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Report on  
the Non-Resident Portfolio  
at Danske Bank's Estonian branch

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19 September 2018

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## 1. Executive summary

### 1.1 Background

Danske Bank A/S (“Danske Bank”) 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 2.7 million personal customers, 211,000 small and medium-sized business customers, and 2,000 corporate and institutional customers. Danske Bank is licensed by the Financial Supervisory Authority (“FSA”) in Denmark, which considers Danske Bank to be one of six systemically important financial institutions in Denmark. Systemically important financial institutions are deemed essential to the financial system.

Until early 2016, Danske Bank had in its Estonian branch a portfolio of some thousands customers residing outside Estonia (the “Non-Resident Portfolio”). The Estonian branch and the Non-Resident Portfolio had become part of Danske Bank when in 2007 Danske Bank acquired Finnish-based Sampo Bank. The Non-Resident Portfolio included customers from the Russian Federation and the larger Commonwealth of Independent States (“CIS”), including countries such as Azerbaijan and Ukraine.

The Estonian branch had its own IT platform. This meant that the branch was not covered by the same customer systems and transaction and risk monitoring as Danske Bank Group headquartered in Copenhagen (also referred to as “Group”), and it also meant that Group did not have the same insight into the branch as other parts of Group. Many documents at the Estonian branch, including information about customers, were written in Estonian or Russian.

For a long time, it was believed within Group that the high risk represented by non-resident customers in the Estonian branch was mitigated by appropriate anti-money laundering (“AML”) procedures. In early 2014, following a report from a whistleblower and audit letters from Group Internal Audit, it became clear that AML procedures at the Estonian branch had been manifestly insufficient and inadequate. This caused a number of initiatives on the part of Group. AML procedures also became subject to harsh criticism from the FSA in Estonia, and Danske Bank was met with regulatory sanctions from both the Estonian FSA in July 2015 and the Danish FSA in March 2016. The Non-Resident Portfolio was terminated in 2015 with the last accounts being closed in early 2016.

Since March 2017, the terminated Non-Resident Portfolio at Danske Bank’s Estonian branch has attracted significant public interest.

In press release of 21 September 2017, Danske Bank acknowledged 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”. The press release made reference to the findings of a “root-cause analysis” prepared for the bank by US-based consultancy Promontory Financial Group, LLC (“Promontory”). According to

the same press release, Danske Bank had expanded its ongoing investigation into the situation at its Estonian branch, which was expected to be completed in the course of nine to twelve months. This expanded investigation, here referred to as the Portfolio Investigation, examines the customers in the terminated Non-Resident Portfolio and their historical activities, that is payments and other transactions and trading activities. It also investigates possible cooperation between customers and employees with the Estonian branch (internal collusion). Part of the purpose of the Portfolio Investigation has been to understand, to the extent possible, the activity and to report to the Financial Intelligence Unit (“FIU”) in Estonia customers found to be “suspicious” as required under Estonian law. By now, the investigation finds to have a good general understanding of the portfolio.

In addition to the Portfolio Investigation, there has been a separate investigation into accountability. Part of its purpose has been to understand how Danske Bank ended up in this situation. In addition to analysing the bank’s own exposure and legal responsibility as an institution, the investigation has assessed whether individuals in leading positions at Group level and also in the Estonian branch failed to comply with legal obligations forming part of their employment or position. This investigation, which is here referred to as the Accountability Investigation, has been completed.

## 1.2 Scope of the report

This report summarises characteristics of the terminated Non-Resident Portfolio at Danske Bank’s Estonian branch as well as other facts relating to it, including main events both at branch and Group level.

For legal reasons, it is not possible in this report to share all information relating to the Non-Resident Portfolio. Specific information about customers and employees cannot be shared. This also includes assessments of individuals. Equally, suspicious activity reports (“SARs”) filed with the Estonian FIU or elsewhere are subject to secrecy. Moreover, information over which Danske Bank exercises legal privilege cannot enter the public domain.

Financial regulation has established separate channels for reporting and exchange of information between financial institutions and regulators, and Danske Bank continues to share information on a wider scale with the Danish FSA and the Estonian FSA as well as other relevant authorities.

## 1.3 Looking back

This report looks back into the Non-Resident Portfolio at Danske Bank’s Estonian branch. The portfolio was terminated in late 2015 with the last accounts being closed in early 2016. As part of the look-back, the report describes AML procedures and IT solutions then in place at the Estonian branch. The report does not include a description of present-day AML procedures at the Estonian branch, leaving aside AML procedures in Danske Bank Group at large. It follows from a number of press releases as well as internal reporting and communication with regulators that Danske Bank has been in-

vesting in improved AML procedures throughout the Group and also covering the Estonian branch, as also noted by the Danish FSA in its decision of 3 May 2018 on this matter. On 26 April 2018, Danske Bank publicly announced 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”.

#### 1.4 Key takeaways

The description in this report of the Non-Resident Portfolio at Danske Bank’s Estonian branch and developments from the acquisition in late 2006 until last year includes the following key takeaways:

##### The Estonian branch and non-resident customers

###### 1. How the Estonian branch became part of Danske Bank

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 AS Sampo Pank. The majority share interest in this Estonian bank had been acquired by Sampo Bank back in 2000. The seller had been the Estonian Central Bank. In 2002, Sampo Bank had acquired the rest of the shares from minority shareholders. A year after the acquisition, in 2008, Sampo Pank in Estonia was turned into a branch of Danske Bank.

###### 2. Market share of non-resident deposits

There had been strong economic ties between the Baltic countries and Russia. Since the 1990s Sampo Pank in Estonia had had a portfolio of non-resident customers. By the end of 2013, the Non-Resident Portfolio within Danske Bank’s Estonian branch held 44 per cent of the total deposits from non-resident customers in Estonian banks (up from 27 per cent in 2007) and nine per cent of the total deposits from non-resident customers in Baltic banks (up from five per cent in 2007).

###### 3. The Non-Resident Portfolio at the Estonian branch

The Non-Resident Portfolio was managed by a separate group of employees, from 2013 named the International Banking department and from March 2015 the International Banking division. This Non-Resident Portfolio consisted at any time of between 3,000 and 4,000 customers. At the end of 2015, the International Banking division was closed and the Non-Resident Portfolio terminated, with a few accounts closed only in early 2016. From 2007 through 2015, there were approximately 10,000 customers in total in the Non-Resident Portfolio. These are all subject to the Portfolio Investigation.

#### 4. Other non-resident customers at the Estonian branch

The Estonian branch had non-resident customers also outside the Non-Resident Portfolio. These were non-resident customers not managed by the separate group of employees that became the International Banking department and division. In order to secure completeness, the Portfolio Investigation includes all customers with the Estonian branch with one or more cross-border characteristics, such as address, contact data or ownership outside Estonia. This has increased the total number of customers subject to investigation to approximately 15,000.

#### Activity in the Non-Resident Portfolio

#### 5. High activity in the Non-Resident Portfolio

From 2007 through 2015, there was high activity in the Non-Resident Portfolio. Services offered by the Estonian branch to the customers in the Non-Resident Portfolio consisted of payments and other transactions in various currencies and also foreign exchange lines as well as bond and securities trading. There were also deposits from customers. As regards the Non-Resident Portfolio, the branch took no credit risks of any significance. For the same reason, little capital was allocated to the Non-Resident Portfolio.

#### 6. Payments

There were incoming payments received by customers in the Non-Resident Portfolio, as well as outgoing payments from these customers to recipients outside the Non-Resident Portfolio. In addition, there were book transfers between the customers, that is internal payments between customers in the Non-Resident Portfolio. In total for the approximately 10,000 customers, there were approximately 7.5 million payments not including book transfers between the customers (for the 15,000 customers there were approximately 9.5 million such payments).

#### 7. Flow of money through the Non-Resident Portfolio

Funds transferred from external parties to customers in the Non-Resident Portfolio and subsequently transferred from such customers to external recipients are referred to as "the flow". Over the nine years from 2007 through 2015, the flow converted into EUR for both the approximately 10,000 customers in the Non-Resident Portfolio and the 15,000 customers subject to investigation was approximately EUR 200 billion. Most used currencies were USD and EUR (for purposes of analysis, all payments have been converted into EUR using historical exchange rates).

#### Failed AML procedures at the Estonian branch

#### 8. Historical misconception of AML procedures

The Estonian branch had its own IT platform. This meant that the branch was not covered by the same customer systems and transaction and risk monitoring as Group, and it also meant that Group did not have the same insight into the branch as other parts of Group. Many documents at the Estonian branch, including information about customers, were written in Estonian or Russian. For a long time, it was

believed within Group that the high risk represented by non-resident customers in the Estonian branch was mitigated by appropriate AML procedures.

#### 9. Failed AML procedures realised by Group in 2014

In early 2014, following a whistleblower and new reporting from Group Internal Audit, Danske Bank Group realised that there had been a historical misconception. It was now realised at Group level that AML procedures at the Estonian branch involving the Non-Resident Portfolio had been manifestly insufficient and inadequate. It was also realised that all control functions (or lines of defence) had failed, both within the branch and at Group level. This included business functions as well as Group Compliance & AML and Group Internal Audit. As demonstrated by Group Internal Audit in the first quarter of 2014 and by an external consultancy report from April 2014, (i) there had been insufficient knowledge of customers, their beneficial owners and controlling interests, and of sources of funds; (ii) screening of customers and payments had mainly been done manually and had been insufficient; and (iii) there had been lack of response to suspicious customers and transactions.

#### Suspicious customers and activity

#### 10. Suspicious customers

The Portfolio Investigation has adopted a risk-based approach. A large number of risk indicators have been defined, and customers have been run against them and grouped. In examining customers, a customer-by-customer approach has been adopted starting with customers hitting the most risk indicators. So far, approximately 6,200 customers have been examined, and the vast majority of these customers have been deemed suspicious. Almost all of the approximately 6,200 customers examined so far were among the approximately 10,000 customers in the Non-Resident Portfolio.

#### 11. Filing of suspicious activity reports

Customers found to have suspicious characteristics or to have been involved in some suspicious transactions are being reported to the Estonian FIU in an agreed format and in accordance with Estonian law. The reporting have the form of suspicious activity reports ("SARs"). It is in addition to the SARs filed historically by the Estonian branch on 653 customers in the Non-Resident Portfolio (the Estonian branch filed SARs on 760 customers when including the additional 5,000 customers also subject to investigation).

#### 12. Suspicious flow

The fact that customers have suspicious characteristics or have been involved in some payments deemed suspicious does not provide a basis for concluding with reasonable certainty what part of the flow was suspicious. For some customers, all payments are likely to be suspicious. For other customers, the fact that they have been involved in some suspicious payments does not necessarily imply that all their payments were suspicious. However, a transaction-by-transaction approach has not been adopted, and there is no accurate estimate. It is expected that a large part of the payments were suspicious.

### 13. Criminal activity

The fact that a customer or a transaction is deemed suspicious does not in itself implicate criminal activity on the part of the customer or other party. When filing SARs, the FIU as recipient has the opportunity to collect further information from other sources and to initiate investigation. Money laundering requires proof that funds transferred are proceeds of a crime. Ascertaining whether this is the case typically requires more information than is possessed by a financial institution.

### 14. Internal collusion

Former and current employees and former agents (persons receiving commission for facilitating customers) of the Estonian branch have been examined for suspicious activity, ultimately with a view to determining whether they may have been colluding with customers in the Non-Resident Portfolio. 42 employees and agents have been deemed to have been involved in some suspicious activity. This is being reported to the Estonian FIU, again in an agreed format and in accordance with Estonian law. Further, eight former employees have been reported to the Estonian police by Danske Bank. Despite the SARs and police reports filed, it cannot be concluded with reasonable certainty to what extent criminal activity in the form of collusion has actually taken place.

## Events and red flags

### 15. Red flag at the time of acquisition

In 2007, shortly after completing the acquisition of Sampo Bank, Danske Bank had a real opportunity to conclude that the Non-Resident Portfolio involved suspicious activity not caught by AML procedures at Sampo Bank in Estonia. In 2007, the Estonian FSA came out with a critical inspection report, and at the same time Danske Bank at Group level received specific information from the Russian Central Bank, through the Danish FSA. This information pointed to possible “tax and custom payments evasion” and “criminal activity in its pure form, including money laundering”, estimated at “billions of rubles monthly”. However, Danske Bank missed this first real opportunity.

### 16. Decision not to migrate to Group IT platform

The Estonian branch and the Baltic banking activities formed only small parts of Danske Bank, which faced numerous challenges throughout the financial crisis, not least from 2008. That year, plans to migrate the Baltic banking activities onto the IT platform of Danske Bank Group were abandoned on grounds that it was considered too expensive and required too many resources. In consequence, the Estonian branch did not employ AML procedures developed at Group level, including customer systems and transaction and risk monitoring. At the same time, Group had only limited insight into the Estonian business activities.

### 17. Business reporting

Over the many active years that followed, the Non-Resident Portfolio turned into a well-established business within Danske Bank, albeit particular to the Baltics and the



Estonian branch. Most presentations on the Estonian branch included little or no information about the Non-Resident Portfolio. This was also the case in connection with strategy discussions, irrespective of the importance of the Non-Resident Portfolio to the Estonian branch in terms of profitability. The Estonian FSA had conducted a follow-up investigation in 2009, which resulted in a less critical report compared to 2007. This information was shared with the Danish FSA upon inquiries in 2012 and 2013. The Estonian branch also used minutes of a meeting in 2013 with the Estonian FSA, based upon information provided by the branch, to give comfort to Danske Bank at Group level. Group appeared to place undue reliance on these minutes, which were more nuanced than generally presented within the bank.

#### 18. Reporting from control functions

Up until 2014, reporting on the Estonian branch from Group Compliance & AML to the Executive Board and the Board of Directors was overall comforting, just as reporting from Group Internal Audit was generally positive in 2011 to 2013.

#### 19. Termination of correspondent banking relationship in 2013

In 2013, a correspondent bank clearing USD transactions out of the Estonian branch brought the correspondent banking relationship with the branch to an end on grounds of AML. This was another real opportunity to scrutinise the Non-Resident Portfolio. Actually, it did give rise to a business review of the Non-Resident Portfolio initiated by Group, and although never properly completed before overtaken by other events in the form of a whistleblower it provided Group with new and partly disturbing information. At the same time, there were initiatives within the Estonian branch to strengthen oversight.

#### 20. Responses to whistleblower and Group Internal Audit in 2014

It was a whistleblower from within the Estonian branch in late 2013 and new reporting from Group Internal Audit in early 2014 that made Group realise that AML procedures at the Estonian branch had been manifestly insufficient and inadequate and that all three lines of defence, both within the branch and at Group level, had failed. Upon realising this, action was taken at Group level with regard to the Non-Resident Portfolio. A few months later, however, it was seemingly felt within Group that the situation had come under control and that critical observations by Group Internal Audit and an external consultancy and later also the Estonian FSA mainly concerned the past. In turn, this impression influenced reporting to the Executive Board and the Board of Directors, both of which were again given comfort that had no basis. Also, there was no reporting to authorities.

#### 21. Insufficient actions in 2014

Actions actually taken in 2014 turned out to be insufficient, with a number of processes not brought to an end. For one thing, the allegations brought forward by the whistleblower were not properly investigated. More generally, focus was mainly on procedures, as opposed to mitigating real and concrete risks arising out of a still active Non-Resident Portfolio. One exception was a review by the branch of the corporate customers in the Non-Resident Portfolio, but this exercise also turned out to be insufficient.

#### 22. Process leading to termination of the Non-Resident Portfolio in 2015

In the first half of 2015, the Estonian branch would seem to have planned to maintain the majority of the customers in the Non-Resident Portfolio. This was irrespective of a new branch policy to serve such customers, according to which customers were required to have “legitimate reasons” for doing business in the Baltics, and upon which the Board of Directors had relied when deciding on new strategy for the Baltic banking activities. A proper run-off was initiated and nearly completed only in the second half of 2015, following terminations of the remaining USD clearing correspondent banking relationship and interactions with the Estonian FSA after a highly critical inspection report from December 2014.

#### 23. Analysis of and reporting on the Non-Resident Portfolio in 2017

In 2017, Danske Bank began to look into the Non-Resident Portfolio in response to media coverage. Information was gathered in a process which was chaotic in part, and which did not leave much time for analysis. Reporting was lacking in some respects, both to the Board of Directors and to the Danish FSA.

### Accountability

#### 24. Individuals’ compliance with legal obligations

With regard to the Non-Resident Portfolio, it has been found that, from 2007 through 2017, a number of former and current employees, both at the Estonian branch and at Group level, did not comply with legal obligations forming part of their employment with the bank. Most of these employees are no longer employed by the bank. For employees still with the bank, the bank has informed us that appropriate action has been or will be taken. We are not in a position to share an assessment of an individual unless requested by the individual in question. We have been requested by the Board of Directors, the Chairman and the Chief Executive Officer (“CEO”) to share their assessments. According to assessments made, the Board of Directors, the Chairman and the CEO have not breached their legal obligations towards the bank.

## 1.5 Structure of the report

The remaining part of this report begins with a presentation of relevant regulation and practice regarding AML (Section 2). This is followed by a description of methodology applied in the Portfolio Investigation and the Accountability Investigation, respectively (Sections 3 and 4). Following this, the Non-Resident Portfolio is presented in figures (Section 5). Next, an overview is provided of the inadequate AML procedures in the Estonian branch (Section 6), which is followed by more detailed information about suspicious activity and criminal activity (Section 7) as well as possible internal collusion (Section 8). These sections raise the question as to why the inadequate AML procedures were not detected at an earlier stage and, more broadly, what brought Danske Bank in this situation. What follows next is an overview of events (Section 9). The final section is about individual accountability (Section 10).

This report has been prepared in Danish and English. In case of discrepancy, the English version shall prevail.

## 2. AML regulation and practice

The Non-Resident Portfolio at Danske Bank's Estonian branch is to be understood against the background of applicable AML regulation and the conditions under which the Estonian branch operated.

### 2.1 AML regulation

EU Directive 2005/60 ("Third AML Directive") was implemented into Estonian law on 28 January 2008 in the form of the Money Laundering and Terrorist Financing Prevention Act ("MLTFPA").

Pursuant to this regulation, financial institutions had to perform customer due diligence, e.g. when establishing a business relationship with a customer or when there was a suspicion of money laundering (or terrorist financing), regardless of any derogation, exemption or threshold. The customer due diligence measures included an obligation to establish the customer's identity (and, where applicable, the beneficial owner) and to obtain information on the purpose and intended nature of the business relationship. The customer due diligence obligation is also referred to as "Know Your Customer" ("KYC"). Financial institutions had an obligation to conduct enhanced customer due diligence in situations which by their nature presented a higher risk of money laundering (or terrorist financing).

Financial institutions were to conduct ongoing monitoring of the business relationship with every customer, including scrutiny of transactions. The aim was to ensure that the transactions conducted were consistent with the institution's knowledge of the customer, the customer's business and risk profile, including, where necessary, the source of funds.

Yet another important part of the regulation consisted in reporting obligations. If a financial institution knew of, suspected or had reasonable grounds to suspect a customer of engaging in money laundering (or terrorist financing), this had to be reported to the Financial Intelligence Unit ("FIU"), that is a public law enforcement agency as mentioned above in Section 1.1, in the form of a suspicious activity report ("SAR").

According to advisory guidelines regarding the characteristics of transactions with a money laundering suspicion issued by the Estonian FIU in January 2008 in connection with the regulation, typical grounds for suspicion warranting reporting included, inter alia (an updated version was issued in 2011, the only change being that the currency used in the guidelines was changed from EEK to EUR due to the adoption of the euro in Estonia as per 1 January 2011):

- "cash payments to the client's account which will be used for purchasing securities or derivatives";
- "single unusually large [national or cross-border] payment not conforming to normal turnover and/or not sufficiently justified";

- “large payments (EEK 200,000 [EUR 15,000 according to the 2011 version]) and/or smaller periodic payments with the clients of the banks located in the territories with higher money laundering risks”

Following the advisory guidelines from 2008 (updated in 2011), the Estonian FIU issued new versions of the guidelines in 2013 and in 2015. These guidelines contained similar principles, but set out more detailed requirements for reporting.

