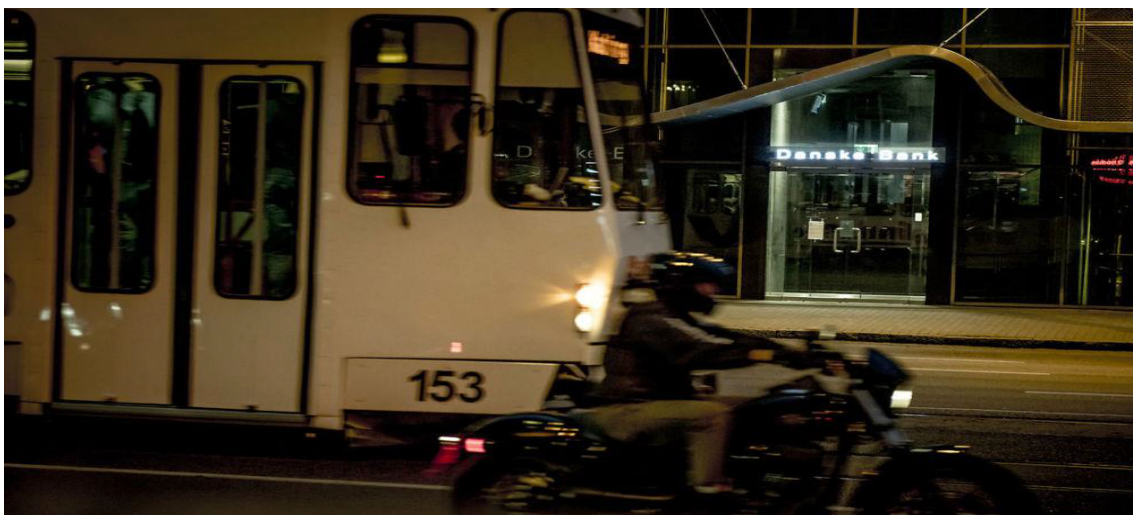




BUSINESS

Swedish rival rejected Danske Bank's "pile of dirty customers". Linked to drug dealing and arms smuggling

Swedish money laundering report shows completely new and bleak details about Danske Bank's money laundering case. Customers in the Estonian branch could be linked to harsh crime and were so suspicious that not even the competitor Swedbank, which has had its own money laundering case, would touch them. The new information exposes the shortcomings of Danske Bank's own legal investigation, experts believe.



Several companies with accounts in Danske Bank's scandal-hit Estonian branch were so suspicious that even Swedish competitor Swedbank would not have anything to do with them.

Swedbank, which otherwise had a large group of suspicious customers in the Baltics, simply rejected customers of its Danish rival after they were kicked out of Danske Bank in 2015. The rejection was due, among other things, to the fact that it was unclear who owned the companies.

This is apparent from a comprehensive report on Swedbank's money laundering case prepared by the US law firm Clifford Chance. The report also shows that some Danske Bank customers were allegedly connected to drug trafficking and fraud, as well as to known criminal networks.

Berlingske reported on Monday that the Swedbank report contains entirely new information on Danske Bank's money laundering case that led to the closure of Danske Bank in the Baltics, police investigations in several countries and the departure of the former top management.

The report notes, among other things, that one of the two banks' joint large customer was controlled by two highly shady Russian oligarchs with "good relations with the Kremlin" – the political power in Russia.

But the report also contains other detailed descriptions of Danske Bank's Estonian client portfolio. Descriptions that are especially sensational when Danske Bank's own legal investigation, prepared by the law firm Bruun & Hjejle in 2018, does not contain any details about specific clients at all.

Rejected customers

Swedbank's lawyers have, among other things, investigated the course of events in the summer of 2015, when, after a series of internal warnings, Danske Bank had started to throw the most suspicious customers out of the bank's so-called non-resident portfolio in its branch in Estonia. And the process does not paint a flattering picture of the large Danish bank's Estonian customers.

Many of the now former Danske Bank customers subsequently turned to the Swedish rival at the other end of the capital Tallinn to become customers. But here the door was closed. The customers were simply too suspicious for the Swedes.

"We reject most of them" a Swedbank memo said, referring to the customers' "business profile not being sufficiently transparent".

In a 2015 email, a Swedbank employee wrote that it avoided Danske Bank's "pile of dirty customers".

According to a third document, Swedbank had "difficulty in accessing evidence of the beneficial ownership" of the companies that were Danske Bank customers and that the companies were located in tax havens such as the British Virgin Islands in order to "avoid showing their connection to Russian structures".

In the end, Swedbank rejected 90 percent of Danske Bank customers "because the level of transparency for most applicants did not meet our standards," Swedbank concluded.

Drug and arms trade

The Clifford Chance report also describes several processes in which Swedbank, as a direct consequence of the media coverage of the Danske Bank case, reviewed its own customer portfolio. One of these investigations was ready in the summer of 2018 and showed that between 2007 and 2015, various Swedbank customers had exchanged 16,000 "potentially suspicious transactions" with accounts in Danske Bank.

Several of these accounts belonged to Danske Bank customers who, according to the report, were known from other money laundering and fraud cases, including the large-scale Russian fraud case Magnitsky and Deutsche Bank's so-called mirror trade case concerning suspicious securities deals that Berlingske has previously described.

Other Danske Bank customers could be linked to "media reports of illegal arms deals, drug trafficking, fraud, corruption and other criminal activities", according to the report.

