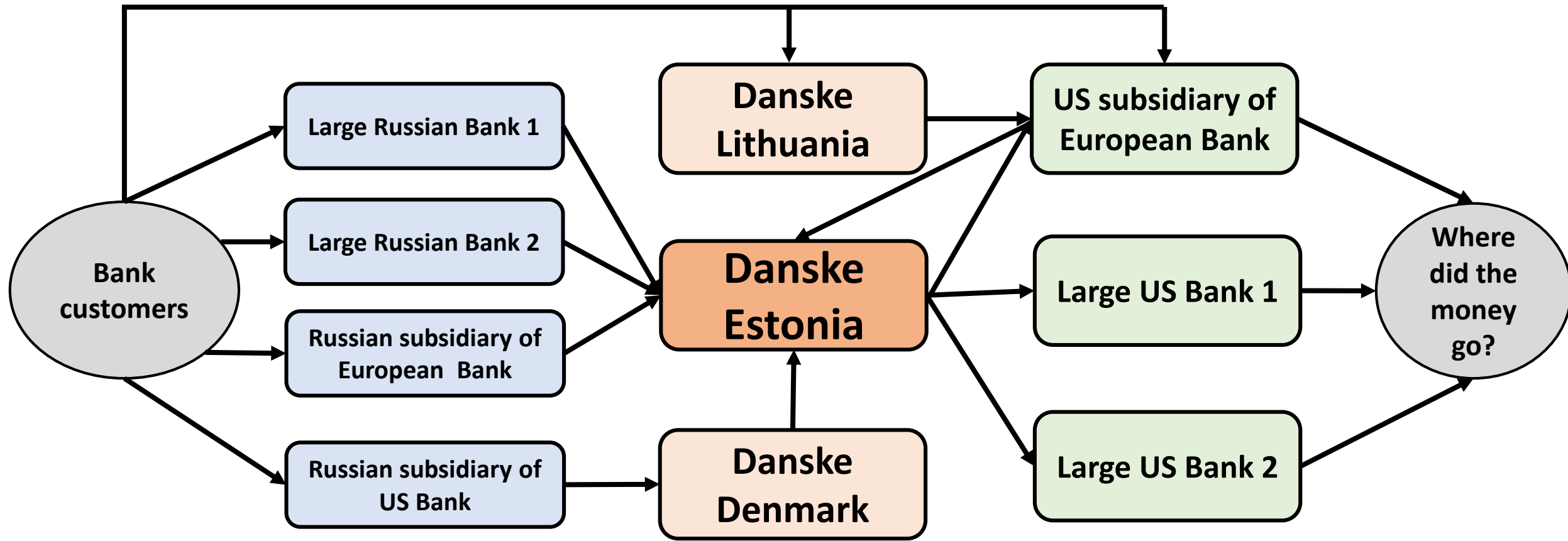


Money Laundering: What happened in Estonia?

Presentation to the Business, Growth and Export Committee
Danish Parliament

19 November 2018

At least 10 banks were involved in the flow of suspicious money, including 3 Danske entities...



...but we know very little about what these banks actually did about it

<i>Bank</i>	<i>What we know</i>
Danske Denmark	<ul style="list-style-type: none"> • Danish FSA report says that payments were only ‘technical’ - Is this actually true?
Danske Lithuania	<ul style="list-style-type: none"> • Danske Bank commented in December 2017 • Since then deathly silence – what happened?
Russian subsidiary of European bank	<ul style="list-style-type: none"> • No evidence that anyone has done anything
Russian subsidiary of US bank	<ul style="list-style-type: none"> • No evidence that anyone has done anything
US subsidiary of European bank	<ul style="list-style-type: none"> • Closed Danske Estonia’s correspondent account in 2015 • How many billions went through it up to 2015? What reports were made?
Large US bank 1	<ul style="list-style-type: none"> • Asked Danske Bank kindly to close Estonia’s correspondent account in 2013 • How many billions went through it up to 2013? What reports were made?
Large US bank 2	<ul style="list-style-type: none"> • Closed Danske Estonia’s correspondent account in 2015 • How many billions went through it up to 2015? What reports were made?