In addition, financial institutions were obligated to keep records of information and documents obtained during customer due diligence and review of business relationships and transactions for a period of at least five years.

In order to forestall money laundering (and terrorist financing), financial institutions were also obligated to establish adequate and appropriate policies and procedures of customer due diligence, reporting, record keeping, internal control, risk assessment, risk management, compliance management and communication.

To ensure a proper culture within a financial institution with respect to AML, financial institutions were to provide education and training programmes to relevant employees to enable them to recognise operations potentially related to money laundering (or terrorist financing).

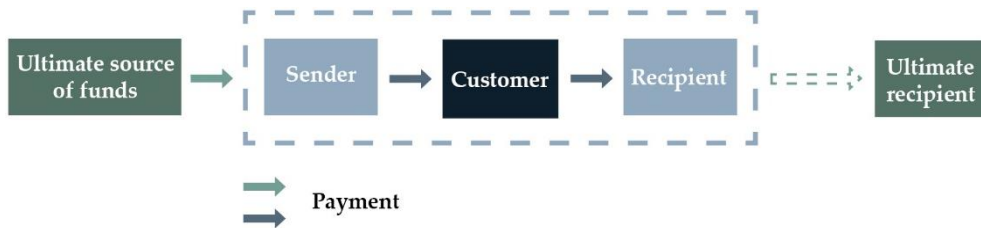
In addition to the MLTFPA, the Estonian FSA has issued further regulatory and advisory guidelines for financial institutions on additional measures for preventing money laundering.

Principles similar to those described also applied in Estonia prior to the implementation of the Third AML Directive in January 2008, although to a lesser extent. With the implementation of the Third AML Directive into Estonian law, the obligations for financial institutions were strengthened significantly.

## 2.2 AML practice and information available to a financial institution

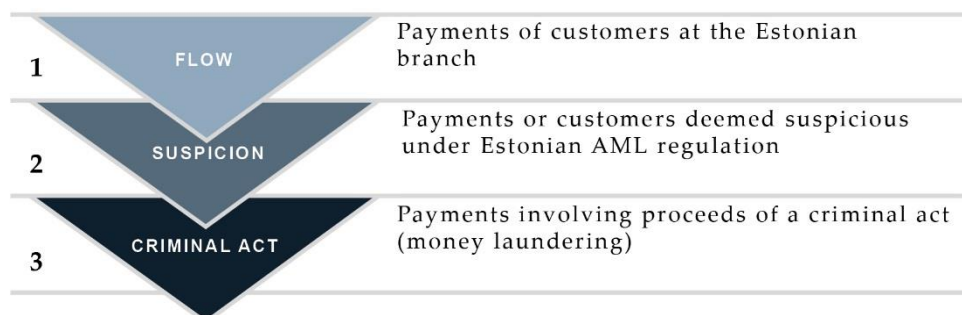
Among the obligations laid out in Section 2.1, financial institutions must gather information on, inter alia, its customers’ identities and the purpose and intended nature of their relationships with the financial institution. Further, a financial institution must conduct ongoing monitoring of its customers and report suspicious activity to the FIU. Observing these obligations does not require that financial institutions conclude on or establish whether criminal acts or violations of law have been committed.

In processing payments for its customers, the Estonian branch may not have access to information on the ultimate source of funds nor the ultimate recipient of funds. For explanatory purposes, a chain of payments having flowed through the Estonian branch may be illustrated as follows:



In the illustration, the Estonian branch has visibility of the parties within the dotted line box. As regards a payment made to a customer of the Estonian branch from an external sender, the Estonian branch will, in connection with the payment, obtain information about the external sender (as well as the Estonian branch’s customer). This may include the name and country of the sender’s bank, information on the sender, the value of the payment and a payment description. As regards a payment made from a customer of the Estonian branch to an external recipient, the Estonian branch will, similarly, in connection with the payment, obtain information about the external recipient (as well as the Estonian branch’s customer). This may include the name and country of the recipient’s bank, information on the recipient, the value of the payment and a payment description. These links in the payment chain are illustrated by the dotted line box above and show that the knowledge of the Estonian branch may well be confined to information about the preceding link and the subsequent link in a payment chain. Consequently, where the Estonian branch’s customer is not the ultimate source of the funds nor the ultimate recipient of the funds (marked with green), information about the ultimate source of funds or the ultimate recipient of funds is not necessarily available to the Estonian branch.

As money laundering revolves around transactions involving proceeds obtained from criminal acts, even a fully compliant financial institution will rarely have access to information enabling it to conclude whether criminal acts have, in fact, generated the proceeds in question. This may be illustrated by the following model of analysis (for illustrative purposes only):



Upon submission of a SAR to the relevant FIU, the FIU is given the opportunity to collect information in addition to the information which has been submitted to it by the reporting financial institution. Such additional information will be collected for the purposes of assessing whether criminal acts have generated the proceeds in question, that is whether money laundering may have taken place as a part of the transactions.

The relevant FIU will be able collect such additional information using different means than those available to a financial institution, for instance through interrogations or exchange of information with other authorities, including foreign authorities.

### 3. Portfolio Investigation

The purpose of this section is to present the methodology applied by the investigation involving thousands of customers and millions of transactions as well as trading activity. The investigation was formally mandated by Danske Bank's Board of Directors on 8 December 2017.

#### 3.1 Purpose and scope

The Portfolio Investigation examines the now terminated Non-Resident Portfolio in the Estonian branch from the time of Danske Bank's acquisition of Sampo Bank completed in 2007 until the termination of the Non-Resident Portfolio in late 2015 (with some accounts closing only in early 2016). The main focus is on the customers in the Non-Resident Portfolio and their payments and trading activities during this period. The employees and agents of the Estonian branch who handled the Non-Resident Portfolio or could otherwise have been involved are also investigated to uncover potential internal collusion.

#### 3.2 Overall conduct of the Portfolio Investigation

The Portfolio Investigation is overseen, supervised and directed by Bruun & Hjejle Advokatpartnerselskab ("Bruun & Hjejle") in order to ensure that the investigation is objective and thorough. "Objective" means that the investigation is in the hands of Bruun & Hjejle in order not to be affected by conflicts of interests within the bank or otherwise. "Thorough" means that the investigation seeks to uncover all facts of potential relevance to the investigation and irrespective of their implications. The Association of Danish Law Firms has issued a guide on investigations, in which the term "impartial" (in Danish, "uvildig") investigation is limited to investigations undertaken by law firms not regularly advising the company subject to investigation. Prior to the current investigations, Bruun & Hjejle had not been engaged by Danske Bank's Board of Directors, but Bruun & Hjejle does advise Danske Bank on a number of other matters. While accordingly this investigation is not presented as "impartial", the investigation is following general principles laid out for impartial investigations by the Association of Danish Law Firms. In order to avoid misunderstandings, the investigation is also not presented as (fully) "independent", although obviously Bruun & Hjejle has maintained its independence as required under the Code of Conduct for the Danish Bar and Law Society adopted by the General Council of the Danish Bar and Law Society.

On the basis of instructions issued by Bruun & Hjejle, investigation work has been – and continues to be – conducted by Danske Bank's Compliance Incident Management team, together with forensic experts from the consultancy firms PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab and Ernst & Young P/S. The international data management software company Palantir Technologies Inc. ("Palantir") has deployed its software platform to integrate and enable analysis of the comprehensive amount of customer, transaction and trading data available. CERTA Intelligence & Security A/S ("CERTA") is also assisting.

### 3.3 Methodology regarding customers

#### 3.3.1 *Collecting data and other information and ingesting it into Palantir's software platform*

The Estonian branch's IT department assisted in identifying available relevant data to be applied (sources and tables) based on the scope of the Portfolio Investigation. The identified data was then collected from various data sources within Danske Bank's systems. This included both customer data and transaction data, including 87 million payments over 10 years for all customers at the Estonian branch. Subsequently, the identified data was transferred from the Estonian branch and ingested into Palantir's software platform to store, structure and enable the Portfolio Investigation to examine the data. Afterwards, the data was transformed into a readable and searchable format to be used for analysis by the Portfolio Investigation. Also, external data from other sources than the Estonian branch was identified, collected and ingested into the software platform.

#### 3.3.2 *Defining and identifying the population of customers subject to investigation*

Customers subject to investigation include customers that are believed to have formed part of the Non-Resident Portfolio in the period from 2007 until the termination of the Non-Resident Portfolio. This is based on lists provided by the Estonian branch. In addition, the Portfolio Investigation has applied a broader definition to all customers at the Estonian branch so as to identify and capture all customers with non-resident characteristics, such as address, contact data or ownership outside Estonia, that were active during the period between 1 January 2007 and 31 January 2016 (with one or more transactions) to make sure that all potentially suspicious activity on the part of non-resident customers is examined. All these customers are subject to investigation.

#### 3.3.3 *Defining, applying and grouping risk indicators to identify and prioritise customers for investigation*

The Portfolio Investigation has developed risk indicators, which have been applied to customers subject to investigation with a view to identifying the customers with higher risk. Subsequently, the Portfolio Investigation grouped the risk indicators – and the customers that hit the risk indicators – and initiated a number of investigations into groups of customers. The application of the risk indicators has allowed the Portfolio Investigation to prioritise the investigations. The Portfolio Investigation also launched a number of investigations to review customers connected to established money laundering schemes mentioned by media etc.

#### 3.3.4 *Investigation of customers subject to investigation*

The Portfolio Investigation examines customers subject to investigation by reviewing and conducting multiple searches across the available data on Palantir's software platform. The investigation also involves screenings against sanctions lists. Furthermore, and as described above, the Portfolio Investigation has conducted investigations into the customers connected to money laundering schemes mentioned by media etc.



### 3.3.5 *Decision as to whether the characteristics or activities of investigated customers should be deemed suspicious*

The Portfolio Investigation has on a regular basis made decisions as to whether customers should be deemed suspicious. In accordance with AML regulation, customers have been deemed suspicious if a suspicion has been identified, and it has not been possible for the Portfolio Investigation to disprove this suspicion.

### 3.3.6 *Reporting of findings to relevant authorities on an ongoing basis*

Based on the decisions as to whether customers should be deemed suspicious, the Portfolio Investigation has reported, or is in the process of reporting, in the form of SARs to the Estonian FIU as required under Estonian AML regulation. SARs are filed in a format agreed with the FIU, and there is an ongoing dialogue with the Estonian FIU in this respect.

### 3.3.7 *Outstanding investigative steps*

While the Portfolio Investigation has obtained a good general understanding of the Non-Resident Portfolio, investigative steps in relation to specific customers remain outstanding. So far, approximately 6,200 customers hitting the most risk indicators have been investigated. It follows that approximately 8,800 customers (the ones hitting fewest risk indicators) are still to be examined. Also, investigation steps in relation to sanctions screening and analysis of trading activities are outstanding. Information regarding specific customers may be shared only with authorities. As long as the investigation is ongoing, findings remain subject to change.

## 3.4 **Methodology regarding employees and agents (possible internal collusion)**

### 3.4.1 *Identifying employees and agents subject to investigation*

The Portfolio Investigation has identified a number of employees (both former and current) that have historically worked with the Non-Resident Portfolio. These are all subject to investigation. Further, the Portfolio Investigation has identified other employees (both former and current) from other departments and divisions for whom it is also relevant to consider internal collusion due to the roles they have had. In total, more than 100 employees (both former and current) are subject to investigation. Also, 25 former agents contracted by the Estonian branch are in scope.

### 3.4.2 *Investigation of employees and agents subject to investigation*

The Portfolio Investigation examines employees and agents in scope by reviewing data available on the employees and agents and by conducting searches within publicly available information. CERTA assists with this.

### 3.4.3 *Suspicious activity reports*

The Portfolio Investigation has on a regular basis made decisions as to whether employees and agents should be deemed suspicious. In accordance with AML regulation, employees or agents have been deemed suspicious if a suspicion has been identified, and it has not been possible for the Portfolio Investigation to disprove this suspicion.

In the course of the investigation, the Portfolio Investigation has filed, or is in the process of filing, SARs on employees and agents. SARs are filed with the Estonian FIU in a format agreed with the FIU, and there is an ongoing dialogue with the Estonian FIU in this respect.

#### 3.4.4 *Police reporting*

If additional information on employees or agents is identified suggesting that the employee or agent has shown suspicious behaviour to such an extent that criminal activities is rendered probable, police reporting is considered.

#### 3.4.5 *Outstanding investigative steps*

Examination of employees and agents subject to investigation will continue in an ongoing dialogue with relevant authorities, including the Estonian FIU. As long as the investigation is ongoing, findings remain subject to change.

#### 4. Accountability Investigation

The purpose of this section is to present the methodology applied in the Accountability Investigation, involving thousands of documents and millions of emails as well as a large number of interviews with relevant persons. The investigation was formally mandated by Danske Bank's Board of Directors on 8 December 2017.

##### 4.1 Purpose and scope

The purpose of the Accountability Investigation was to investigate potential institutional and individual accountability arising out of actions and omissions by individuals within Danske Bank who may have failed to identify, escalate or halt suspicious activities related to the Non-Resident Portfolio in Danske Bank's Estonian branch. The purpose of the Accountability Investigation was also been to form a basis for decision-making in Danske Bank's Board of Directors. The basis for both was a detailed description of facts, here presented as a chronology of events. These facts may be analysed and assessed from different perspectives. The Accountability Investigation included our assessments based on legal rules and standards as summarised in Section 10.1.

##### 4.2 Overall conduct of the Accountability Investigation

The Accountability Investigation was conducted by Bruun & Hjejle in order to ensure that the investigation was objective and thorough. For the understanding of these terms and Bruun & Hjejle's role, reference is made to Section 3.2 above. As part of the investigation, Bruun & Hjejle engaged Promontory, which was instructed to collect and review material together with Bruun & Hjejle. Upon its completion, the investigation was found by Bruun & Hjejle to have been objective and thorough.

##### 4.3 Methodology

###### 4.3.1 *Collection and review of documents*

Bruun & Hjejle, with assistance from Promontory, requested, collected and reviewed material held by Danske Bank. Several information and document requests were scoped in order for the Accountability Investigation to receive all such information and documentation, which could potentially be relevant. Danske Bank provided the requested documents from a variety of departments and units in both Denmark and Estonia. The investigation required active support from Danske Bank in providing documentation. At the same time, the investigation took steps to ensure completeness. Information from documents, materials etc. caused the Accountability Investigation to request further documents, materials and email accounts etc., all with a view to closing identified information gaps and ensuring a thorough investigation. In total, the Accountability Investigation collected, reviewed and assessed over 12,000 documents. Danske Bank has declared that, to the best of its knowledge, all relevant documents, material and information in the possession of Danske Bank has been provided to the Accountability Investigation.

#### 4.3.2 *Collection and review of emails*

As part of the Accountability Investigation, Bruun & Hjejle was given access to email accounts belonging to selected current and former employees in Danske Bank. The Accountability Investigation was given access to over 40 email accounts, in total containing more than eight million emails, documents, calendar invites etc., which Bruun & Hjejle, together with Promontory, searched for relevant information. Email searches were planned and conducted on both broad and specific topics for the purpose of identifying information relevant to the investigation. The email searches were designed so as to narrow the numbers of emails to manageable amounts, which were reviewed and assessed for relevance to the Accountability Investigation. Significant items were exported, reviewed and assessed separately. The Accountability Investigation exported more than 3,700 emails, documents etc. Danske Bank has declared that, to the best of its knowledge, full access to all requested e-mail accounts available to Danske Bank has been provided to the Accountability Investigation.

#### 4.3.3 *Preparation and completion of interviews*

Bruun & Hjejle, with assistance from Promontory, conducted interviews with employees, including members of the Executive Board, and members of the Board of Directors, both current and former. 49 individuals were interviewed, and a total of 74 interviews were conducted as part of the investigation. All interviews were conducted in accordance with rules on due process.

#### 4.3.4 *Assessments*

Based on all collected information, the conducted interviews and observations, Bruun & Hjejle assessed the potential institutional and individual accountability. All individuals subject to individual assessment were given the opportunity to review a draft assessment together with relevant material. Also, other individuals with knowledge of the events relevant to the Accountability Investigation, but not subject to individual assessment, were given the opportunity to review relevant material. Comments and proposed amendments received were subsequently evaluated and reflected where deemed appropriate.

#### 4.3.5 *Investigation by the Danish FSA*

In September 2017, the Danish FSA initiated an investigation into Danske Bank's management and governance in relation to the AML case at the Estonian branch. Following receipt of the Danish FSA's preliminary assessment on 21 December 2017, Danske Bank's Board of Directors asked Bruun & Hjejle to prepare a written reply to the Danish FSA in order to avoid conflicts of interests and to make information already gathered within the investigation available to the Danish FSA. Bruun & Hjejle, together with Promontory, prepared the replies filed on 7 February and 26 March 2018 by Danske Bank's Board of Directors and Executive Board. In response to a series of draft decisions provided by the Danish FSA throughout April and May 2018, Bruun & Hjejle prepared further submissions to the Danish FSA at the initiative of Danske Bank's Board of Directors. First of all, Bruun & Hjejle shared the investigation's preliminary factual findings and compared those to factual findings on the part of the Danish FSA. Also, Bruun

& Hjejle offered its views on some intended procedural decisions apparent from the draft decisions. Bruun & Hjejle did this in an attempt to secure the rule of law to the benefit of all stakeholders. Ultimately, the Danish FSA followed the views on procedural matters offered by Bruun & Hjejle, as reflected in its decision of 3 May 2018.

## 5. Non-Resident Portfolio

This section contains a description of the terminated Non-Resident Portfolio at Danske Bank's Estonian branch.

### 5.1 Overview

Since the acquisition, the Estonian branch consisted of different divisions that reported to the branch manager. Within each division, there were one or more departments.

The Non-Resident Portfolio was understood to mean the pool of non-resident customers managed within the Estonian branch by a designated group of employees (relationship managers and others). There were also some non-resident customers outside the Non-Resident Portfolio, and obviously practical life resulted in a number of nuances, such as non-resident customers changing to other parts of the branch.

Back in June 1998, the International Banking department had been established in the Estonian branch holding a portfolio of non-resident customers, that is the Non-Resident Portfolio. In May 2007, this department was integrated into the Private Banking department within the Personal and Retail Banking division handling both resident and non-resident customers. In late 2012, the Estonian branch was reorganised, and the Private and International Banking department was renamed the International & Private Banking division, still comprising both resident and non-resident customers. Early in 2013, two separate departments within the International & Private Banking division were established, namely the Private Banking department and the International Banking department, the latter holding the Non-Resident Portfolio. In March 2015, the Private Banking department was moved to the newly established Private Banking division, and the International & Private Banking division was renamed International Banking division. In late 2015, the International Banking division was closed down.

Services offered to the customers in the Non-Resident Portfolio in Danske Bank's Estonian branch consisted not least of payments and other transactions in various currencies, but also foreign exchange lines ("FX lines") and bond and securities trading. Only very limited credit facilities were offered to customers in the Non-Resident Portfolio.

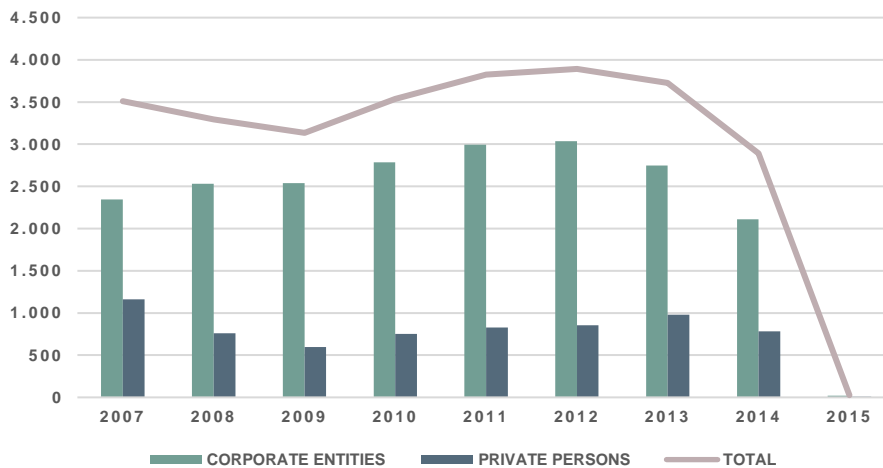
Customers in the Non-Resident Portfolio were both private persons and corporate entities. A small number of customers were non-regulated entities acting as intermediaries providing cross-border payment solutions to unknown end-clients in Russia and other CIS countries.

