,0	642.059,0	885.932,0
989,0	NA	NA	1.318,0	1.209,0
21.320	20.308	19.122	18.478	19.049
645	491	NA	NA	300
5.183,0	NA	NA	NA	NA
(1.918,0)	NA	NA	NA	NA
feb-20-2013	mar-19-2015	mar-19-2015	feb-02-2016	feb-02-2017
RCA	RSA	RCA	RS	RC
REP	REP	REP	REP	REP

(Continues on the next page)

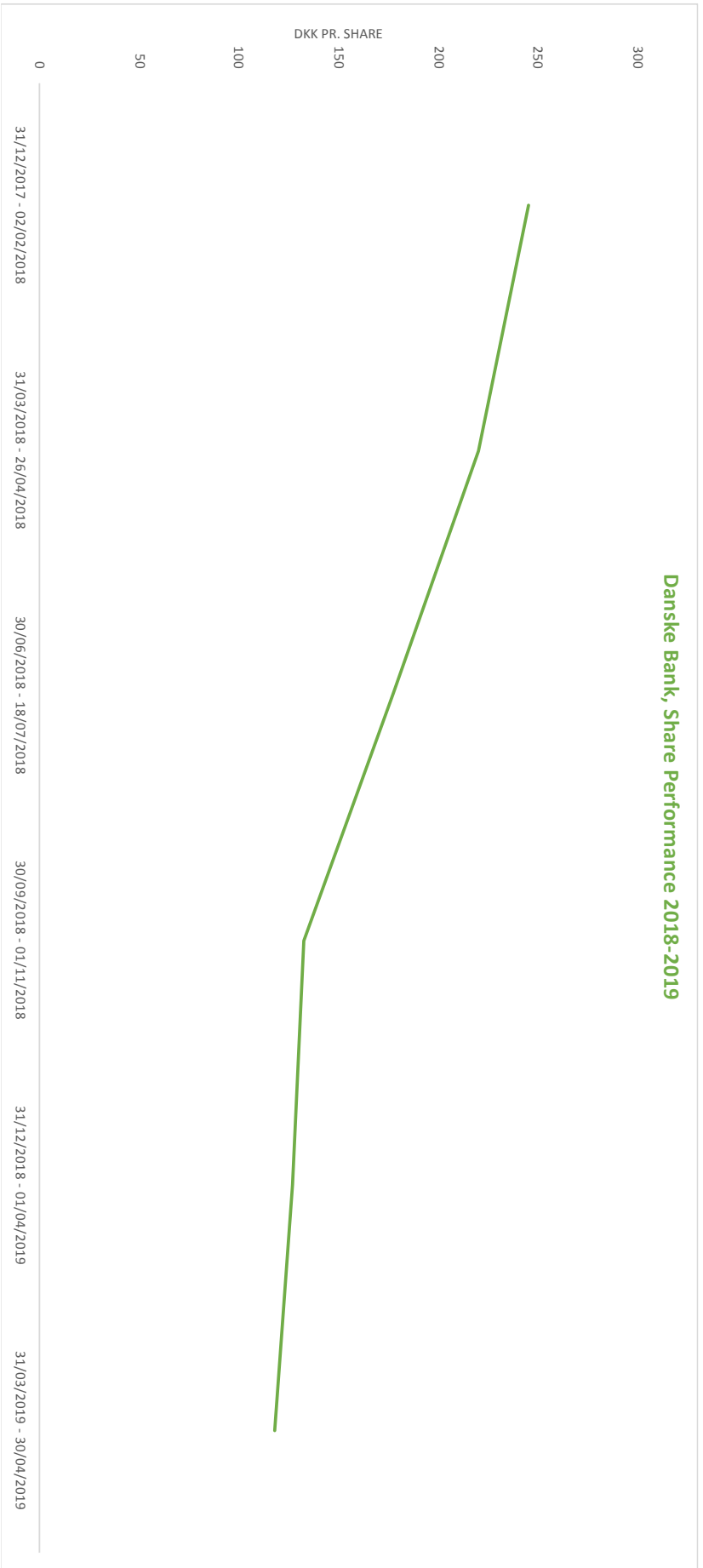
935,3	894,1	854,8	854,6
935,3	894,1	854,8	854,6
178,15	188,2	191,01	185,55
162,8	172,2	174,3	168,7
159.825,0	161.079,0	152.052,0	147.427,0
170,89	180,17	177,88	172,5
NA	NA	NA	NA
NA	NA	NA	NA
1.840.102,0	1.813.231,0	1.746.480,0	1.408.271,0
243.867,0	330.776,0	223.839,0	229.829,0
(545,0)	(1.204,0)	(962,0)	NA
877.670,0	851.888,0	836.585,0	702.190,0
653,0	455,0	381,0	381,0
19.303	19.768	20.683	20.978
NA	NA	NA	NA
NA	NA	NA	NA
NA	NA	NA	NA
feb-02-2018	feb-01-2019	feb-01-2019	apr-30-2019
NC	RC	O	O
REP	REP	REP	REP

Note: For multiple class companies, total share counts are primary class equivalent, and for foreign companies listed as primary ADRs, total share counts are ADR-equivalent.

Appendix 11 – Danske Bank Share Performance 2007-2019



Elisabetta Bjerregaard  
Tom Kirchmaier



Elisabetta Bjerregaard  
Tom Kirchmaier

## 9. GLOSSARY OF ACRONYMS

AML	Anti-Money Laundering
AMLD	Anti-Money Laundering Directive
CDD	Customer Due Diligence
CEO	Chief Executive Officer
CFO	Chief Financial Officer
COO	Chief Operating Officer
DBA	Danish Business Authority
EBA	European Bank Authority
ECB	European Central Bank
EU	European Union
FATF	Financial Action Task Force
FIU	Financial Intelligence Unit
FSA	Financial Supervisory Authority
FX	Foreign Exchange
GDP	Gross Domestic Product
GIA	Group Internal Audit
IMF	International Monetary Fund
KYC	Know Your Customer
ML	Money Laundering
OFZ	Russian Federal Loan Bonds
ROE	Return on Equity
SEC	Security Exchange Commission
SØIK	State Prosecutor for Serious Economic and International Crime



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