I saw no indication that anything was wrong prior to whistleblowing

June 2007	Russian Central Bank warning to Danish FSA	No discussion in Baltic Exco; no-one told me
Feb 2012	Danish FSA approaches Danske Bank following contact from Estonian FSA	No discussion in Baltic Exco; no-one told me
Jun 2012	Danish FSA reprimands Danske Bank for AML failures	I was told that Estonia has best AML procedures in the group
Apr 2013	Danish FSA contacts Danske Bank following contact from Estonian FSA	No discussion in Baltic Exco; After Danske Estonia's branch held meeting with Estonian FSA, I never heard anything else
Various	Internal Audit reports	Summarised in Baltic Exco; no special issues noted
June 2013	Request by [large US Bank 1] that Danske Estonia close its USD correspondent account on the grounds of AML	It was communicated that this had nothing to do with specific AML issues in Estonia
Oct 2013	Review of non-resident business in Estonia prepared	It included line that "It is not just paperwork it is also culture. If we don't like what we see, hear or feel, we end the relationship. Don't need to wait for something hard before acting."

I made a total of four whistleblowing reports

First report	27 Dec 2013	One UK LLP
Second report	9 Jan 2014	Three UK LLPs <ul style="list-style-type: none">• Included 2 of the 3 most profitable LLPs in Danske Estonia
Third report	19 Mar 2014	Twelve UK LLPs <ul style="list-style-type: none">• Highly profitable for the bank• Had filed accounts with UK Companies House• All had registered office 175 Darkes Lane, Potters Bar, UK
Fourth report	25 April 2014	Danish K/S companies

... but by April 2014 it was clear that the bank intended to do nothing

While there have been investigations, letters and reports, I note that, more than three months after my initial report:

- **No related client account has been closed by management.** [Name deleted], which I flagged in January, continues to turn over significant payment volumes [...]
- **There appears to have been no attempt by management** to identify the full scope of the problem of UK LLPs submitting false accounts [...]
- **Only in the last two weeks has there apparently been the realisation** that UK LLPs file accounts at all.

On the advice of legal counsel, I [...] ask you to confirm that the bank will undertake a full investigation to identify all current and past clients structured through UK LLPs that appear to have filed false accounts in the past or who are identified as doing so in the future will be reported to the FIU.

If I do not receive satisfactory confirmation from you by 15 April 2014, it seems to me that the correct course of action on my part is to make a full report directly to FIU.

Extracts from my email to [names deleted 1-5], 8 April 2014

... and an email from Copenhagen, looking back, raises serious questions

[...] You have stated that the bank should have realised that some customers were filing incorrect annual report to UK Companies House and should have taken action to report this.

We have taken proper legal advice and where we have found an obligation to make such reporting – and the customer has not already been investigated – filing has been made. [...]

We are closing accounts with related entities (of customers you have mentioned). [...]

A review has been undertaken of the Estonian customer onboarding process and related KYC and AML processes. **This review indicated a need to consider increased scrutiny of some offshore customers. [...]**

It is important to state that no breaches of Estonian law have been indicated. [...]

Danske Bank [...] will undertake a full review of the relevant existing customer base in order to correct any outstanding shortcomings in **customer documentation.**

Also noteworthy was management inaction regarding the illegal surveillance of me

It is totally unacceptable [...] that [names deleted 1-3] are trying to [...] **review my confidential communications with internal auditors.**

Email from me to [name deleted 1-4]
10 April 2014

What did the bank do?

Here's some extracts from **the opinion of my legal counsel** [...]

- **Listening to recordings of telephone conversations without the lawful right** to engage in surveillance may constitute a criminal offence stipulated by §137 of the Estonian Penal Code [...]
- Even if bank rules allow the employer to listen to recordings of its employees [...] **there must be legitimate aim to do so** and it is hard to see a legitimate aim in this matter.

Email from me to [name deleted], 24 April 2014

There was a curious lack of interest at a senior level regarding problems with Danish K/S companies

This is a non-exhaustive extract from **the Estonian customer list (of Danish K/S companies)** [...]

I would suggest that the bank be very careful about having **non-resident customers from CIS banking in Estonia Branch using K/S structures** [...]

There is significant reputational risk. One might consider going as far as instructing that no Danish legal entity be allowed to set up accounts [...] unless the business genuinely carries out business (in Estonia).