### 5.2 Number of customers

From 2007 through 2015, it was not the same customers that constituted the Non-Resident Portfolio at all times. Some customers left while other customers came. The International Banking department (later division) as established in 2013 kept lists of its customers. Similar lists did not exist before 2013, but they have been created by the Estonian branch applying the same methodology as used from 2013, that is by including customers that had a relationship manager who would have belonged within the International Banking department (later division) if such had existed before 2013. In total,

and according to these lists, the number of customers in the Non-Resident Portfolio was approximately 10,000 in the period from 2007 through 2015. This number includes customers that were passive.

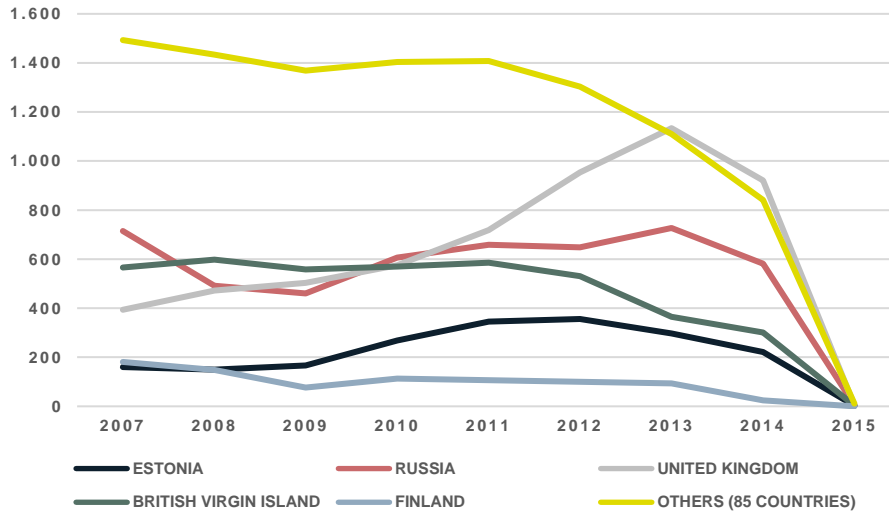
The development of the Non-Resident Portfolio over time can be illustrated as follows (customers in the Non-Resident Portfolio at the end of each year):



As can be seen, the Non-Resident Portfolio went from having approximately 3,500 customers at the end of 2007, approximately 3,900 customers at the end of 2012 and approximately 3,750 at the end of 2013 to have only a few at the end of 2015 when the International Banking division had been closed. Some of the customers within the Non-Resident Portfolio remained with the Estonian branch when the International Banking division was closed (after scrutiny of the customers), but then as part of either Private Banking or Corporate Banking.

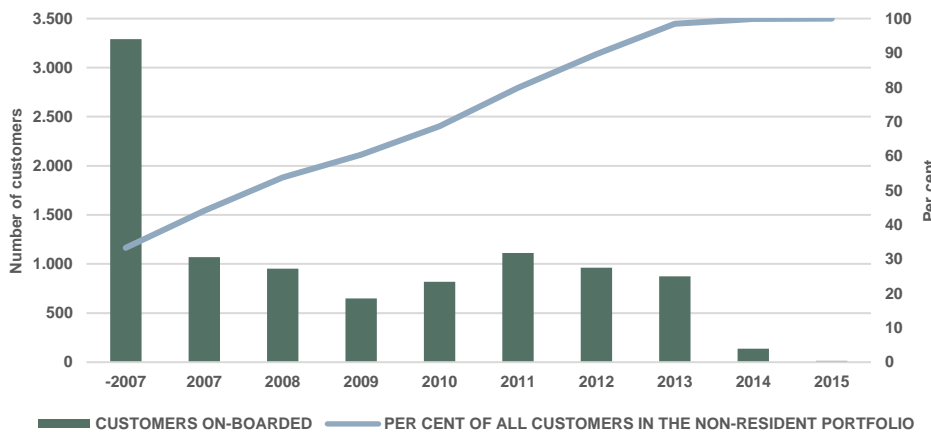
Per year, customers in the Non-Resident Portfolio accounted for approximately 2 to 4 per cent of the total number of customers at the Estonian branch.

Over time, the geographical distribution of the customers in the Non-Resident Portfolio changed. In total, customers came from 90 countries based on their registered or recorded residency status (for example, postal address for private persons and country of incorporation for corporate entities), the three main countries being Russia, the UK and the British Virgin Islands (customers in the Non-Resident Portfolio at the end of each year):



As can be seen from the chart above, some customers in the Non-Resident Portfolio had Estonia as their registered or recorded residency status, but were considered non-resident, for instance because they had non-resident ultimate beneficial owners (the natural persons ultimately owning or controlling a corporate entity). As can also be seen, neighbouring country Finland was the fifth largest country represented in the Non-Resident Portfolio. Among the approximately 10,000 customers in the Non-Resident Portfolio were 72 Danish customers, namely two private persons and 70 corporate entities (of which 53 were K/S companies).

The time for on-boarding the approximately 10,000 customers in the Non-Resident Portfolio can be illustrated as follows (customers on-boarded on an annual basis):

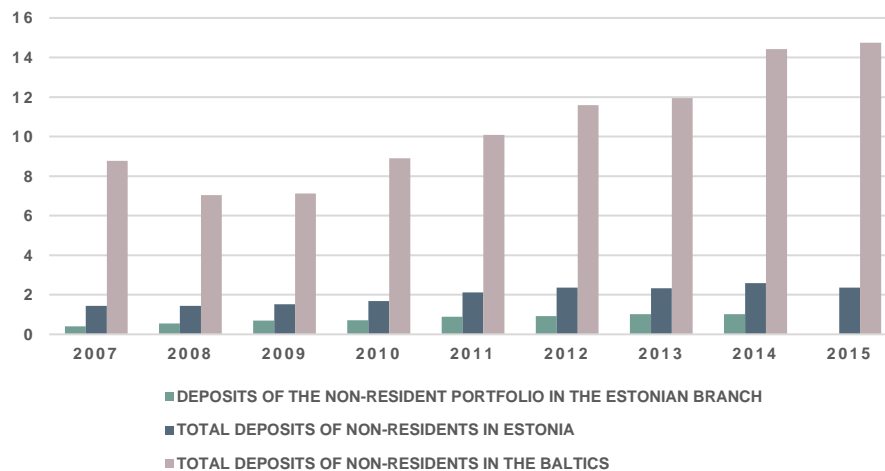


In the above chart, 2007 refers to the period from 1 February 2007 when Danske Bank’s acquisition of Sampo Bank was completed and took effect. At this point, around one third of the approximately 10,000 customers in the Non-Resident Portfolio from 2007 through 2015 were with Sampo Bank in Estonia.



### 5.3 Deposits

Data on deposits belonging to non-resident customers in banks in the three Baltic countries are published by the central banks in Estonia and Lithuania and by the Financial and Capital Market Commission in Latvia. These data may be compared with the information on deposits of customers in the Non-Resident Portfolio at Danske Bank's Estonian branch (deposits in EUR billion at the end of each year):



The amount of deposits held by the approximately 10,000 customers in the Non-Resident Portfolio increased from EUR 0.4 billion at the end of 2007 to EUR 1.0 billion at the end of 2014. Compared to the total deposits of non-residents in Estonian banks, the share held by the approximately 10,000 customers in the Non-Resident Portfolio at Danske Bank's Estonian branch increased from 27 per cent at the end of 2007 to 44 per cent at the end of 2013 and 40 per cent at the end of 2014. The closing of the Non-Resident Portfolio at the Estonian branch would not seem to have had a significant immediate effect on the total amount of deposits in Estonia held by non-resident customers, but the total deposits of non-residents in Estonia decreased from EUR 2.4 billion at the end of 2015 to EUR 1.2 billion at the end of 2017.

In the period from 2007 through 2015, the majority of deposits belonging to non-resident customers in Baltic banks was placed with banks in Latvia. When considering Baltic banking as a whole, the approximately 10,000 customers in the Non-Resident Portfolio at Danske Bank's Estonian branch accounted for five per cent of the total deposits of the non-resident customers in the Baltics at the end of 2007, nine per cent at the end of 2013 and seven per cent at the end of 2014.

#### 5.4 Profits

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:

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 %

The differences between the two accounting figures are the following:

##### Accounting figures

*Profits before credit losses:* total revenues, including internal costs, internal income and operating costs and expenses in general (except credit losses and tax)

*Profits before tax:* total revenues, including internal costs, internal income and operating costs and expenses in general (except tax)

The Estonian branch's share of the total profits generated by Danske Bank at Group level was as follows (IT migration costs in 2014 and 2015 are not included):

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 %

Profits before tax include impairments. In 2008, there were high impairments at Group level while in 2011 impairments were significantly reduced in the Estonian branch.

During the same period, the Estonian branch's share of the total assets of Danske Bank Group was stable at approximately 0.5 per cent.

The total gross income received directly from non-resident customers, including customers in the Non-Resident Portfolio, in the period from 2007 through 2015 was approximately DKK 1.5 billion.

#### 5.5 Customers subject to investigation

Non-resident customers also existed outside the Non-Resident Portfolio. For the sake of completeness, the Portfolio Investigation has considered all customers with one or more cross-border characteristics, such as an address, contact data or ownership outside Estonia. This increases the number of customers from 2007 through January 2016 by approximately 5,000 to approximately 15,000.

## 6. AML procedures in the Estonian branch

AML procedures at the Estonian branch in relation to the Non-Resident Portfolio were manifestly insufficient and inadequate and in breach of international standards as well as Estonian law. This was so even though the non-resident customers were categorised as high risk. Shortcomings included the following, as established in 2014 by Group, the external consultancy and the Estonian FSA:

Obligations for a financial institution	AML failings re the Non-Resident Portfolio
<p><b>Due diligence measures.</b> Identify and verify the customer (and (ultimate) beneficial owners where applicable) and obtain information on the purpose and nature of the business relationship</p>	<ul style="list-style-type: none"> <li>▪ Lacking knowledge of customers</li> <li>▪ Lacking identification of (ultimate) beneficial owners and “controlling interests”</li> <li>▪ Customers included so-called intermediaries, which were unregulated and represented unknown end-customers</li> </ul>
<p><b>Monitoring of transactions and screening.</b> Scrutiny of transactions to ensure that the transactions are consistent with the information on the customer and the business and risk profile</p>	<ul style="list-style-type: none"> <li>▪ Insufficient attention to customer activities</li> <li>▪ Lacking identification of the source and origin of funds used in transactions</li> <li>▪ No screening of customers against lists of politically exposed persons</li> <li>▪ No screening of incoming payments against sanctions or terror lists</li> <li>▪ In general, no automatic screening of incoming payments</li> </ul>
<p><b>Reporting.</b> Notification to authorities in case of reasonable grounds to suspect money laundering</p>	<ul style="list-style-type: none"> <li>▪ Lack of response to suspicious customers and transactions</li> </ul>

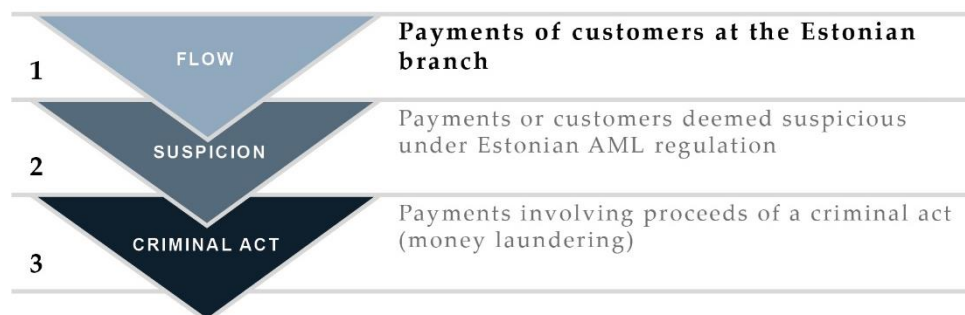
Other shortcomings have been identified, such as the lack of independence between the AML function at the Estonian branch and the business and insufficient training of the staff of the Estonian branch and lack of formal procedures.

## 7. Activity of customers in the Non-Resident Portfolio

This section presents more detailed facts on the approximately 10,000 customers in the Non-Resident Portfolio. Where relevant, also the additional approximately 5,000 customers are mentioned, see Section 5.5 above. The section should be read while bearing in mind the manifestly insufficient and inadequate AML procedures summarised in Section 6.

### 7.1 Payments

As a starting point, reference is made to the model of analysis in Section 2.2:

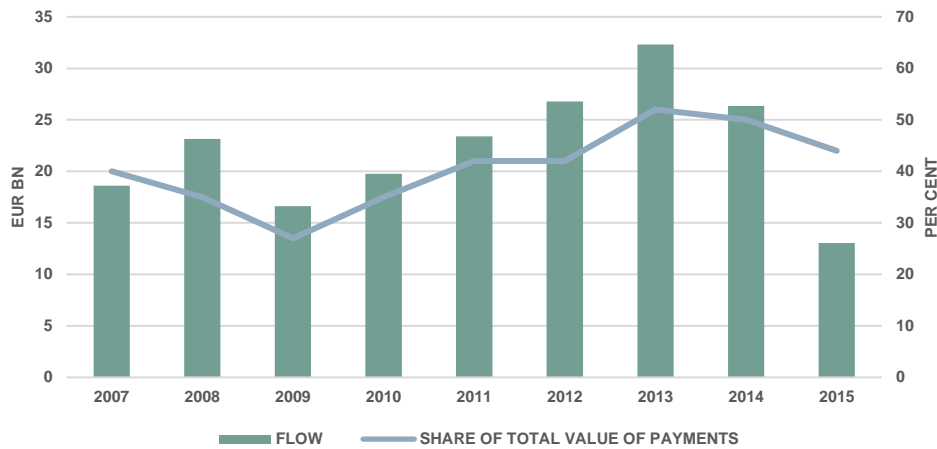


Funds transferred from external parties to customers in the Non-Resident Portfolio and subsequently transferred from such customers to external recipients are referred to as “flow”. The flow excludes book transfers between the customers in the Non-Resident Portfolio to avoid counting the same amounts of money more than once.

As for the approximately 10,000 customers in the Non-Resident Portfolio from 2007 through 2015, there were payments in 32 different currencies, the majority of the total amounts being in USD and EUR. For the purposes of analysis, and in order to present an overview, payments denominated in a currency other than EUR have been converted into EUR. As for incoming payments, the spot rate for the day sums received has been used, and, with regard to outgoing payments, the spot rate for the day sums left has been used. Obviously, rates change over time. In consequence, the flow expressed remains, by definition, an approximation.

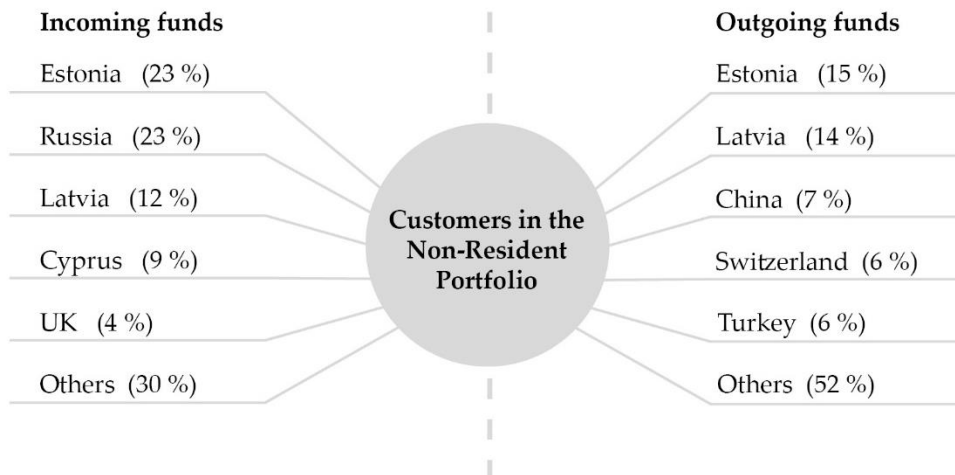
In the period from 2007 through 2015, the approximately 10,000 customers in the Non-Resident Portfolio had approximately 7.5 million incoming and outgoing payments (while all the 15,000 customers subject to investigation had approximately 9.5 million incoming and outgoing payments). Taking into account that the flow provided remains an approximation, there is no significant difference between the flow of the 10,000 customers in the Non-Resident Portfolio and the 15,000 customers subject to investigation, as the 5,000 customers outside the Non-Resident Portfolio accounted only for a minor part of the total flow. The flow as converted into EUR was approximately EUR 200 billion.

This flow was distributed as follows over the years (in EUR billion on a yearly basis):



As appears from the blue line, the total value of payments (including both incoming and outgoing funds as well as book transfers) of the approximately 10,000 customers in the Non-Resident Portfolio accounted for approximately 40 per cent of the total value of payments within Danske Bank’s Estonian branch.

The geographical distribution of the flow of EUR 200 billion is illustrated below:

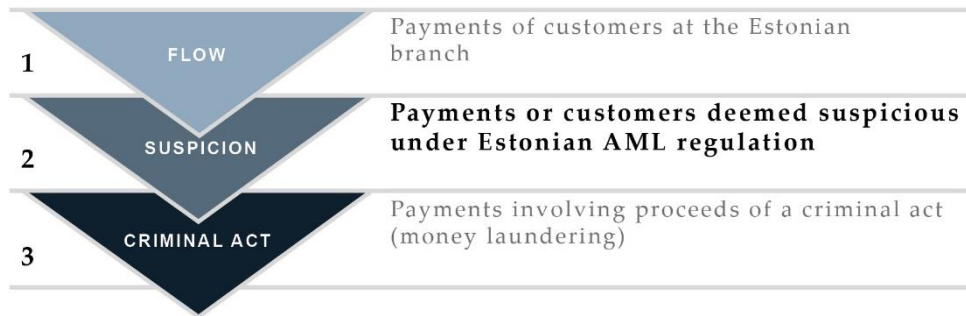


“Others” represent a large number of countries all over the world (more than 150 countries) each of which account for a smaller part than the UK (i.e. 4 per cent) with regard to incoming funds and Turkey (i.e. 6 per cent) with regard to outgoing funds.

0.6 per cent of the incoming funds came from Denmark, and 0.9 per cent of the outgoing funds were sent to Denmark.

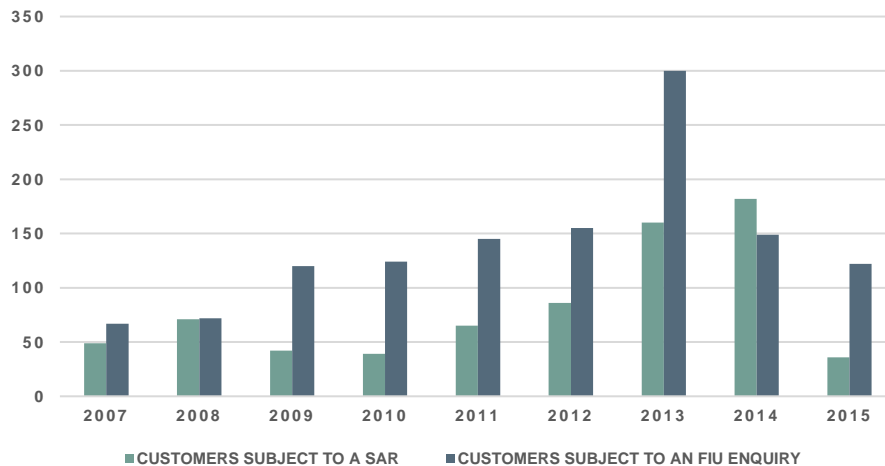
## 7.2 Suspicious customers in the Non-Resident Portfolio

Again, reference is made to the model for analysis in Section 2.2:



7.2.1 Historical SARs and FIU inquiries

Over time, there were inquiries from the Estonian FIU and also reporting from the Estonian branch in the form of SARs. This reflects that historically some of the customers in the Non-Resident Portfolio, or transactions made by them, were considered suspicious. In the period from 2007 and onwards, and based on the approximately 10,000 customers in the Non-Resident Portfolio, the Estonian Branch filed SARs on 653 customers (some subject to more than one over the years), and 1,007 customers were subject to inquiries from the Estonian FIU (some subject to more than one over the years and some also subject to a SAR):



In the period from 2007 through 2015, SARs were also filed by the Estonian branch on customers outside the Non-Resident Portfolio. The SARs filed on the approximately 10,000 customers in the Non-Resident Portfolio accounted for approximately 13 per cent of the total number of SARs filed in the period. The approximately 10,000 customers in the Non-Resident Portfolio accounted for approximately 30 per cent of the total number of FIU inquiries received by the branch in the period from 2007 through 2015.