Another internal Swedbank investigation, from autumn 2018, identified another 100 Danske Bank customers "connected to the Panama Papers leak" – the tens of thousands of documents about shady clients of the law firm Mossack Fonseca. In addition, 79 Danske Bank customers were "affiliated with a well-known Latvian straw man network with alleged criminal connections", according to the Swedbank report.

In accordance with the rules on banking secrecy, the report does not name the specific companies and therefore it is not always clear which specific cases of crime the report refers to. Until now, Berlingske has been able to link customers and transactions to cases of corruption in Azerbaijan and the Council of Europe, economic crime in Russia and Eastern Europe, arms smuggling out of North Korea, and theft and corruption in Ukraine.

The Swedbank report mentions Danske Bank no less than 190 times under the pseudonym "counterparty bank 1". This is clear, because in several places there is a direct reference to Berlingske's stories about Danske Bank's money laundering case.

Risk of money laundering

Both Swedbank and Danske Bank made their entry into the Baltics in the middle of the last decade through the acquisition of other banks, and both thereby obtained – and then expanded – large portfolios of foreign customers with a wide range of suspicious characteristics: Their mostly Russian owners were hidden behind straw men and companies in tax havens, and they used accounts in the banks to transfer very large sums across the companies.

The lawyers conclude that these type of clients and transactions involve a “risk of money laundering or terrorist financing”, while also pointing to the risk of “tax evasion”.

Louise Brown, director of consultancy firm CredAbility, which specializes in anti-corruption consultancy, has closely followed the problems of Scandinavian banks in the Baltics.

“There were an incredible number of risks to the customer group described here and it should have caused a significant range of warning lights to flash.”

British Tom Keatinge, director of the Centre for Financial Crime and Security Studies at the British think tank the Royal United Services Institute, believes it boils down to common sense when a bank must assess such customers.

“Why choose to use a complicated structure with layers of hidden owners through tax havens? It is expensive to use. So, of course, there’s a reason to spend that money on the structures – why else would you do that?” he says.

At the end, the Swedbank report puts “Danske Bank in a bad light”, says money laundering expert Graham Barrow who has followed both cases closely.

“The report points out systemic and repeated failures at Swedbank and yet it appears that Swedbank would not touch 90 percent of Danske’s customers”.

“This strongly suggests that, regardless of the content of the Bruun & Hjejle report (Danske Bank’s legal investigation, ed.), there are probably far more – and far worse – conditions that have not yet seen the light of day,” Graham Barrow said.

Criticism of Danske Bank report

He believes that the Swedish legal report provides far more answers than the Danish one. And maybe there is a good explanation for that.

Clifford Chance was only hired to investigate the bank after Swedbank’s chief executive Birgitte Bonnesen was fired in March last year. At Danske Bank, the law firm Bruun & Hjejle prepared its report before Thomas Borgen’s departure as chief executive in September 2018.

“It is thought that the Danske Bank report would have been more detailed if it had been commissioned by a new management that was not coloured by what had happened in the past,” said Graham Barrow, who believes the Swedbank report “is a model that others should follow.”

Danish money laundering expert Jakob Dedenroth Bernhoft from Revisorjura.dk believes that the Swedbank report “is much more in-depth than the Danske Bank report and provides far more answers.”

“I believe the right thing would be for an independent report to be produced which will reveal in detail what happened in Danske Bank Estonia”.

Danske Bank did not wish to comment for this article. The bank and its former top management remain charged with breaches of the Anti-Money Laundering Act. Both Swedbank and Danske Bank have replaced the top management and significantly tightened controls on money laundering, according to their respective money laundering cases.

Over the weekend it emerged that the former chief executive of Swedbank, Danish Birgitte Bonnesse, is suspected and being investigated for "illegality" in Sweden. According to the lawyer's report, she spoke repeatedly untruthfully about the problems at Swedbank, all the while the Danske Bank case rumbled on.

FACTS

Swedbank's money laundering report

- Swedbank's money laundering report was prepared by the US law firm Clifford Chance and was published on March 23. Shortly before, the bank had received the largest fine ever in Sweden of almost DKK 3 billion. DKK for defective money laundering.
- The Swedbank report mentions several brand new information about shady customers in both Swedbank and Danske Bank. The Danish major bank is referred to as "CPB-1" in the report. However, it is clear that this is Danske Bank, as reference is made directly to several of Berlingske's articles on the money laundering case.
- The report shows that Swedbank's money laundering case has many similarities with Danske Bank. Both banks for years neglected to check customers in the Baltic branches and allowed suspicious transactions to pass without warning the authorities, which is contrary to the money laundering rules.
- But there are also differences between the two cases: While Danske Bank, after a series of warnings, closed down the portfolio in 2015, Swedbank continued its business for several years thereafter.
- On the other hand, it seems that Danske Bank's money laundering case was larger than Swedbank's measured by the number of customers. Danske Bank had between 3,000 and 4,000 customers in the non-resident portfolio at all times, while Swedbank had less than 1,000 - and in turn had far more normal corporate customers.
- And while Swedbank allowed "suspicious transactions" for about \$ 275 billion Danish kroner flows through bank accounts, Danske Bank's non-resident portfolio sent DKK 1,500bn DKK through the bank, of which 'a large part' was later termed suspicious by Danske Bank's lawyers.

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For more information on the Danske Bank Investor Scandal, contact ISAF Customer Service at info@isafmanagement.com or visit our website at isafmanagement.com.

This article was translated from its original version of Danish to English by The ISAF Management Company.