E-mail from me to [two names deleted], 25 April 2014

53 customers [...] were incorporated as **Danish K/S entities. All of these customers have been deemed suspicious.** The 53 customers all shared addresses in Copenhagen, and the vast majority of the entities also shared the same directors. [...]

Group Legal provided [...] the “full list” of the allegations by the whistleblower [...] (some) were **left out entirely, including** [...] **allegations relating to K/S companies.**

Danske Bank report, September 2018

Are these really the sort of companies Denmark is seeking to attract?

The registration of a Danish K/S presents a fine opportunity of **working with a fully tax-exempt entity from a prestigious European country.** [...]

The Danish Limited Partnership (K/S) is an **excellent option and vehicle** that may be used for trading, especially when a **“white entity”** is needed.

Danish corporate tax is avoided completely if there are non-resident partners and if the Limited Partnership trades solely outside Denmark.

Website of offshore company services provider

Conduct of Danish FSA officials raises serious questions ...

On 7 April 2013, Group Compliance & AML contacted branch management referring to “our blacklisted Russian customers”.

It was added that “**the Danish FSA is very worried because they have confirmed to the US authorities that we comply with Danish FSA’s requirements on AML**”.

September 2018 Danske Bank Report

The FSA has **helped the Bank in a critical situation**. They are now very worried [...]

Email from [name deleted] to [names deleted], 7 April 2013

...very serious questions

I don't care in the slightest what happens in Estonia.

My job is to protect Danske Bank.

Comments from [name deleted-1] to [name deleted-2], which [name deleted-2] told me about in January 2015

It took almost 9 years from the first warning for the Danish FSA to issue a reprimand

The bank received a **reprimand** [...] **for having failed in time** to identify material money laundering risks at its branch in Estonia and for having failed in time to introduce risk-mitigating measures in this respect.

In theory, the supervision of the bank's foreign [...] branches in the AML area is the responsibility of the local authorities, but **the FSA finds the circumstances identified at the branch constitute such a material reputational risk to the bank that the FSA is looking into the matter.**

Danish FSA statement on the inspection of Danske Bank (AML area), 16 March 2016

What did they find when they 'looked into the matter' in 2016?

What really happened on Monday 12 March 2018?

[Name deleted] of **Danish supervisory authority** has **approached** me and asked whether I know your contacts. [...]

Email from [name deleted] of Estonian FSA to me on Friday, 9 March 2018 20:16 CET

Thanks. **Passed your details** to [name deleted], who is [deleted] of the Danish financial supervisory authority [...]

Email from [name deleted] of Estonian FSA to me on Monday, 12 March 2018 06:51 CET

On 12 March 2018, the Danish FSA sent a draft of (its) decision to the Board of Directors, the Executive Board and the Chief Audit Executive.

Danish FSA report, 3 May 2018

The Non-Disclosure Agreement timeline

2014	8 April	My warning that I would make my own report to the Estonian FIU
	28 April	NDA signed - disclosing information to anyone not allowed unless “ required by law ”
2018	28 June	Limited waiver to talk to Danish FSA
	25 July	Limited waiver to talk to Danish FSA and Estonian FSA
	29 October	Limited waiver to talk to the US DoJ and SEC
	29 October	Limited waiver to talk to Danish Parliament and European Parliament committees
	29 October	Limited waiver to talk to SOIK “possibly in the presence of foreign police or prosecution authorities cooperating with SOIK”
		No waiver to talk to the Estonian prosecutor

Never standing in the way

[..] **Should I wish to make a criminal complaint** to your SOIK about crimes committed by Danske Bank, **I would have to seek permission from the bank** to do so [...]

Email from me to Danish FSA 10 July 2018

Did the Danish FSA
get involved?

The bank is perplexed as to why it is necessary for Mr Wilkinson to have such a **broad scope** prior to initiating talks with the Danish FSA

Attributed to the bank in email from Danish FSA to me,
31 July 2018

A laundry list for Denmark

- **Ban NDA clauses** that prevent disclosure of wrongdoing to the authorities
- **Protect whistleblowers**
- **Formally investigate (independently) the FSA's regulation** of Danske Bank in relation to Estonia from 2007 onwards, including considering whether there was misconduct by senior officials
- **Fix K/S problem** – past, current and future