The Portfolio Investigation has taken these historical FIU inquiries and SARs into account when examining the approximately 10,000 customers in the Non-Resident Portfolio.

Similarly, the Portfolio Investigation has considered historical SARs and FIU inquiries in relation to the additional approximately 5,000 customers which are also subject to investigation, see Section 5.5 above. From 2007 and onwards, 107 of these customers were subject to one or more SARs being filed by the Estonian branch. 61 of these customers were subject to an FIU inquiry.

The Portfolio Investigation is also taking into account that some payments were returned by correspondent banks for various reasons, including policies of the correspondent banks.

#### 7.2.2 *Customers investigated*

The Portfolio Investigation has adopted a risk-based customer-by-customer approach in order to identify suspicious customers, and the investigation has used risk indicators to identify the customers with higher risks. This approach has been discussed with the Estonian FIU, which has had no objections.

So far, the Portfolio Investigation has reviewed approximately 6,200 customers of the approximately 15,000 customers subject to investigation. This includes approximately 60 customers from Denmark. Almost all of these approximately 6,200 customers were among the approximately 10,000 customers in the Non-Resident Portfolio.

When examining customers, the Portfolio Investigation has in particular identified the following suspicious features:

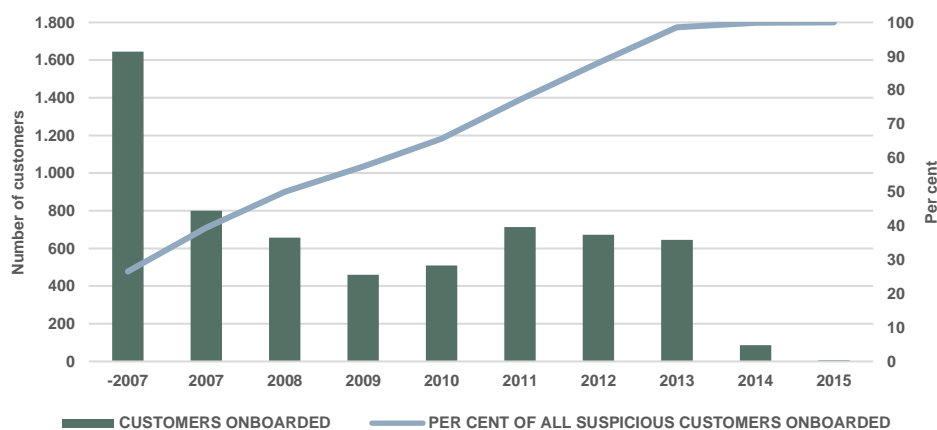
- customers that have been identified as registered to or otherwise associated with addresses that are shared with numerous other customers and that have been identified as suspicious in various jurisdictions including the British Virgin Islands, United Kingdom, Cyprus and also Denmark. Some of the customers also share other properties, for instance email addresses and phone numbers;
- customers with significant differences between their revenue figures reported in publicly available documents and their payment activity as per their accounts at the Estonian branch;
- customers that have been identified in the public domain as being associated with money laundering schemes;
- customers with large amounts of funds passing through accounts regularly in short periods of time, with unusual payment chains, with unexplained or unusual source of funds or wealth, with unusual payments descriptions, with adverse media or with other suspicious characteristics or behaviour; and
- customers with payments with suspicious counterparties in other banks.

Only few of the customers examined have been deemed not suspicious, that is without suspicious characteristics and not having been involved in payments deemed suspicious. The main reasons for suspicion are as follows (where a customer has been placed in the most pertinent category in the event that a customer fits into more than one category):

Suspicion	Number of customers (approximately)
Customers with shared addresses or other properties that have been identified as suspicious	3,500
Customers with significant differences between revenue figures and payment activity	1,700
Customers associated with money laundering schemes in the public domain	500
Customers with other suspicious characteristics or behaviour	450
Customers with payments with suspicious counterparties in other banks	50

Based on the methodology applied in the Portfolio Investigation, the approximately 6,200 customers deemed suspicious represent a higher risk profile than the approximately 8,800 customers that are still to be investigated.

On-boarding of the approximately 6,200 customers that have been deemed suspicious (as laid out above) can be illustrated as follows (customers on-boarded on an annual basis):



In the above chart, 2007 refers to the period from 1 February 2007 when Danske Bank’s acquisition of Sampo Bank was completed and took effect. At this point, around a quarter of the approximately 6,200 customers that have been deemed suspicious were with Sampo Bank in Estonia.



### 7.2.3 *Suspicious flow*

The approximately 6,200 customers that have been deemed suspicious represent the majority of the flow. The fact that customers have suspicious characteristics or have been involved in some payments deemed suspicious does not provide a basis for concluding with reasonable certainty what part of the flow was suspicious. For some customers, all payments are likely to be suspicious. For other customers, the fact that they have been involved in some suspicious payments does not necessarily imply that all their payments were suspicious. However, a transaction-by-transaction approach has not been adopted, and there is no accurate estimate. Overall, it is expected that a large part of the payments were suspicious.

### 7.2.4 *“Russian Laundromat”*

In relation to the “Russian Laundromat”, the Portfolio Investigation has identified 177 customers that received payments through Moldindconbank and Trasta Komerbanka from 21 “core companies” mentioned by the media. These 177 customers could potentially be involved in the “Russian Laundromat”. The majority of the 177 customers are limited partnerships (“LPs”) or Limited Liability Partnerships (“LLPs”) incorporated in the U.K. or in countries generally considered tax havens (British Virgin Islands, Hong Kong, Belize, Cyprus, etc.). Among the 177 customers are also three Danish K/S entities. The main activity took place in 2013 and 2014.

### 7.2.5 *“Azerbaijani Laundromat”*

In relation to the “Azerbaijani Laundromat”, the Portfolio Investigation has identified 75 customers of the Estonian branch that have made payments with private persons and corporate entities outside of the Estonian branch that, according to media, have been involved in the scheme. Two thirds of the 75 customers were LPs or LLPs incorporated in the U.K. Funds transferred by the 75 customers were characterised by being moved rapidly (credits followed by immediate debits with corresponding amounts). The Portfolio Investigation has identified six customers which have conducted the vast majority of payments that could potentially relate to the “Azerbaijani Laundromat”. All six customers were LPs or LLPs incorporated in the U.K.

### 7.2.6 *Hermitage Capital Management*

Included in the Portfolio Investigation is an examination of the allegations made by Hermitage Capital Management of alleged tax fraud of USD 230 million involving high-ranking officials in the Russian Government. The proceeds of the fraud are believed to have been laundered through various countries. Hermitage Capital Management is registered as a victim in a criminal investigation in France in which Danske Bank is currently an assisted witness. Hermitage Capital Management has also reported Danske Bank and employees of Danske Bank’s Estonian branch to the police in Estonia and Denmark.

### 7.2.7 *Danish K/S entities*

53 customers of the approximately 15,000 customers subject to investigation were incorporated as Danish K/S entities. All of these customers have been deemed suspicious.

The 53 customers all shared addresses (seven in total) in Copenhagen, and the vast majority of the entities also shared the same directors.

### 7.3 Possible criminal activity of customers

Reference is made to the model of analysis in Section 2.2:



The fact that a customer or a payment is deemed suspicious does not in itself imply that criminal activity is involved. Ascertaining whether criminal activity has taken place, that is whether the funds are proceeds resulting from a crime, will typically require more information than is possessed by a financial institution.

The Portfolio Investigation has made no findings which enable it to conclude whether money laundering, tax evasion or other criminal activity has actually taken place. Findings do not allow to go further than identifying suspicious customers, that is whether customers have suspicious characteristics or have been involved in payments deemed suspicious, and reporting them to authorities.

Screening against sanctions lists is ongoing. So far, there has been no findings of sanctions violations.

**8. Employees and agents engaged by the Estonian branch**

The Portfolio Investigation has investigated employees (both former and current) and agents who were employed with or engaged by the Estonian branch. As a starting point, the Portfolio Investigation identified all employees that handled the Non-Resident Portfolio from 2007 through 2015. This comprises some 50 employees, including relationship managers, consultants, assistants, some legal counsels and a director, of the former International & Private Banking department and, from 2013, the International Banking department (later division). Further, the Portfolio Investigation has, based on historical lists of all employees within the Estonian branch, identified employees within other departments for whom it is also relevant to consider internal collusion due to the roles they have had.

Over time, some of the employees were subject to disciplinary action by the Estonian branch. One employee was dismissed, and five received a written warning. The Portfolio Investigation has taken these historic disciplinary actions into account when reviewing the employees.

In addition, the Portfolio Investigation has included 25 agents receiving commissions for their efforts in locating customers.

As of today, the Portfolio Investigation has reviewed more than a hundred persons (employees (both former and current) and former agents). 42 employees and agents have been deemed suspicious. The main reasons are:

Involvement in payments with suspicious counterparties	Significant cash deposits that seem suspicious
Involvement in suspicious payments with other employees	Relationship with one or more customers

The Portfolio Investigation is in the process of filing SARs on all employees and agents deemed suspicious. In accordance with AML regulation, employees or agents have been deemed suspicious if a suspicion has been identified, and it has not been possible for the Portfolio Investigation to disprove this suspicion. The information available to the Portfolio Investigation has also led to police reports to the Estonian police in relation to eight former employees, where the investigation has identified suspicious behaviour to such an extent that criminal activities is rendered probable, that is a higher threshold than what applies to a SAR.

Despite the SARs and police reports filed, it cannot be concluded with reasonable certainty to what extent criminal activity in the form of collusion has actually taken place. In particular, SARs do not allow to go further than identifying employees or agents as

suspicious, that is whether employees or agents have participated in suspicious activity, and reporting them to the authorities. Although suspicious activity of employees and agents has been identified, this activity is not necessarily related to the work conducted by the employees or agents at the branch or to the Non-Resident Portfolio.

## 9. Overview of events

This section provides an overview of events from 2007. It is based on the information available to us, as explained in Section 4. In general, we have a better understanding of what was known and done at Group level than in the Estonian branch, and we also have more information about more recent times, not least from 2013.

### 9.1 Organisational overview

#### 9.1.1 *Three lines of defence*

Danske Bank's risk management structure has been organised in a "three-lines-of-defence" model, which has been implemented gradually over time (and not complete before September 2014). The first line of defence consists of the day-to-day operational management which manages risk (the business units, including the business units in the Estonian branch). The second line of defence is performed by the risk, compliance and AML functions, which oversee, monitor and challenge the risk exposures of the bank's business units and is responsible for implementation of efficient risk management and compliance procedures. Finally, the third line of defence lies with functions that provide independent assurance and assessments (above all Group Internal Audit).

#### 9.1.2 *Estonian branch, Baltic Banking and international banking activities at Group level*

Danske Bank's entity in Estonia, Sampo Pank, was in 2007 a bank and subsidiary on its own and from 2008 a branch of Danske Bank. It changed its name to Danske Bank in November 2012. The Estonian branch has its own Executive Committee.

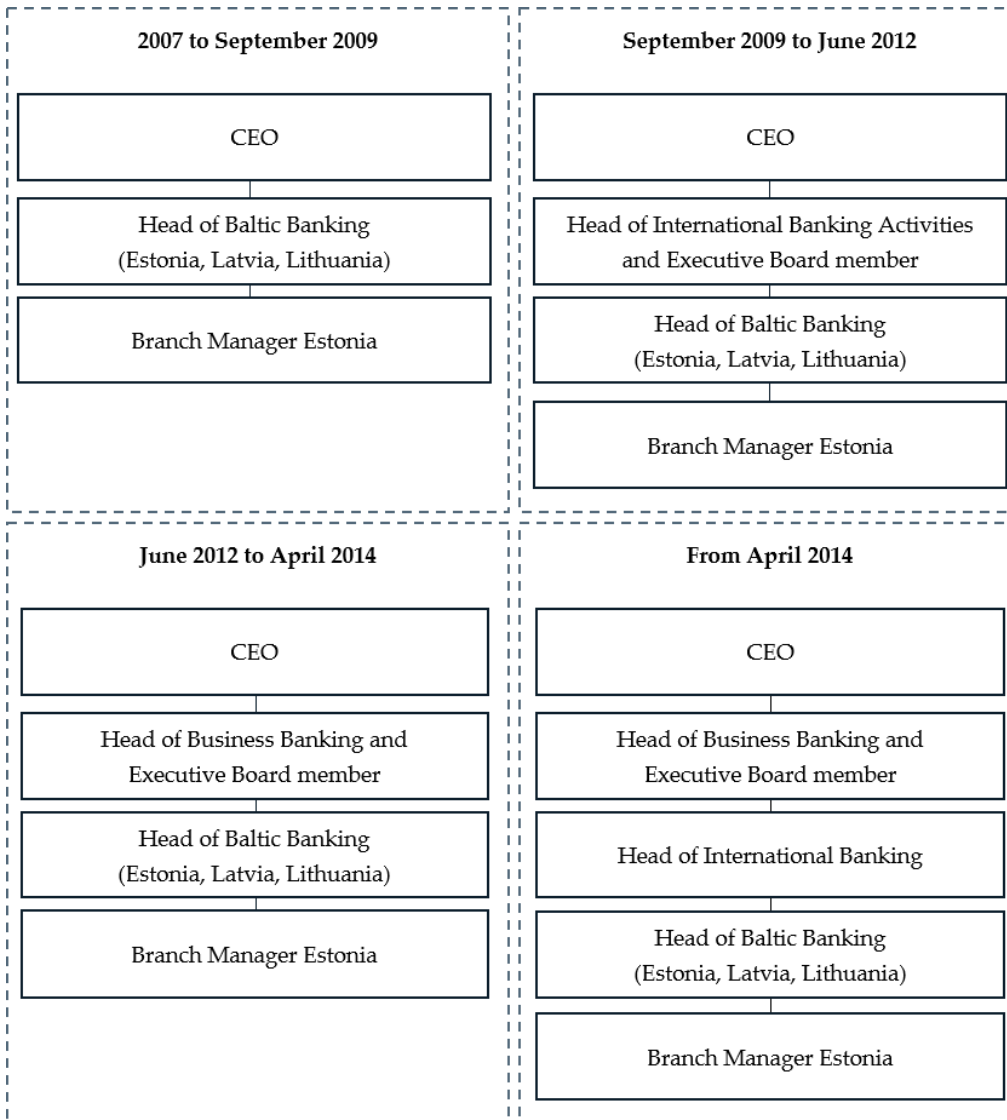
Baltic Banking was the first level above each of the three Baltic branches (Estonia, Latvia and Lithuania), forming a connecting link between the Baltic banking activities and Danske Bank Group in Copenhagen. There was also a joint board of directors for the Baltic entities, the Baltic Advisory Board (earlier named the Baltic Supervisory Board) with members from Group, as well as a Baltic Executive Committee.

Prior to the new operational model introduced in June 2012, Baltic Banking reported to the Head of International Banking Activities, which formed part of Thomas Borgen's ultimate executive responsibilities as member of the Executive Board from September 2009 until June 2012. In June 2012, the Baltic banking activities was moved to Business Banking. From June 2012, the Head of Business Banking was member of the Executive Board and had ultimate executive responsibility for the Estonian branch.

In 2014, International Banking was introduced as a new level between Business Banking and Baltic Banking.

#### 9.1.3 *Business reporting*

The line of business reporting (first line of defence) from the Estonian branch to Danske Bank Group developed over time from a reporting line of three stages in 2007 to four stages in September 2009 to five stages in April 2014:



9.1.4 Board of Directors and Audit Committee

The Board of Directors is entrusted with the overall and strategic management of Danske Bank, including responsibilities to monitor compliance and risk management. From 2007 to 2017, the Board of Directors consisted of eight members elected at the general meeting and four employee representatives.

The Audit Committee is a board committee with members appointed from the Board of Directors. It supervises accounting and auditing and, from 2012, also compliance and AML on behalf of the Board of Directors.

9.1.5 Executive Board

The Executive Board is responsible for the day-to-day management of the bank and is chaired by the CEO. Its obligations include ensuring the bank’s organizational structure is robust and transparent and has effective lines of communication and reporting, including in relation to compliance and AML.

### 9.1.6 *Group Legal*

Group Legal provides legal advice and services internally in Danske Bank. The Head of Group Legal reported directly to the CEO until 2012, but from 2013 instead to the Chief Financial Officer (“CFO”), who was member of the Executive Board. Until September 2014, Group Legal was responsible for Group Compliance & AML.

### 9.1.7 *Group Compliance & AML*

As a function overseeing the compliance and AML areas in the bank’s business units (first line of defence), Group Compliance & AML forms part of the second line of defence. The name of the unit has changed over time but is referred to as Group Compliance & AML throughout this report. From September 2014, the Head of Group Compliance & AML reports directly to the CFO as opposed to the Head of Group Legal as was the case prior to September 2014.

### 9.1.8 *Group Internal Audit*

Group Internal Audit constitutes the third line of defence and is entrusted with internally auditing all companies and certain other entities within the Danske Bank Group. Group Internal Audit is headed by the Chief Audit Executive, who is appointed by the Board of Directors. Group Internal Audit forms the third and last line of defence.

## 9.2 **Acquisition**

In this overview of events, the first phase involves the acquisition and related events in 2006 and 2007.



### 9.2.1 *Acquisition of Sampo Bank*

On 9 November 2006, Danske Bank announced its acquisition of Finnish-based Sampo Bank, which Danske Bank in its public announcement to the stock exchange described as “the third largest bank in Finland with an extensive branch network, subsidiaries in Estonia, Latvia and Lithuania, and a recently acquired bank in Russia”. The price was just above EUR 4 billion, with a little more than half allocated to goodwill in Danske Bank’s subsequent annual report for 2006. The completion of the acquisition was announced on 1 February 2007.

In addition to the activities in Finland, Sampo Bank had three smaller subsidiaries in the Baltics: AS Sampo Pank in Estonia, AB Sampo Bankas in Lithuania and AS Sampo Banka in Latvia.

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 Investeerimisbank. 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 Investeerimisbank, and the banks were merged under the name Optiva Bank, by then the third largest bank in Estonia. This was the bank that, in 2000 and 2002, Finnish-based Sampo Bank acquired and renamed Sampo Bank.

Prior to 2007, Danske Bank had not been operating out of the Baltic countries.

It followed from public annual reports for the three Baltic subsidiaries that Sampo Bank in Estonia was the most profitable of the three Baltic subsidiaries. It was also the only subsidiary which presented Return on Equity (“ROE”) in its annual report, that is earnings compared to equity (capital). According to the annual reports, ROE for the Estonian subsidiary was 23 per cent in 2005, 26 per cent in 2006 and 30 per cent in 2007.

#### 9.2.2 *Inspection by the Estonian FSA in 2007*

In March and April 2007, the Estonian FSA carried out an inspection at Sampo Bank in Estonia focusing on the bank’s non-resident customers. The final inspection report, written in Estonian, was issued on 16 August 2007. On 20 September 2007, the branch sent an English translation of the summary of the inspection report to Danske Bank’s Group Compliance & AML in Copenhagen, which shared it with Group Legal.

According to the English summary, the Estonian FSA had found that “the approved internal rules are mostly in compliance with the requirements set forth in the valid legal acts”, and that “[i]n principle, control systems for the monitoring of compliance with these regulations have also been established”. Yet, actual practice at the branch attracted criticism, not least with respect to KYC (Know Your Customer) information, as the Estonian FSA wrote that “the Bank’s routine practice has not been fully in compliance with the requirements stipulated in valid legal acts and international standards”. The Estonian FSA concluded that “the Bank has underestimated potential risks, associated with providing services to legal entities registered in a low-tax area and undue compliance with relevant procedure rules”. As for non-resident customers in particular, the Estonian FSA stressed the “additional risks” involved and found that “the actual activity of the Non-resident Customers Department aimed at examining the activities of clients is not in compliance with international practice and is not sufficient, regarding the specifics of the activities of this particular client group and associated risks”.

On 18 September 2007, the inspection report was followed by a precept from the Estonian FSA issuing orders for the bank to comply with. On 25 September and 20 December 2007, the Estonian branch informed the Estonian FSA about steps taken by the branch to comply with the precept. According to the branch, this included closing of “597 accounts of non-resident legal and natural persons” in 2007. On 3 December 2007,



an English translation of the precept was shared with Group Compliance & AML in Copenhagen.

### 9.2.3 *Information from the Russian Central Bank in 2007*

In a letter of 8 June 2007 to the Danish FSA, the Russian Central Bank expressed concern with regard to non-resident customers of Sampo Bank in Estonia. It shared information that “clients of Sampo Bank permanently participate in financial transactions of doubtful origin” estimated at “billions of rubles monthly”. After a description of a type of transaction, the Russian Central Bank further stated that “the mentioned transactions can be aimed at tax and custom payments evasion while importing the goods, or giving the legal form to the outflow of the capital, or they can be connected with the criminal activity in its pure form, including money laundering”. On 18 June 2007, the Danish FSA forwarded this letter to the Executive Board of Danske Bank and asked for its comments in English.

The letter from the Russian Central Bank was on the agenda at meetings on 7 August 2007 in both the Executive Board and Board of Directors. At these meetings, information was given that the matter would be investigated internally.

Group Legal and Group Compliance & AML replied to the Danish FSA on behalf of the bank by letter of 27 August 2007. 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 3 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.

## 9.3 **Operation**

In this overview of events, the second phase concerns operation lasting from 2008 to 2013.



### 9.3.1 *Separate IT platform*

In 2008, Sampo Bank in Estonia was turned into a branch of Danske Bank, as would seem to have been planned already at the time of the acquisition. Another plan had been to migrate the Baltic subsidiaries onto the Group IT platform to secure access to information of the business and minimise operational risks. In August 2008, however, this plan was abandoned. Migration was then found to be too expensive and take up too much capacity. It was made clear at the time that the cancelled IT migration called for additional initiative in the area of compliance.

### 9.3.2 *Internal reporting in 2008 and 2009*

In an audit report of 29 April 2008 on AML procedures in the Estonian branch, Group Internal Audit gave the branch a “satisfactory” rating (the second best rating out of five). It was observed that “[t]he non-resident customers department has improved considerably in applying KYC [Know Your Customer] principles” although Group Internal Audit also noted “a few shortcomings”. At the same time, reports on AML from the Estonian branch were predominantly green (the best rating out of three), and there was nothing of note relating to Estonia in the reports on AML produced by Group Compliance & AML throughout 2009.

### 9.3.3 *Follow-up inspection by the Estonian FSA in 2009*

In June 2009, the Estonian FSA performed a follow-up AML inspection on its inspection in 2007 at the Estonian branch. This resulted in a final inspection report of 15 October 2009, written in Estonian. By the end of October 2009, the branch provided Group Compliance & AML with an English summary. According to the summary, the Estonian FSA noted that the attitude of branch employees concerning the objectives of and compliance with statutory requirements had “improved considerably”. The Estonian FSA 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”). The Estonian FSA further wrote that “[t]he 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”. The Estonian FSA stressed “the importance of obtaining the relevant information, especially about the beneficial owners, ownership and control structures and economic activities of customers in order to guarantee that the Branch and the entire financial system of Estonia function in a manner that is trustworthy and in compliance with international standards”.

### 9.3.4 *News reports in 2010*

In 2010, information about the customers of the Estonian branch were discussed in a number of news reports.

On 4 January 2010, the American newspaper Barron’s published an article linking a specific company to the Estonian branch and a North Korean arms smuggling case in Thailand. The branch had been approached by the journalist prior to publication of the article, but the article was published without mentioning of the branch or Danske Bank. Action was taken within the Estonian branch, which we due to legal obligations are not permitted to share. We cannot see that Group was informed at the time.

On 25 January 2010, Estonian media linked the Estonian branch to an alleged money-laundering scheme involving a currency exchange company and a specific customer. On 28 January 2010, this story was, in short form, reflected in Danish media when another Danish bank stated that the matter related to Sampo Bank. This gave rise to questions at Group level, and the matter came up again in March 2010 among members of the Executive Board following approach by one of Danske Bank’s correspondent banks.

Action was taken within the Estonian branch, which we due to legal obligations are not permitted to share.

### 9.3.5 *Discussions in the Executive Board in 2010 and 2011*

In 2010 and 2011, Danske Bank's Executive Board touched upon the Estonian branch and its Non-Resident Portfolio.

At the meeting in the Executive Board on 21 January 2010, there had been a Group-wide discussion on focus areas and profitability, including the Baltics. The discussion is not reflected in the minutes of the meeting. According to an email from February 2010 between other employees at Group level, a member of the Executive Board had pointed to the possibility of a slow expansion in Estonia, while making it clear that such expansion should not be at the cost of AML.

At a meeting in the Executive Board on 9 March 2010, there was a discussion of the number of suspicious activity reports ("SARs") filed by the Estonian branch on the basis of reporting. The discussion is reflected in minutes as follows (translation):

*"The AML report states at page 5 that Estonia accounts for a 30 % market share of the "Suspicious Activity Reports". According to [name], the reason for this high share is that the standard of Danske Bank is high compared to other banks in Estonia.*

*[Name] expressed concern over the many Russian transfers. [Name] stated that the Russian Central Bank had been contacted, and it had agreed to these transfers. Nor had [name] come across anything that could give rise to concern."*

Half a year later, at the meeting in the Executive Board on 21 September 2010, there was again reporting on the number of SARs, which led to the following discussion (as stated in minutes):

*"In reply to a question from [name], [name] and [name] 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."*

### 9.3.6 *Reporting from Group Internal Audit in 2011*

On 26 August 2011, Group Internal Audit issued an audit report on compliance and AML in the Estonian branch. The audit report assigned 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, the report 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".

On 14 November 2011, Group Internal Audit issued an audit report on customer engagement at the Estonian branch, also reviewing Customer Due Diligence and KYC

procedures. The audit report assigned 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”.

### 9.3.7 *Information to the Board of Directors in 2011 and 2012*

On 5 May 2011, the Board of Directors was provided with some background material for an overall strategy discussion about the Baltic banking activities. The presentation had no detailed analysis and did not mention the Non-Resident Portfolio. The presentation contained slides with titles such as “Operating profit stable before loan losses – Dominated by Estonia” and “Good ROE [Return on Equity] before loan losses – Again, Estonia at high levels”. According to the presentation, ROE before loan losses for the Estonian branch had increased from 45 per cent in 2007 to 58 per cent in 2010. According to the minutes of the meeting, it was said and agreed that “it was important to focus on the right customers” and that “[t]he short-term target was not to be number one or two, but the Bank had to have ambitious goals for the long term”. When again discussing the Baltics at a meeting of the Board of Directors on 1 March 2012, information about the Baltics was provided on a more general level.

### 9.3.8 *Request in 2012 from the Danish FSA about the Estonian branch*

On 13 February 2012, the Danish FSA approached Group Compliance & AML in connection with a letter from the Estonian FSA concerning (translation) “a number of serious AML/CFT issues in the Estonian branch”. In its request, the Danish FSA made reference to a “survey within Estonian credit institutions and foreign branches”, which the Estonian FSA had pointed to in its letter. It was stated about the Estonian branch that “[t]he relatively big concentration of the business relationships from risk countries in Branch is not accidental” and that “the same risk patterns” had been identified by the Estonian FSA during its inspections in 2007 and 2009. On this basis, the Danish FSA requested comments from Group on the matters set out in the letter as well as the lack of actions taken by the Estonian branch.

When replying to the Danish FSA on 20 February 2012, Group Legal and Group Compliance & AML relied upon information from the Estonian branch. It was stated that “[i]n order to mitigate the risk of being used for money laundering or terror financing Sampo Pank Estonia operates a determined control environment regarding customer relation establishment and transaction monitoring”. As for the Estonian FSA’s inspection report from 2009, it was written that “the shortcomings have been corrected subsequently”. In conclusion, it was stated: “To sum up we are fully aware that the customer database of Sampo Pank Estonia includes a number of high risk customers. However, we are confident that the control setup corresponds to the actual risk.”

On 3 April 2012, following a request from the Danish FSA for further information on the specific handling of high risk customers in the Estonian branch, Group Compliance & AML provided a second reply on behalf of Danske Bank. This reply provided a more

detailed overview of the AML control procedures in the Estonian branch. The conclusion read, also referring to reports from Group Internal Audit: “As a closing note we would like to state that we feel confident that the control setup described above mitigates the actual risk regarding high risk customers in Sampo Pank at a satisfactory level.”

### 9.3.9 *Group Compliance & AML’s visit to the branch in 2012*

In the letter of 3 April 2012 to the Danish FSA, it was stated that Group Compliance & AML planned to visit the Estonian branch in May 2012. This visit took place on 7 May 2012. Observations from the visit were reflected in an appendix to the report from Group Compliance & AML for the first half of 2012. This appendix listed AML risks in the local functions. As for the Estonian branch, focus had been on “the ongoing process of controls to ensure that rules are complied with” and “screening of outgoing payments against EU/UN and OFAC list [US Office of Foreign Assets Control’s sanction list]”. It was added that “[a]s of today incoming payments are not screened and this might be one of the focus areas going forward”. The report from Group Compliance & AML also mentioned the bank’s reply in 2012 to the Danish FSA “regarding the high market share of high risk customers (e.g. offshore or Russian customers)”. It was commented that “the due diligence and monitoring procedures are adjusted to mitigate the risk involved”. An appendix included an overview of the risk analysis for 2012. According to the overview, 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).

Similar statements as the one in the appendix about lack of screening of incoming payments were included in the Group Compliance & AML report for first half of 2013 to the Executive Board and the Audit Committee and also in the annual Group AML report for 2013 to the Board of Directors.

### 9.3.10 *FX lines memorandum from Business Banking from 2012*

As a result of an organisational change in June 2012, Danske Bank’s Baltic banking activities had been placed under the Group business unit Business Banking. A few months after its establishment, 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. It was pointed out that these were high-risk customers, and concerns were raised regarding AML. Ultimately, the use of FX lines was made subject to a memorandum of 26 October 2012. Although the memorandum was primarily about credit policy, and deviation therefrom, it also addressed AML issues in the following way:

*“The paramount risk in these arrangements relate to the banks reputation. Today risk mitigation is achieved by screening customers using the KYC process. The process was presented to the local and Danish FSA and is more comprehensive than what is currently being used in other business areas.”*

The memorandum was approved by two members of the Executive Board as well as other employees at Group level. One of the members of the Executive Board added in handwriting: "What is the motivation for these customers opening an account with Sampo? I mean the customers' motivation". The other member added, also in handwriting, that "[i]t would be relevant to go through the work done by e.g. Group Audit etc." Throughout the discussions on the use of FX lines, Baltic Banking provided comforting information to Group.

#### 9.3.11 *AML programme referred to as "Best in Class" and correspondence with the Danish FSA in 2012*

On 15 June 2012, the Danish FSA presented Danske Bank with nine orders and four pieces of risk information on AML relating to its activities in Denmark. The orders covered a broad field and included KYC procedures, correspondent banking, transaction monitoring and training programmes. In response, Danske Bank's Board of Directors decided to not only comply with the orders and risk information, it also expressed an ambition to become "Best in Class" within AML.

In connection with Danske Bank's application to open a branch in New York, the bank produced an AML action plan to the US Federal Reserve. At its meeting on 6 September 2012, the Board of Directors rejected the first 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 12 October 2012, the Board of Directors approved a new action plan. On 30 October 2012, the Danish FSA issued a statement of support to the US Federal Reserve, which the Danish FSA did on the basis of the action plan ratified by the Board of Directors on 12 October 2012 and a progress report from Danske Bank dated 24 October 2012, both of which the bank had forwarded to the Danish FSA. In the Danish FSA's statement of support, it was noted that "during our AML/CTF inspection we did not discover any suspicious customer transactions (money laundering or terrorist financing), which had not been handled by Danske Bank in accordance with the FATF [Financial Action Task Force] standards and the Danish Money Laundering Act". According to the statement, the Danish FSA had reviewed the action plan and concluded "that it appears to comprise the elements necessary to sufficiently address the AML/CTF deficiencies". After a follow-up inspection on 12 November 2012, the Danish FSA, by letter of 30 November 2012 to Danske Bank, stated that the bank had complied with all orders and risk information issued in June 2012. The Danish FSA underlined that its assessment relied on the information received in connection with the inspection, including presentations, written rules of procedure, reports and other documents. Ultimately, at its meeting on 8 August 2013, Danske Bank's Board of Directors decided to withdraw the application for a branch in New York for reasons not related to AML.

### 9.3.12 *Reporting from Group Internal Audit in 2012*

On 30 November 2012, Group Internal Audit issued 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.

### 9.3.13 *Lack of AML responsible person in 2013*

At the end of 2012, Danske Bank’s AML responsible person retired. A new AML responsible person, as required under Danish law, was not appointed until 7 November 2013.

### 9.3.14 *Request in 2013 from the Danish FSA*

In the spring of 2013, there were again communications with the Danish FSA about the Estonian branch, its customers and AML procedures. On 4 April 2013, the Danish FSA approached Group Legal. In a first reply the following day, Group Legal referred to the bank’s previous letter of 3 April 2012 to the Danish FSA, which was also enclosed. Group Legal stated (translation): “The circumstances are still the same – namely that a very special setup has been made for the Russian customers we have in Estonia, for the very reason that these customers involve a high risk. It has been described in detail in the attached letter”. It appears from an email of 5 April 2013 from Group Legal that the Estonian FSA had also mentioned a list kept by the Russian Central Bank containing (translation) “Russian customers who were blacklisted”. On 7 April 2013, Group Compliance & AML contacted branch management, referring to “our blacklisted Russian customers”. It was added that “the Danish FSA is now very worried because they have confirmed to the US authorities that we comply with Danish FSA’s requirements on AML”, and “[i]t is critical for the Bank that we do not get any problems based on this issue. We cannot risk any new orders in the AML area”. Again branch management provided comforting information to Group Compliance & AML (with Baltic Banking copied in on the email).

On 25 April 2013, and at the initiative of Baltic Banking, the Estonian branch had a meeting with the Chairman of the Board of the Estonian FSA. The branch produced minutes of the meeting, which were reviewed by the Estonian FSA. Most of the minutes summarised the information provided by the Estonian branch at the meeting. Reporting from Group Internal Audit was emphasised. There were also responses from the Estonian FSA. According to the minutes, the Estonian FSA “acknowledged presented information and pointed out that the FSA pays very high attention to the AML prevention in banks and payment institutions”. Also, it was stated that “[t]he FSA admits that the Bank’s internal AML regulations are in compliance with the established requirements in order to prevent in a satisfactory level”. This text had been contributed by the branch, and it was the one point where the Estonian FSA inserted additional text when reviewing the minutes. This additional text was as follows: “however they pointed out that from FSA perspective risk appetite in Estonian Danske A/S looks above the average comparing with Estonian banking sector in general”. Also, it was stated that “[t]he FSA underlines that Know Your Customer Policy must be observed not only in written procedures but also in everyday business activities” and that “[i]t is important to know

where and how the customer makes business and that would be in compliance with transactions in bank account". According to the minutes, "both parties found that it is very important to realize bigger risks with non-resident customers and take all possible measures to reduce and minimize them", and the Estonian FSA had stressed the high risk represented by "financial mediators". It was not reflected in the minutes that they would be circulated outside Danske Bank. On 15 May 2013, however, and as had been intended internally, Group Legal shared the minutes with the Danish FSA. Group appeared to place undue reliance on these minutes, which were more nuanced than generally presented within the bank.

#### 9.3.15 *Preparation in 2013 of Baltic strategy review*

In 2013, preparations were made for a review of strategy with respect to the Baltic banking activities. A draft presentation on "Baltic strategy review" was circulated internally in Business Banking, seemingly intended for the meeting in the Board of Directors on 19 June 2013. The presentation presented three strategic approaches: "Become national champion", "Build on cross sales" and "Exit Baltic countries". There was also a slide on "The Journey for Baltic Banking towards 2015". The presentation contained a so-called SWOT [Strengths, Weaknesses, Opportunities and Threats] analysis. Among the strengths, AML was mentioned, with the headline: "Anti Money Laundering and Know Your Customer processes have been reviewed and FSAs are confident with them". On another slide, it was listed as a threat that "35% of Estonian profit generated by Russian business customers in Estonia". The presentation never made it to the Board of Directors, but specific slides were later used at meetings in Baltic Banking.

#### 9.3.16 *Termination in 2013 of correspondent banking relationship*

For purposes of clearing USD payments, the Estonian branch had its own correspondent banks. In June 2013, a member of the Executive Board was contacted by one of the correspondent banks with a view to terminating the correspondent banking relationship on grounds of AML. The issue was brought up at a Business Banking Performance Review Meeting on 27 June 2013. This caused an action point titled "Non-Resident Russian profiles" for which Business Banking and "Local Finance in Baltics" were responsible; it included the following: "a) Review size of business; b) Alternative sources for correspondent banking of part of the business volume; c) Review KYC profiles and review relationship if documentation not in place". In turn, a small group led by Business Banking looked into the matter. Ultimately, and in agreement with the correspondent bank in question, the Estonian branch sent a closure notification terminating the correspondent banking relationship, effective as of 1 August 2013 with ordinary notice of three months. Following the termination, it would seem that another correspondent bank accepted to expand its cooperation with Danske Bank to include the Estonian branch.

#### 9.3.17 *Reporting from Group Internal Audit in 2013*

In an audit report dated 1 August 2013, Group Internal Audit reviewed KYC controls for non-resident customers in the Estonian branch. The report concluded 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, Group Internal Audit noted that “several issues ... in which further improvement was needed”. The audit was led locally, but this time it also involved members of Group Internal Audit from outside the branch.

### 9.3.18 *Business review of the Non-Resident Portfolio in 2013*

The above-mentioned termination of a correspondent banking relationship with the Estonian branch led to a business review of the Non-Resident Portfolio at the initiative of members of the Executive Board. This brought new information to Group. Business Banking noted that “over-normal profit is usually a warning sign, superior service or not”, and concern was expressed regarding “the lack of price-sensitivity with some customers is due to other factors than good service”. For its part, Group Compliance & AML stated that “the business volume (transactions) with non-resident customers in Estonia” was larger than expected. Also, the presence of so-called intermediaries in the form of “non-regulated entities” was questioned. As mentioned in Section 5.1, intermediaries constituted a small group of customers in the Non-Resident Portfolio holding accounts for the purpose of facilitating transactions with their own end-customers outside the branch.

Within the Estonian branch, a memorandum to the branch’s Executive Committee, titled “Solutions in the Non-resident Intermediaries customer segment using bonds” (the “OFZ memo”, OFZ being Russian government bonds) was circulated on 15 October 2013. The memorandum presented “a solution for ten customers in our 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”. It was added that “the solution” was “highly profitable”, but also that “[c]onsistent with our strategy for the segment, we do not add new Intermediary clients and expect the number of clients in the segment to decline over time”. Two main risks were indicated: (i) “We do not have full knowledge about the end-clients of the Intermediary”, and (ii) “[t]here is potential reputational risk in being seen to be assisting ‘capital flight’ from Russia”. With regard to the first main risk, an earlier draft had added: “and therefore potentially this solution could be used for money-laundering”, but these words had been left out in the final version at the initiative of a member of branch management.

On 16 October 2013, the full presentation on the business review and a summary were forwarded to Business Banking. The presentations stated that intermediaries would be “harvested” and subject to a “[r]un-off”, and that the business segment would follow a strategy to “focus on preserving client quality not on acquiring new clients”. When forwarding the presentations, Baltic Banking noted, among other points, that “[t]he business line is profitable and contributing significantly to Baltic Banking performance”, and that “[t]here are resilient KYC and AML procedures in place” and “no pending discussions on business with regulators”.

On 23 October 2013, there was a Business Banking Performance Review Meeting for Q3 2013 with the CEO and three other members of the Executive Board present. The

action point about the Non-Resident Portfolio defined at the previous meeting on 27 June 2013 was discussed. According to the minutes, the “initial take” presented by a member of the Executive Board was “that the size of Danske Bank business undertaken with this category of customer is larger than DB peers, and the proportion of business needed to be reviewed and potentially reduced”. Also according to the minutes, the CEO “emphasized the need for a middle ground, and wanted to discuss this further outside of this forum”, and the already mentioned member of the Executive Board “agreed to hold a meeting when Business Banking had finalised its conclusions”. A new action point to this effect was added with deadline in November 2013 and with Business Banking as responsible. However, we have found no information about any follow-up.

On 29 November and 13 December 2013, Baltic Banking forwarded 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. We cannot see that this material was shared with the CEO.

Minutes of the Business Banking Performance Review Meeting for Q4 2013 on 31 January 2014, again with the CEO participating, describe the business review as completed between two members of the Executive Board (not involving the CEO) and that the business review was intended to be followed by an exit of customers. There was no mentioning of a meeting with the CEO.

#### 9.3.19 *Initiatives at branch level in 2013*

At the same time as the business review, initiatives were also taken at branch level. At a meeting on 15 August 2013 in the Baltic Executive Committee, a rapid increase in income from bond trading activities was pointed to. A review of the Baltic business was suggested to ensure proper management of risks. At the meeting, the Baltic Executive Committee approved four specific proposals, which included compliance review and increased oversight. During the autumn of 2013, the Estonian branch set up a working group looking into intermediaries, which received weekly reports on bond activity and convened on a monthly basis.

#### 9.4 **Termination**

The third phase covers the lengthy and complicated termination of the Non-Resident Portfolio in 2014 and 2015.



#### 9.4.1 *Whistleblower reports from December 2013 through April 2014*

On 27 December 2013, an employee with the Estonian branch filed a whistleblower report concerning the Non-Resident Portfolio. Over the following months, the whistleblower made further allegations.

The first whistleblower report was sent by email of 27 December 2013 to a member of the Executive Board as well as employees from Baltic Banking, Group Compliance & AML and Group Internal Audit. It was titled “Whistleblowing disclosure – knowingly dealing with criminals in Estonia Branch”. This first report concerned a specific customer with the Estonian branch and included the following:

- The whistleblower wrote that the Estonian branch did not have financial data on the specific customer, and that the customer had filed false financial accounts with the UK Companies House.
- The whistleblower further stated that “the bank knowingly continued to deal with a company that had committed a crime”.
- It was also stated that after the whistleblower had brought up within the branch the question of false financial accounts, “[a]n employee of the bank cooperated with the company to fix the ‘error’”, whereby new financial accounts had been filed, which were equally false.
- According to the whistleblower, the customer remained with the branch, and “[t]he bank continued dealing with the company even after it had committed another crime by submitting amended false accounts”.
- The whistleblower added that in September 2013, it was decided to close all accounts held by the customer in question as well as by “other members of the influence group”. This was decided as a result of suspicious payments, insufficient knowledge of beneficial owners (according to the whistleblower, “apparently it was discovered that they included the Putin family and the FSB”, that is the Russian Federal Security Service), and also due to the beneficial owners having “been involved with several Russian banks that had been closed down in recent years”.
- By conclusion, the whistleblower shared views on “what looks wrong here”, and the whistleblower stated that “[t]his should all be seen in the context of the high-risk nature of the international business in Estonia (that is supposed to be well-recognised and addressed by local management), that UK LLPs [Limited Liability Partnerships] are the preferred vehicle for non-resident clients (so should be well understood) and that the control environment is supposed to be ‘comprehensive’”.

It was quickly decided among the four recipients of the whistleblower report that Group Internal Audit should conduct an investigation into the allegations, using employees from outside the Estonian branch. The Executive Board was informed at its meeting on 7 January 2014 (without receiving copy of the whistleblower report). The Audit Committee was also given information about the investigation by Group Internal Audit at its meeting on 27 January 2014. However, according to the minutes of the Audit Committee meeting, it was not specified that the investigation resulted from a whistleblower report.

On 9 January 2014, three more customers with “similar irregularities” were reported to Group Internal Audit by the whistleblower. In March and April 2014, there were additional reports from the whistleblower, including concerns about customers structured

as Danish limited partnership companies (K/S companies). In its Corporate Responsibility report from 2013, Danske Bank wrote:

*“In 2013, four cases were reported through the whistleblower system. They occurred both in and outside Denmark. Three cases that were concluded led to changes in procedures or increased management attention. One case is still under investigation.”*

#### 9.4.2 *Investigation by Group Internal Audit in early 2014*

As a result of its investigation into the allegations by the whistleblower in early 2014, Group Internal Audit produced two audit letters in January and February 2014, which were addressed to members of the Executive Board and not shared with the Estonian branch.

In the audit letter of 13 January 2014, Group Internal Audit confirmed some of the allegations made by the whistleblower. Documents provided by some customers when opening accounts were found to be insufficient. Group Internal Audit also pointed 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). More generally, it was 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”. It was added that “[b]ased on the work performed, we have not identified areas that need immediate reporting to the FSA”.

From 3 February through 6 February 2014, Group Internal Audit conducted an on-site audit at the Estonian branch. Auditors were provided with the OFZ memo from October 2013 on intermediaries. On 5 February 2014, Group Internal Audit presented its draft conclusions in an email forwarded to two members of the Executive Board and in turn shared with other members, including the CEO. It was stated that “we cannot identify actual source of funds or beneficial owners” and also that an employee with the branch had “confirmed verbally (in the presence of all 3 auditors ...) that the reason underlying beneficial owners are not identified is that it could cause problems for clients if Russian authorities requests information”. Moreover, it was stated that “[t]he branch has entered into highly profitable agreements with a range of Russian intermediaries where underlying clients are unknown”. As part of the overall conclusions, Group Internal Audit recommended “a full independent review of all non-resident customers”. Group Internal Audit followed up on this in its audit report of 10 March 2014 as described below.

Also on 5 February 2014, emails demonstrate reactions to the audit findings from members of the Executive Board. One member of the Executive Board wrote (translation): “Unfortunately, it looks as if there is reason for concern. I will inform [CEO] and will arrange a review ASAP. Will keep you [name] in the loop.” Another member replied: “At very least, the bond/intermediaries business has to be closed down immediately. Let’s discuss how”. A third member wrote to Group Legal (translation): “Will you ensure that this case does not go off track if it has [not] already been handled?” When

informed, the CEO responded (translation): “Noted. Here you should consider an immediate stop of all new business and a controlled winding-down of all existing business”.

The findings summarised in the email from Group Internal Audit of 5 February 2014 cited above were also – although in different wording – found in an audit letter issued by Group Internal Audit on 7 February 2014. The audit letter of 7 February 2014 also described in more details “[t]he cooperation with intermediaries”, including bond trading.

#### 9.4.3 *Working group in February 2014*

For the purpose of taking action in response to the draft conclusions reached by Group Internal Audit on 5 February 2014, a working group was established. The working group consisted of two members of the Executive Board as well as members from Business Banking, Baltic Banking, Group Compliance & AML and Group Internal Audit. At its first meeting on 7 February 2014, the working group defined six action points:

1. *Close for all new off-shore customers, pending an independent review of the business area*
2. *Close all business with intermediaries immediately.*
3. *Draft terms for an external second opinion on the adequacy of and compliance with the KYC procedures and systems in Estonia.*
4. *Review identified files*
5. *Consider any HR actions to be taken*
6. *Clarify responsibility for escalation of whistle blower findings to relevant FSA - or other authority”*

These action points were dealt with in subsequent meetings.

- As for **item 1**, it was decided on 11 February 2014 that “[n]o new accounts will be opened for off-shore customers, with the exception of customers, which are currently customers elsewhere in the Group (IBB [International Business Banking] customers) or which have other valid reason for wanting an account in Estonia”. On 12 February 2014, following a suggestion from Baltic Banking, and as “a balance has to be found, also taking in the competitive environment”, it was agreed to allow known beneficial owners to open accounts in the name of a new legal entity, provided that “all CDD [Customer Due Diligence] and KYC requirements are met, including a thorough and well documented insight into the underlying business(es) and the rationale of the transactions”.
- As for **item 2**, on 14 February 2014 the working group was informed by Baltic Banking that “the intermediary business was now fully closed down”. While the bond trading was discontinued, we have established that some of the intermediaries continued to carry out payments.

- In order to address **item 3**, the working group instructed an external consultancy to look at procedures and controls.
- With regard to **item 4**, and following some discussions within the working group, it was decided in April 2014 by the Estonian branch to follow recommendations from Group Internal Audit and an external consultancy and initiate a review of corporate customers.
- According to minutes of meetings in the working group, **item 5** concerning possible HR actions was discussed, but not dealt with.
- **Item 6** was addressed on various occasions. At working group meetings on 10 February 2014, Group Compliance & AML explained that there was no reason to inform “the FSA or others” of “whistle blower findings” because “we do not yet have any suspicion of money laundering”. On 11 February 2014, Group Compliance & AML had also come to the view that there was no legal obligation to inform authorities in the UK. In April 2014, following the report from the external consultancy, there was an exchange of views at Group level regarding reporting obligations. It was stated in an email of 3 April 2014 that there had been an “informal call” with the Estonian FSA mentioning the whistleblower. We have found no further information on this, and the discussion as to whether to report continued. We have no evidence of reporting to any regulators.

#### 9.4.4 *Group Internal Audit’s audit report from March 2014*

Following the two audit letters of 13 January and 7 February 2014, Group Internal Audit issued an audit report of 10 March 2014 about non-resident customers. This report was also shared with the Estonian branch. The rating used was “Action needed” (the worst rating out of three). According to the report, “[t]he Branch’s portfolio of non-resident customers has to be reviewed and information on the commercial rationale for the customers structuring their business within LLP layers as well as on the ultimate beneficial owners of the trading entities underlying the LLPs have to be sufficiently documented in the Bank systems”. Included in the report were the following six observations with first-priority recommendations attached: (i) “Documentation of due diligence on non-resident customers structured with LLPs”, (ii) “Segregation of duties”, (iii) “Risk assessment”, (iv) “Customer monitoring”, (v) “Closure of accounts”, and (vi) “FX lines granting”. Deadlines were included and responsibility assigned to employees within the branch.

#### 9.4.5 *Report from external consultancy in April 2014*

On 17 February 2014, and following discussions in the working group, an external consultancy was engaged by Group Compliance & AML with a view to evaluate internal AML procedures and controls at the Estonian branch. The consultancy provided a draft report on 31 March 2014 and a final report on 16 April 2014. Both were sent to Group Compliance & AML and shared, also with some members of the Executive Board. In connection with its draft report, the consultancy wrote that “[b]ased on our experience

in conducting such engagements, you do not have as many low impact issues as some of your peers, but your critical gaps (e.g. regarding risk assignment, transaction monitoring, level of CDD [Customer Due Diligence] applied) are greater than we've seen in other banks in the region". In response to a question whether there had been breaches of AML regulation, the consultancy confined itself to general remarks and a statement to the effect that "[c]ertain specific local legislation gaps do however exist".

In the final report, 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".

Subsequently, the Estonian branch worked throughout 2014 to close the gaps as identified by the external consultancy.

#### 9.4.6 *Customer review in the Estonian branch throughout 2014*

On 15 April 2014, the Estonian branch initiated a new review into corporate customers in the Non-Resident Portfolio. The review was overseen by Baltic Banking and the newly established Group business unit, International Banking. As part of this review, relationship managers with the branch completed separate memos for each of the non-resident business customers for whom they were responsible. Documentation was kept of the customers' answers to questions about their financial statements. The memos were reviewed by a committee at the branch in which members of branch management took part. It was for the committee to decide whether customer relationships were allowed to be carried on or should be terminated.

#### 9.4.7 *Reporting to Group management in April 2014*

In April 2014, various information about the Estonian branch and the whistleblower case was presented to the Executive Board and the Board of Directors. For its meeting on 11 April 2014, the Executive Board was given a presentation by a member of the Executive Board titled "Status Danske Bank Estonia Branch". The presentation, which had been prepared by employees within Business Banking, contained three slides titled "Timeline for Whistleblower Case and Audit Reports", listing some of the whistleblower allegations as well as findings by Group Internal Audit and the external consultancy. According to the minutes of the meeting, the Executive Board was told that "the appropriate steps were being taken to continue dealing with the matter in accordance with the Group's whistle blowing policy, as well as all the applicable local regulations and supervisory rules". The customer review was mentioned, including that it was being "assessed how the business could be exited in an appropriate fashion". Later correspondence recorded that, at this meeting, the CEO took the initiative to have Group Compliance & AML prepare a new plan for AML in the Baltics, which was eventually approved on 1 August 2014.

At its meeting on 22 April 2014, the Executive Board had before it the draft status report for Q1 2014 from Group Internal Audit, which provided detailed information about the whistleblower case, including a list of the whistleblower's allegations. The Executive Board also received a draft long-form audit report dated 29 April 2014, which contained similar observations (the list of whistleblower allegations was included only in the status report for Q1 2014). It was also stated that "[m]anagement have agreed a series of actions to address the issues raised" and that "[t]hese will be completed during the course of 2014".

The same reporting from Group Internal Audit was submitted to the Audit Committee for its meeting on 28 April 2014. According to the minutes of the meeting in the Audit Committee, Group Internal Audit "highlighted the "whistleblower case" from Estonia about non-resident customer handling", adding that "[name] would brief the Board of Directors at the meeting the following day". In response to questions from the Audit Committee, Group Internal Audit replied that "the local internal auditor was under surveillance" and that "[t]he Bank's best practice [at Group level] was different from the local Estonian practice, and the local internal auditor had not followed the procedures as he should have". A semi-annual Group AML report, which had also been submitted to the Audit Committee, summarised the draft report produced by the external consultancy in April 2014. The Group AML report mentioned that the Estonian branch "do not have as many low impact issues as some of the peers", but "the critical gaps ... are greater", while also pointing to the Estonian branch having initiated activities to deal with the specific findings from Group Internal Audit and the external consultancy.

At its meeting on 29 April 2014, the Board of Directors had before it only the long-form audit report from Group Internal Audit dated 29 April 2014. According to the minutes of the meeting "[name] elaborated on the whistleblower case referred to in the long-form audit report from Internal Audit and explained the steps taken to investigate the matter as well as the initiatives taken and planned to strengthen processes and controls with respect to AML and KYC in the Baltics".

#### 9.4.8 *Continued investigations into whistleblower allegations*

In the spring and early summer of 2014, different work streams were carried out to investigate and conclude the whistleblower case. While Group Internal Audit would seem to have finished its work in response to the whistleblower allegations, Group Legal took over. As part of this, Group Legal contracted with an external consultancy to conduct an "[i]n inquiry into allegations of misconduct" on the basis of the whistleblower and "critical information on a number of irregularities involving senior members of staff". This, however, was overturned by two members of the Executive Board. Instead, on 27 May 2014, Group Legal asked Group Compliance & AML to (translation) "take on the task of bringing this whistleblower matter to an end". At the same time, Group Legal provided what was referred to as the "full list" of the allegations by the whistleblower reported in emails exchanged since December 2013. However, several of the whistleblower allegations was only covered by the list in very broad terms



whereas others were left out entirely, including allegations of internal collusion and allegations relating to K/S companies.

On 10 June 2014, Group Compliance & AML circulated an overview to Group Legal and Group Internal Audit based on the mentioned list of allegations. To each allegation, the list stated preliminary “facts and mitigation actions” and “conclusion”. A few days later, on 16 June 2014, Group Compliance & AML sent the overview of 10 June 2014 to two members of the Executive Board and also to International Banking and Group Legal. This time, the overview was treated as more conclusive. It was stated that “[b]eside the below described action points no more action will be done due to the specific allegations”, but also that Group Compliance & AML would be following “the progress of the suggested actions”. As for five whistleblower allegations which had been verified to be true, reference was made to the AML Action Plan for the Baltics. With regard to two whistleblower allegations in the process of being verified, reference was made to Group Legal. Finally, as for seven whistleblower allegations not verified or only partly verified, very little action was identified. We have found no information about additional investigation into the whistleblower allegations.

For the purpose of inclusion in Group Internal Audit’s status report for Q2 2014, Business Banking was asked by Group Internal Audit to reply to the open audit observations regarding “Non-resident customer handling Baltics” in the long-form audit report dated 29 April 2014. On 7 July 2014, Business Banking suggested to Group Internal Audit that “[t]he allegations made by the whistleblower have all been investigated.” At the same time, Business Banking listed actions that had been taken. Baltic Banking expressed the opinion that it found this to be a “fair summary”. The suggested text was not included in Group Internal Audit’s status report for Q2 2014, but it was used a few months later in Group Internal Audit’s status report for Q3 2014, dated 24 October 2014. Here, Group Internal Audit commented that “[w]e still agree with the comments made by the area [Business Banking]”, including Business Banking’s comment that the allegations made by the whistleblower had all been investigated.

#### 9.4.9 *Follow-up by Group Internal Audit in July 2014*

By audit letter of 1 July 2014, Group Internal Audit followed up on its audit performed in February 2014 (resulting in the audit report of 10 March 2014). The audit letter of 1 July 2014 was addressed to the Estonian branch and Baltic Banking (with copy to Group). With regard to non-resident customers onboarded since 1 March 2014, Group Internal Audit had “no major comments to the quality of the due diligence requirements applied and completeness of the documentation collected and filed by the area”. However, Group Internal Audit made critical comments on the ongoing customer review based on a sample of eight customers, which had all been reviewed and confirmed by the branch. In this connection, the possibility of a postponement of the implementation date for one of the six material observations in the audit report of 10 March 2014 concerning “[d]ocumentation of due diligence on non-resident customers structured with LLPs”, was mentioned. The branch agreed and the deadline was therefore extended.

Later in July 2014, the Executive Board and the Audit Committee received Group Internal Audit's draft status report for Q2 2014 which stated, with reference to the work reflected in the audit letter of 1 July 2014, that "[a] follow up has been conducted in Estonia to assess progress against previously reported AML issues", and that "[t]he testing performed showed improvement of processes in place for on boarding of new customers, but more focus needed with regard to review of existing customers".

#### 9.4.10 *New branch policy to serve non-resident customers*

During 2014, the Estonian branch was preparing a new policy for customers in the Non-Resident Portfolio, and on 6 May and 12 May 2014 drafts were shared with Business Banking. The new policy was titled "Policy to serve non resident clients in Danske Bank Estonian Branch". It was stated that there was an "existing customer base that not fully matches the profile". Also according to the draft policy, the bank would not establish customer relationships with persons appearing on various "dark grey" or "grey" lists. It was stated that "[t]he bank must be confident that it fully understands the customer area of activity and its transaction profile", and that "[t]he bank must make sure that it fully understands ownership and beneficial owners of its business customers".

According to Baltic Banking, the Estonian FSA had been informed at a meeting on 3 October 2014 that the draft policy had not yet been adopted, but that the branch, nevertheless, had already started using the policy in practice. On 15 December 2014, the new policy was approved by Baltic Banking, including the above-mentioned statements. It was also emphasised that "[w]hen 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" (drafts included similar wording). In relation to customer onboarding and understanding the business model of the customer, it had been added that the source of funds would also have to be identified. As for existing customers, it was now stated that "[s]trategically the bank foresees winding down relationships by end of second quarter 2015".

#### 9.4.11 *Baltic banking strategy process in 2014-2015*

A new strategy process involving the Baltic banking activities was initiated in the spring of 2014. The strategy process had been prepared within Business Banking and was discussed in the Executive Board and the Board of Directors. As appears from a presentation to the meeting of the Executive Board on 27 May 2014, three main options were considered as part of the strategy, namely "[e]xit Baltics", "[r]eposition towards a Corporate Baltic bank" (and leave out other activities), and "[o]ptimise current position". The presentation noted that "[t]he current performance will be difficult to maintain and there are a number of challenges going forward", including "limited future appetite for non-resident business". In the presentation, AML requirements were overall seen as a threat. A separate slide titled "Significant change in appetite for non-resident business will reduce net profit for the Baltic operation" provided information on the Non-Resident Portfolio, noting that it contributed "90% of the profit before tax for Estonia". The presentation made reference to the new policy prepared by the branch

by stating: “Going forward only non-resident customers with a strong link to Baltic countries will be able to open an account with Danske Bank Estonia branch (details defined in non-resident policy)”. The presentation also recommended as strategy which involved “a reposition towards a Corporate Baltic bank with focus on Nordic customers”, including “[g]radually run-off of Non-resident business”. When used for the meeting in the Board of Directors on 26 June 2014, the presentation had been changed on some points, but it was maintained that there was “limited future appetite for non-resident business”, and repositioning remained the recommended strategy.

The minutes of the meeting of the Board of Directors on 26 June 2014 recorded the recommendation of “an exit of Personal Banking and off-shore business” presented by a member of the Executive Board. The minutes also state:

*“[CEO] emphasised that the Baltic countries are important for many of the Bank’s Nordic corporate clients and particularly the Finnish customers. Further, [CEO] found it unwise to speed up an exit strategy as this might significantly impact any sales price. Lastly, [CEO] and [name] explained the development of the Baltic countries. The preferred option would be to support Nordic corporate clients, but a closer review of the business case needed to be undertaken, concluded [CEO].”*

Also according to the minutes, two members of the Board of Directors “would like to have the options analysed further with an aspect of what is the best way to get out of the Baltics and how quickly it would be possible”. The Chairman concluded that “the Board was supportive of the proposed repositioning towards a corporate bank”, but that “all exit options in respect of the non-resident and retail business, including a potential three-way merger, should be further explored prior to making a decision”.

The continuation of the Baltic strategy process in the Board of Directors was prepared at meetings in the Executive Board. At its meeting on 7 October 2014, the Executive Board had agreed to the recommendation to investigate further options. This was subject to a number of comments, including that “[t]he process of exiting the non-resident business should continue”. At the following meeting on 16 October 2014, the Executive Board had before it a memorandum from International Banking summarising the strategic options. In this memorandum, which was also shared with the Board of Directors (final version dated 21 October 2014), it was noted in relation to the Non-Resident Portfolio that “[i]n 2014 focus has been on KYC, AML and no customers have been on boarded since June 2014”. Further, it was stated that “[g]oing forward the size of this segment is uncertain due to such regulation and reputational considerations, however, the winding down of relationships outside is ongoing with 30% drop in topline”. A new presentation, dated 20 October 2014, was also presented to the Executive Board. It stated, in relation to “[r]eposition of Non-resident business”, that going forward only customers “with strong business reasons with Baltic countries (and other detailed requirements) will be on boarded” and that “[i]mplementation of the new policy is ongoing”.

The minutes of the meeting of the Board of Directors on 28 October 2014 stated that the Board of Directors “resolved to pursue the recommended repositioning strategy and advised management to cease the exploratory merger talks”. On the other hand, it was suggested in a presentation before the Board of Directors that “a sale of the ‘non-residential’ business” to two named entities “could be worth considering”. In the minutes of the meeting, it was added: “With respect to the ‘non-resident’ portfolio it was resolved, however, that management should continue to consider all strategy options, including a sale, and revert to the Board with a recommendation at the Board meeting in January 2015 at the latest”.

In a memorandum of 22 January 2015 with the title “Execution update on Baltics” prepared for the Board of Directors, it was stated that the branch was “exiting the non-resident segment, hence, focusing only on customers with a real Baltic presence” and that “non-resident customers are being reduced as planned”. According to the minutes of the meeting of the Board of Directors on 29 January 2015, a member of the Executive Board reported that “having reviewed and considered the repositioning of the non-resident business and possible alternatives, the Executive Board recommended the said repositioning”. In conclusion, “the Board of Directors noted... and approved ... the repositioning of the Baltics non-resident business in line with the recommendation from 28 October 2014”. In Danske Bank’s annual report for 2014, goodwill for the Estonian branch was written down to zero.

#### 9.4.12 *Estonian FSA’s inspections in 2014*

During 2014, the Estonian FSA conducted three inspections at the Estonian branch. Two are relevant here.

First, in March 2014, the Estonian FSA had conducted an onsite inspection into the activity of the “FIU [Financial Intelligence Unit] contact person”, with the final inspection report being issued on 21 July 2014. The inspection report was translated into English as part of the Accountability Investigation. In the inspection report, the Estonian FSA found 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”.

Second, the Estonian FSA had also performed an inspection of the branch in June and July 2014, this time into performance of AML requirements. The introduction (a summary) of the draft report of 11 September 2014 was translated into English by the branch. Here, it was stated that “Danske Bank systematically established business relationships with persons in whose activities it is possible to see the simplest and most common suspicious circumstances”. A number of details were given, which led to the observation that “[w]e have therefore systematically identified situations during our on-site inspection where Danske Bank’s system for monitoring transactions and persons is effectively not working”. In the draft report, the Estonian FSA voiced as its suspicion that at the branch “economic interests prevail over the obligation to apply enhanced due diligence measures”.

When on 18 September 2014 having read the draft report from the Estonian FSA, a member of the Executive Board wrote in an internal email that “[i]t is a total and fundamental failure in doing what we should do and doing what we claim to do”, and that “[t]his just even more underline the need of full clean up now”. Another member of the Executive Board, who received this email, replied the same day, also asking: “Has this business been cleaned up or not?” Equally, International Banking replied the same day that “[i]f you by that mean that the business has been cleaned up, yes it has, or there is a process to clean up the portfolio”.

On 24 September 2014, Group Legal shared the English summary of the draft inspection report with Group Compliance & AML. Group Legal wrote that the Estonian FSA had only commented on matters until 31 December 2013 (and therefore had not taking into account AML measures implemented during 2014). The same afternoon, an employee with Group Compliance & AML wrote that the real question was not procedures and collection of KYC data, but what use was made of the KYC data. The following day, another employee with Group Compliance & AML stated that “[t]he executive summary of the Estonian FSA letter is brutal to say the least and is close to the worst I have ever read within the AML/CTF area” and that “if just half of the executive summary is correct, then this is much more about shutting all non-domestic business down than it is about KYC procedures”. The email urged that the CEO and another member of the Executive Board should be informed.

On 25 September 2014, International Banking and Baltic Banking met with the Estonian FSA regarding the draft inspection report. Another meeting took place on 3 October 2014 with only Baltic Banking participating. The Estonian FSA sent a reply to the Estonian FSA on 10 October 2014. On 13 October 2014, Group Legal sent a summary of the observations made by the Estonian FSA in the draft inspection report of 11 September 2014 and listed the Estonian branch’s responses to the Estonian FSA. In general, the branch was critical towards the Estonian FSA’s observations. The branch stated that it agreed with only one observation, partially agreed with six observations and rejected 28 observations. Another meeting with the Estonian branch took place on 20 October 2014 with participation from Group Compliance & AML. On 31 October 2014, the Estonian branch sent an action plan to the Estonian FSA describing how the branch would comply with the Estonian FSA’s observations.

#### 9.4.13 *Reporting to Group management in October 2014*

Leaving aside the Baltic strategy process, the Executive Board and the Audit Committee were updated on the Non-Resident Portfolio in the Estonian branch again in October 2014.

For its meeting on 7 October 2014, the Executive Board had received a draft status report from Group Internal Audit for Q3 2014, according to which the “series of actions” agreed by branch management would “be completed during the course of 2014”. It was also in this report that Group Internal Audit confirmed that “[t]he allegations made by the whistleblower have all been investigated”. For its meeting, the Executive Board had also received the annual Group AML report for 2014 (covering the period October 2013

to September 2014). According to the Group AML report, the Estonian FSA's draft inspection report was "very critical", and the Estonian FSA had pointed out "significant challenges regarding non-resident customers". It was added that "[t]he inspection is based on the facts as per 31 December 2013 and therefore do not take into account the work performed in 2014". The draft inspection report in itself was not provided to the Executive Board. The minutes of the meeting on 7 October 2014 briefly mentioned the following:

*"The Bank has recently received a drafted report from the Estonian FSA where they point out significant challenges regarding non-resident customers. According to [name] there was no cause for panic as the findings have been addressed in the ongoing process improvement. [Name] will travel to Estonia and assist the Estonian organisation."*

At its meeting on 24 October 2014, the Audit Committee had before it Group Internal Audit's status report for Q3 2014 as well as the annual Group AML report for 2014, which had also been shared in draft with the Executive Board, and also Group Legal's FSA report for Q3 2014. Both the Group AML report and the Group FSA report mentioned the draft inspection report from the Estonian FSA. It was stated in the Group FSA report that the draft inspection report included "rather harsh language from the Estonian FSA" and that "[a]ll observations have been thoroughly reviewed by the local compliance and legal teams in Estonia as well as by Group Legal together with external Estonian legal counsel".

The Audit Committee and the Board of Directors also did not receive a copy of the draft inspection report of 11 September 2014 from the Estonian FSA.

#### **9.4.14 Final inspection report from the Estonian FSA, December 2014**

On 12 December 2014, the Estonian FSA issued the final 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. As from January 2015, the Estonian branch prepared an action plan together with Group Compliance & AML and Group Legal in response to the inspection report from the Estonian FSA. On 20 January 2015, the Estonian branch shared a draft, which outlined measures that the Estonian branch had taken or planned to take to address the Estonian FSA's observations in the inspection report. A discussion between the branch and Group resulted in a neutrally worded action plan without the legal criticism against the inspection report found in the draft. The Estonian branch sent the final action plan to the Estonian FSA on 30 January 2015. According to the action plan, the 17 critical gaps identified by the external consultancy "have all been eliminated and/or corrected by today".

#### 9.4.15 *Concluding the customer review*

Following another postponement of the implementation date, the customer review would seem to actually have been ended by end of January 2015. In the action plan sent by the Estonian branch to the Estonian FSA on 30 January 2015, it was stated that “[a] review of the non-resident customer segment of DBEE was carried out at the same time, which resulted in the termination of business relationships with 853 non-residents customers, i.e. 23% of the non-resident customer segment”. On 2 February 2015, the Estonian branch submitted to Group Internal Audit its recommendation for closure with regard to the material observation on “Documentation of due diligence on non-resident customers structured with LLPs” back from the audit report of 10 March 2014. On 9 February 2015, the Estonian FSA asked the branch about an increase in deposits from non-residents in the last quarter of 2014. In its reply of 17 February 2015, the branch referred to “the nature, capacity and seasonability of clients’ businesses” and added, inter alia, that “[i]n 2014 the Bank terminated its business relations with 853 non-resident clients, 315 non-resident client business relationships out of 853 were terminated in the 4<sup>th</sup> quarter of 2014”.

#### 9.4.16 Overview of escalation in 2014 of certain key information

The schedule below illustrates how certain key information about the Estonian branch was escalated within Group in Copenhagen in 2014. It is non-exhaustive, but provides an overview of the escalation of five key sources of information:

Group, including some members of the Executive Board	Executive Board	Audit Committee	Board of Directors
Reports by the whistleblower in emails from December 2013 to April 2014			
All reports filed by the whistleblower were shared with employees at Group level [Section 9.4.1]	<p>Did not receive any of the whistleblower reports</p> <p>In January 2014, informed about the whistleblower, including Group Internal Audit's investigation into the allegations. Informed that there was no reason for reporting to authorities [Section 9.4.1]</p> <p>In April 2014, given status and provided with long-form audit report dated 29 April 2014 and Group Internal Audit status report for Q1 2014. Informed of actions to address the issues to be completed in 2014 [Section 9.4.7]</p> <p>Informed in October 2014 that "[t]he allegations made by the whistleblower have all been investigated" [Section 9.4.13]</p> <p>CEO received same information as the Executive Board</p>	<p>Did not receive any of the whistleblower reports</p> <p>In January 2014, informed of investigation in Estonia (although not that the investigation resulted from a whistleblower report) [Section 9.4.1]</p> <p>In April 2014, given status and provided with long-form audit report dated 29 April 2014 and Group Internal Audit status report for Q1 2014. Informed of actions to address the issues to be completed in 2014 [Section 9.4.7]</p> <p>Informed in October 2014 that "[t]he allegations made by the whistleblower have all been investigated" [Section 9.4.13]</p>	<p>Did not receive any of the whistleblower reports</p> <p>No information provided at meeting in January 2014</p> <p>In April 2014, given status and provided with long-form audit report dated 29 April 2014. Informed of actions to address the issues to be completed in 2014. According to minutes, orally provided with general information of "steps taken to investigate the matter [the whistleblower case] as well as the initiatives taken and planned to strengthen processes and controls with respect to AML and KYC in the Baltics" [Section 9.4.7]</p>
Critical findings by Group Internal Audit from investigation into whistleblower allegations in January to March 2014			
Received Group Internal Audit's audit letters of 13 January and 7 February 2014 (as well as draft conclusions by email of 5 February 2014 from Group Internal Audit), and audit report of 10	Received detailed summary in Group Internal Audit's status report for Q1 2014 for meeting in April 2014 and also a summary in long-form audit report dated 29 April 2014. Informed at meeting in April that	Received detailed summary in Group Internal Audit's status report for Q1 2014 for meeting in April 2014 and also a summary in long-form audit report dated 29 April 2014. Also described in semi-annual	Received summary from Group Internal Audit in long-form audit report dated 29 April 2014 for meeting in April 2014. According to minutes, orally provided with general information of



Group, including some members of the Executive Board	Executive Board	Audit Committee	Board of Directors
<p>March 2014 [Sections 9.4.2 and 9.4.4]</p>	<p>“the appropriate steps were being taken to continue dealing with the matter in accordance with the Group’s whistle blowing policy, as well as all the applicable local regulations and supervisory rules”. Also described in semi-annual AML report that the Estonian branch had “initiated activities to deal with the specific findings from Group Internal Audit and [external consultancy]” [Section 9.4.7]</p> <p><u>CEO</u> received email of 5 February 2014 from Group Internal Audit with draft conclusions in addition to the information received by the Executive Board [Sections 9.4.2 and 9.4.7]</p>	<p>AML report that the Estonian branch had “initiated activities to deal with the specific findings from Group Internal Audit and [external consultancy]”. Orally also informed by Group Internal Audit about criticism of local auditors [Section 9.4.7]</p>	<p>“the steps taken to investigate the matter [the whistleblower case] as well as the initiatives taken and planned to strengthen processes and controls with respect to AML and KYC in the Baltics” [Section 9.4.7]</p>
<p>Report by external consultancy in March and April 2014 identifying 17 critical gaps</p>			
<p>Received draft report of 31 March 2014 and final report of 16 April 2014 [Section 9.4.5]</p>	<p>Did not receive neither draft nor final report.</p> <p>At meeting in April 2014, informed of some of the findings [Section 9.4.7]</p> <p><u>CEO</u> received same information as the Executive Board</p>	<p>Did not receive neither draft nor final report.</p> <p>Summary in semi-annual AML report for meeting in April 2014, including that, according to the external consultancy, the Estonian branch “do not have as many low impact issues as some of the peers”, but “the critical gaps ... are greater”. It was also stated that the Estonian branch had “initiated activities to deal with the specific findings from Group Internal Audit and [external consultancy]” [Section 9.4.7]</p>	<p>Did not receive neither draft nor final report.</p> <p>According to minutes of meeting in April 2014, orally provided with general information of “the steps taken to investigate the matter [the whistleblower case] as well as the initiatives taken and planned to strengthen processes and controls with respect to AML and KYC in the Baltics” [Section 9.4.7]</p>

Group, including some members of the Executive Board	Executive Board	Audit Committee	Board of Directors
<b>Customer review at the Estonian Branch throughout 2014</b>			
<p>Received recommendations from Group Internal Audit and external consultancy about customer review in March and April 2014 as well as audit letter of 1 July 2014 and audit report of 19 June 2015 [Sections 9.4.7, 9.4.9 and 9.4.20]</p> <p>Customer review was overseen by members of Group [Section 9.4.6]</p> <p>Received audit letter of 1 July 2014 with critical comments on the ongoing customer review [Section 9.4.9]</p>	<p>Informed about existence of customer review at a meeting in April 2014 [Section 9.4.7]</p> <p>Received summary of 1 July 2014 audit letter by way of status report for Q2 2014 at meeting in July 2014 [Section 9.4.9]</p> <p>Informed that outstanding actions were on track by way of status report for Q3 2014 from Group Internal Audit at meeting in October 2014 [Section 9.4.13]</p> <p>Received long-form audit report dated 22 July 2015 at meeting in July 2015. In relation to a new audit point to be closed shortly, Group Internal Audit stated that “[t]he procedures and memos prepared for the periodical reassessment will be updated” [Section 9.4.20]</p> <p><u>CEO</u> received the audit report of 19 June 2015 on 30 June 2015 in addition to the information received by the Executive Board [Section 9.4.20]</p>	<p>Received summary of 1 July 2014 audit letter by way of status report for Q2 2014 at meeting in July 2014 [Section 9.4.9]</p> <p>Informed that outstanding actions were on track by way of status report for Q3 2014 from Group Internal Audit at meeting in October 2014 [Section 9.4.13]</p> <p>Received long-form audit report dated 22 July 2015 at meeting in July 2015. In relation to a new audit point to be closed shortly, Group Internal Audit stated that “[t]he procedures and memos prepared for the periodical reassessment will be updated” [Section 9.4.20]</p>	<p>According to minutes of meeting in April 2014, orally provided with general information of “the steps taken to investigate the matter [the whistleblower case] as well as the initiatives taken and planned to strengthen processes and controls with respect to AML and KYC in the Baltics” [Section 9.4.7]</p> <p>No information provided at meeting in October 2014 [Section 9.4.13]</p> <p>Received long-form audit report dated 22 July 2015 at meeting in July 2015. In relation to a new audit point to be closed shortly, Group Internal Audit stated that “[t]he procedures and memos prepared for the periodical reassessment will be updated” [Section 9.4.20]</p>
<b>Estonian FSA inspection reports in September and December 2014 pointing to AML deficiencies</b>			
<p>Received English translation of draft report of 11 September 2014 and final report of 12 December 2014 [Sections 9.4.12 and 9.4.14]</p>	<p>Did not receive neither draft nor final report, but informed in October 2014, inter alia, that the Estonian FSA pointed to “significant challenges” and was “very critical”. Orally told there was “no cause for panic” [Section 9.4.13]</p>	<p>Did not receive neither draft nor final report, but informed in October 2014, inter alia, that the draft report contained “rather harsh language from the Estonian FSA” and also informed of ongoing dialogue with the Estonian FSA [Section 9.4.13]</p>	<p>No information provided at meeting in October 2014 [Section 9.4.13]</p> <p>In January 2015, informed in Group Internal Audit’s annual long-form report for 2014 that the final inspection report from December 2014 “contained critical observations” largely in</p>

Group, including some members of the Executive Board	Executive Board	Audit Committee	Board of Directors
	<p>In January 2015, informed in Group Internal Audit's annual long-form report for 2014 and status report for Q4 2014 that the final inspection report "contained critical observations" largely in line with issues identified by Group Internal Audit in March 2014 [Section 9.4.17]</p> <p>In April 2015, informed in a Group semi-annual compliance report that inspection by the Estonian FSA had led to "significant criticism", but also that Group had performed "several mitigating activities, including a significant reduction in the non-resident customer portfolio" [Section 9.4.19]</p> <p><u>CEO</u> received same information as the Executive Board</p>	<p>In January 2015, informed in Group Internal Audit's annual long-form report for 2014 and status report for Q4 2014 that the final inspection report "contained critical observations" largely in line with issues identified by Group Internal Audit in March 2014 [Section 9.4.17]</p> <p>In April 2015, informed in a Group semi-annual compliance report that inspection by the Estonian FSA had led to "significant criticism", but also that Group had performed "several mitigating activities, including a significant reduction in the non-resident customer portfolio" [Section 9.4.19]</p>	<p>line with issues identified by Group Internal Audit in March 2014 [Section 9.4.17]</p>

#### 9.4.17 Reporting to Group management in January 2015

At its meeting on 20 January 2015, the Executive Board was presented with the last report on the AML programme referred to as "Best in Class", which had been concluded at the end of 2014. Group Compliance & AML explained that all outstanding issues from the project would feed into an ongoing general AML programme. For its meeting, the Executive Board had also received Group Internal Audit's status report for Q4 2014 in draft, which would also be submitted to the Audit Committee on 26 January 2015 in a shorter version. The status report mentioned the inspection by the Estonian FSA and that the final inspection report from December 2014 "contained critical observations". At the same time, it was noted that "the largest part of the observations" were in line with the issues identified by Group Internal Audit in March 2014. The same information was included in Group Internal Audit long-form audit report on the annual report for 2014 submitted to the Audit Committee for its meeting on 26 January 2015 and to the Board of Directors for its meeting on 29 January 2015. Neither the Executive Board nor the Audit Committee or the Board of Directors received the final inspection report from the Estonian FSA.

#### 9.4.18 *Implementation of policy to serve non-resident customers, 2015*

Implementation of the new policy to serve non-resident customers in the Non-Resident Portfolio approved in December 2014 was in operation at the beginning of 2015. It resulted in the exit of some non-resident customers. At the same time, it was clear that the new policy to serve non-resident customers was found at the branch to accommodate a sizeable Non-Resident Portfolio. According to a chart that the Estonian branch shared on 9 June 2015 with International Banking and Baltic Banking, in 2015 the number of customers had been reduced from 2,890 to 2,569 (that is, by 321). Those defined by the branch as “Run off noncore customers” were down from 508 at the beginning of 2015 to 395 by April 2015 and 358 by May 2015. At its meeting on 14 July 2015, the Executive Board was also informed by a member of the Executive Board that “[B]usiness Banking customers within the policy (customers with legitimate business reason in Estonia) have been transferred to Business Banking and the remaining 395 costumers have received a letter of termination”.

#### 9.4.19 *Regulatory sanctions in Estonia and Denmark in 2015 and 2016*

Danske Bank was met with regulatory sanctions with respect to its Estonian branch from both the Estonian FSA and the Danish FSA in 2015 and 2016, respectively.

On 18 February and 19 February 2015, the Danish FSA conducted an inspection at Danske Bank involving AML. 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 “[t]imeline of critical events 2014” in the Estonian branch.

In April 2015, the Executive Board and the Audit Committee were provided with a semi-annual report from Group Compliance & AML noting that the Estonian FSA’s inspection back in June and July 2014 had led to “significant criticism”. The report also mentioned that Group had performed “several mitigating activities, including a significant reduction in the non-resident customer portfolio”.

On 14 May 2015, the Estonian branch received a draft precept from the Estonian FSA as a result of the inspection carried out in June and July 2014. When Group was informed about the draft by branch management and received the branch’s reply, Group Compliance & AML and Business Banking reacted negatively because the draft was “quite aggressive”. The Estonian branch replied on 29 May 2015. According to this reply, the draft precept “primarily focused on normative process matters together with our already taken actions”.

In Denmark, Danske Bank received on 19 June 2015 the first draft inspection report from the Danish FSA. Regarding Group Internal Audit’s report of 10 March 2014, it was noted that (translation) “[i]t is not evident that the report was presented to the Board of Directors of the bank”. Also, in the draft inspection report, the Danish FSA wrote about the Estonian branch that (translation) “the bank’s risk-mitigating measures ... have been totally insufficient and in violation of the local AML-rules”.

At a meeting with the Estonian FSA on 19 June 2015, Danske Bank was represented by International Banking, Baltic Banking and Group Legal. At the meeting, it was agreed that Danske Bank would send a letter to the Estonian FSA, as well as the main points to be addressed in the letter, including the bank's acceptance of the conclusions of the Estonian FSA, an overview of actions taken and implementation of Group culture. In this letter, which was dated 7 July 2015, it was stated that "[t]he actions the Estonian branch has undertaken have resulted in enhanced compliance and AML processes, an upgraded organisation and has lowered the AML risk of the customer base". Also, the Estonian FSA was informed that "the Estonian branch entails exiting what internally has been referred to as non-resident business" as "all customers need to have a clear connection to the Baltics either as a business or as a resident". Moreover, the Estonian FSA was informed about a change in branch management.

For its meeting on 20 July 2015, the Audit Committee had received a memorandum of 15 July 2015 from Group Compliance & AML. The memorandum stated that the Estonian FSA's inspection was "coming to an end" and that "[t]he DFSA has been kept informed by both the Estonian FSA and the Bank around the issues and the DFSA has chosen to approach this issue from a governance point of view, questioning if the Board of Directors of Danske Bank A/S has been sufficiently informed around the situation in Estonia". With regard to the latter point, the memorandum stated that "[t]he bank believes that the Board of Directors has been kept sufficiently informed through the Audit Committee and will illustrate this on the meeting planned for in late August, in an attempt to have this last part of the inspection letter removed". According to the minutes of the meeting of the Audit Committee, a member of the committee asked management to consider "if the Audit Committee and/or the Board of Directors should receive more detailed information on the Estonia Branch's material risks in the AML area and the actions taken or contemplated in respect hereof in order to have an informed discussion".

In Estonia, the final precept was issued by the Estonian FSA on 15 July 2015. It ordered the Estonian branch to make a number of changes to its AML framework to ensure compliance. Employees at Group level prepared a neutrally worded reply of 29 September 2015.

In Denmark, there were meetings with the Danish FSA in August 2015 with discussions of the Estonian branch. For a second meeting, Group Compliance & AML 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 "[t]he 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". The Danish FSA provided a new draft report on 16 September 2015, in which the risk information was deleted, and the order was changed into a reprimand (with nearly identical wording). Describing the reprimand, the Danish FSA found (translation) "cause to reprimand the bank's board of directors for not having identified the Estonian branch's risk in the AML area, including not having de-

terminated the nature and size of the risks that the branch may assume, and for not having taken sufficiently risk-mitigating measures in this relation in accordance with local legislation". This reprimand was maintained in the final inspection report issued by the Danish FSA on 15 March 2016.

#### 9.4.20 *Group Internal Audit in June 2015*

An audit report of 19 June 2015 addressed to the Estonian branch as well as Group was again rated "Action needed" (the worst rating out of three). In the report, Group Internal Audit acknowledged "the efforts made by the Branch's management" and noted "significant improvements in documentation as well as a real desire for management to take on board the issues raised in 2014". However, the audit report still included audit observations concerning the Non-Resident Portfolio, including the customer review which had been completed at that point in time. Among the priority 1 issues was "On-boarding process for new non-resident customers needs strengthening". Group Internal Audit found that 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". Another observation, "Periodical reassessment for high-risk non-residents needs to be improved" (priority 1), was based on a review of memos from the customer review ("clean-up process of high risk non-resident customers"). Group Internal Audit concluded that the memos did "not always include sufficiently detailed information on the scope of the activities for the customers or for identification of the underlying trading activities". In this respect, it was also noted that "[i]dentification of ultimate beneficial owners (and 'controlling interests') remains in some cases unclear". At the same time, Group Internal Audit stated that "[t]he issue raised by us regarding clean-up in 2014 has been partially addressed by the general increase in quality of documentation" and that for this reason Group Internal Audit "closed that recommendation and incorporated rest of the issue not yet resolved in a new issue in this report". Group Internal Audit was hereby referring to an audit observation in the audit report of 10 March 2014, "Documentation of due diligence on non-resident customers structured with LLPs". It was expected that the new audit observation, "Periodical reassessment for high-risk non-residents needs to be improved", would be mitigated by changing the business procedures in place. The CEO received the audit report of 19 June 2015 by email of 30 June 2015.

A long-form audit report dated 22 July 2015, which was submitted to the Executive Board, the Audit Committee and the Board of Directors for meetings in July 2015, mentioned the 19 June 2015 audit report. In relation to a new audit point to be closed shortly, Group Internal Audit stated that "[t]he procedures and memos prepared for the periodical reassessment will be updated".

#### 9.4.21 *Termination of remaining correspondent banking relationships for clearing USD in 2015*

On 6 May 2015, Danske Bank was contacted at Group level by a correspondent bank clearing USD transactions for the Estonian branch. The correspondent bank requested

that “all payments on behalf any Shell Company does not get routed” via the correspondent bank. Internally, this led Group Compliance & AML to draft a memorandum of 18 June 2015. It would seem that the matter was not processed within Danske Bank for some time and that the Estonian branch was not informed until August 2015.

On 16 July 2015, Danske Bank at Group level was approached by another correspondent bank, which cleared most USD transactions out of the Estonian branch. Internally at Danske Bank, it was stated that the correspondent bank “did not want to go into detail, but made it clear that they had found some payments that they were not comfortable with”. It was voiced within Group that the correspondent bank was late in time, but Group Compliance & AML also stressed that “we should be mindful that we have a really bad case in Estonia, where ... all lines of defence failed. (1st line: too much risk and not being in control, 2nd line: lack of robust monitoring and overview of SARs [suspicious activity reports]; 3rd: Green audit reports all the time until a new auditor from Group stopped by)”.

Minutes of a meeting with the correspondent bank on 18 August 2015 mentioned “Moldova ... as an area where we should probably look if we had clients or had clients sending money to”. It seems that the Estonian branch actually did look into this after the meeting. Prior to a follow-up meeting on 2 September 2015, Danske Bank had shared with the correspondent bank a list of 30 customers that had significant USD payments in the Estonian branch. At the meeting, the correspondent bank informed Danske Bank that it had reviewed only 10 of the customers. Out of these 10 customers, the correspondent bank was not comfortable with four; another five of the customers did business with customers with which the correspondent bank was not comfortable; and one customer was “okay”.

The Board of Directors was not informed about the questions asked by one of the correspondent banks in May 2015 nor about the other correspondent bank having declined to clear USD transactions out of the Non-Resident Portfolio in July 2015, which led to a termination of the correspondent banking relationship with the Estonian branch.

#### 9.4.22 *Termination of the Non-Resident Portfolio, 2015-2016*

In the middle of 2015, the approach to the run-off of the Non-Resident Portfolio was changed. For example, in a local semi-annual compliance report covering the period March to August 2015, it was written that “by August 2015 there has been closed the accounts of approx 700 customers (~ 25 % of all non-resident customers in the International Banking Division), there is an estimation that by October 2015 approximately 2100 customer accounts shall be closed (~ 77% of all non-resident customers in the International Banking Division) and the closing of accounts will thereafter continue”.

At the same time, on 17 August 2015, Group Compliance & AML produced “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”. Five focus areas were defined: “1) test of existing customers including run-off of non-residents, 2) on boarding processes, 3) monitoring setup and MI review, 4) all areas

mentioned in the EFSA [Estonian FSA] precept and 5) review of other Baltic areas". Upon conclusion, Group Compliance & AML wrote that "Danske Bank Estonia has done a huge work in the AML area" and that "[m]ost notable gaps are to be found in the area of monitoring while the run-off seems well underway". According to an accompanying presentation, "[t]he run-off process is going according to plan, but the closing schedule for the coming months is quite challenging". It was noted that "[a]ccounts of 590 non-resident private persons and 1,591 non-resident companies were open as at 31 July 2015" and that "[i]t is estimated that around 120 non-resident private persons and around 70 non-resident companies will remain according to the new core customer criteria".

In its reply of 29 September 2015 to the Estonian FSA's precept, the Estonian branch compared the number of customers at the beginning of 2014 (3,743) with the number of customers end of July 2015 (2,169). It was also stated that "[d]uring the year 2015, the Branch has issued to 2261 such customers notices of terminating the business relationship with them" and that "[p]roviding that the business relationships are terminated by the deadlines specified in the notices, the serving of high-risk customers will be diminished to a significant extent by the end of 2015".

On 18 January 2016, a compliance officer with the Estonian branch had noted that "International & Private Banking Division was closed on 23.12.2015 and most of their customers relationships were ended".

At the meeting in the Board of Directors on 26 May 2016, a member of the Executive Board explained that "a thorough compliance clean-up had been performed by the Bank with respect to the former non-resident business in Estonia". Prior to the meeting, the Board of Directors had received a document of 18 May 2015 titled "Baltic banking overview and repositioning update", in which it was stated that "[t]he non-resident customer business was fully closed at the end of 2015, addressing a significant compliance and reputational risk for the Group".

#### 9.4.23 *Group Internal Audit in October 2015 and March 2016*

The Executive Board on 20 October 2015 and the Audit Committee on 26 October 2015 had before them Group Internal Audit's status report for Q3 2015. It gave an update following the audit report of 19 June 2015. It was stated that "3 of the Priority 1 Audit Issues from the audit of AML in Estonia, reported in June 2015, have been closed by BB [Business Banking] end August or start September" and that "[i]t has been agreed with BB that GIA [Group Internal Audit] will test the implementation January 2016 to allow the actions implemented to demonstrate during Q4 that they are sustainable". According to an appendix, the observations were "[c]losed by Business Unit but not yet verified by GIA". The same information was contained in Group Internal Audit's draft status report for Q4 2015 presented to the Executive Board for its meeting on 19 January 2016 and to the Audit Committee for its meeting on 26 January 2016.

In audit letter of 16 March 2016, Group Internal Audit listed the work performed on the audit observations issued during the AML audit in Estonia reported on 19 June



2015 (including four priority 1 issues, three priority 2 issues, and one open priority 1 issue from the audit report of 10 March 2014). It was noted that “[t]he Branch has decided to exit the high-risk non-resident customers. We have been informed that very few customers still on-board will leave the Branch by 15 April 2016” and that “[w]e reviewed the sample of new customers on-boarded by the Branch in the period 1 October 2015 - 31 January 2016, including new non-resident customers and resident corporate customers. Following inspection of cases on a sample basis we are of the opinion that the Branch has improved the on-boarding process appropriately”. In the conclusion, Group Internal Audit confirmed the closure of all audit observations issued as part of the audit report of 19 June 2015. The Executive Board and the Audit Committee were informed through Group Internal Audit’s draft status report for Q1 2016 presented for meetings on 19 April 2016 and 26 April 2016, respectively, and information was also included in the long-form audit report dated 31 January 2017.

## 9.5 Investigation

The fourth and last phase concerns investigation into the Non-Resident Portfolio undertaken in 2017.



### 9.5.1 *Media coverage of the Volontè case in June 2016 and January 2017*

In June 2016, there had been news reports about a former Italian member of the Parliamentary Assembly of the Council of Europe, Luca Volontè, allegedly taking EUR 2.4 million in bribe from Azerbaijani officials in exchange for orchestrating in 2013 the defeat of a resolution on political prisoners in Azerbaijan. According to the news reports, there had been eighteen transfers on behalf of UK incorporated companies via the Estonian branch, involving four customers at the branch. These news reports, which came out of Azerbaijan, did not give rise to action within the Estonian branch, and we cannot see that they were noticed at Group level at the time. On 27 January 2017 and the following days, news reports, also in Estonia, informed that the public prosecutor in Milan had initiated a criminal case against Luca Volontè. This was then passed on to Group, including Group Compliance & AML and Group Legal and, subsequently, two members of the Executive Board.

Around this time, an informal task force involving Group Compliance & AML, Group Legal and Group Communications & Relations was established, and the task force kept the bank’s CEO updated.

### 9.5.2 *“Russian Laundromat” and other news stories in March 2017*

The term “Russian Laundromat” had been coined in August 2014 by the Organized Crime and Corruption Reporting Project (“OCCRP”), an NGO, when first reporting on this alleged money laundering scheme. News reports back in 2014 had not been noted by Danske Bank. Three years later, on 20 March 2017, the OCCRP, together with a journalist network, which in Denmark included Berlingske, reported on the scheme. This

was again based on new leaks, including banking records for the two main banks believed to be involved in the scheme. Danske Bank was informed of the upcoming news reports in advance, and information was shared with the above-mentioned task force and the CEO. On 15 March 2017, the CEO informed the Chairman of the Board, and on 16 March 2017 the full Board of Directors was informed. According to an internal memo produced on 17 March 2017, “[a]uthorities in Moldova are currently investigating allegations that 20 billion USD have been laundered and transferred from Russia into the European financial system through a complex scheme, known as the “Russian Laundromat” between 2011 and 2014”. It was further noted that Danske Bank featured prominently with 1,567 transactions and a flow of approximately USD 1.2 billion.

According to minutes of the Baltic Executive Committee on 21 March 2017, the branch expressed that “[o]ur position in this case is that we acknowledge that our AML controls were insufficient in the period of 2011-2014, when the transactions took place”. The “Russian Laundromat” was discussed at the meeting in the Executive Board on 28 March 2017. According to Group Legal, “at this point, no final conclusions could be drawn as data and information on the case were still being gathered”, but “the Estonian branch seemed to have been misused for money laundering between 2011 and 2014”.

On 24 March 2017, Berlingske contacted Group about the Estonian branch’s link to allegations made by Hermitage Capital Management regarding a US civil forfeiture complaint that described payments from customers with the Estonian branch.

On 29 March 2017, the Estonian branch passed on information to Group about interest locally in matters pertaining to Azerbaijan, including dialogue with the Estonian FIU. At the same time, the Estonian branch prepared a memorandum on the “Volonte and Azerbaijan case”, which on 6 April 2017 was shared with Group, including Group Legal and Group Compliance & AML. The memorandum contained an analysis of the four companies which had been mentioned in news reports. It was stated that they all had the same registered ultimate beneficial owner from Azerbaijan and that they had made transactions through the Estonian branch for a total of EUR 3 billion.

### 9.5.3 *Contact with the Danish FSA in April 2017*

On 21 March 2017, Danske Bank was asked by the Danish FSA to provide further information regarding the Estonian branch in relation to the “Russian Laundromat”. At a meeting on 27 March 2017, Danske Bank gave a presentation on the “Russian Laundromat” and also the Non-Resident Portfolio. On 6 April 2017, the bank shared a timeline of events from 2011 to 2015 together with 121 exhibits with the Danish FSA. According to the cover letter of 6 April 2017, the timeline provided information about “Danske Bank Estonia branch’s AML or KYC procedures for non-resident customers”. It was explained that “a subjective assessment has been carried out to determine which materials to include as relevant” and that “the bank will provide further documentation upon Finanstilsynet’s request to the extent such documentation is available”.

#### 9.5.4 *Reporting to Group management in April 2017*

At the meeting in the Executive Board on 18 April 2017, there were continued discussions about the "Russian Laundromat". Reporting to the Executive Board mentioned "the Estonian case". Group Compliance & AML wrote that "[i]n countries where the bank operates on separate IT systems not connected to the central IT platform, this [that is, strong AML controls] becomes a challenge, as development of transaction monitoring scenarios needs to be done locally".

For its meeting on 27 April 2017, the Board of Directors was updated on "the Estonian AML case", including "next steps" in the case.

#### 9.5.5 *Examination of bond loop, April-August 2017*

Between April and August 2017, the task force established by Danske Bank examined the past scheme in the Estonian branch involving customers in the Non-Resident Portfolio, not least the so-called intermediaries. The scheme was referred to as the "solution" or the "bond loop". No conclusions were reached at this time.

#### 9.5.6 *Root-cause analysis by Promontory, March-April and June-August 2017*

On 20 March 2017, the same day as media coverage on the "Russian Laundromat" broke, Group Compliance & AML informed a member of the Executive Board that it had realised that a small number of the Estonian customers accounted for a significant part of the volume of transactions. This led to the engagement of Promontory, who was, following discussions between Group Compliance & AML and the CEO, tasked with conducting a "root-cause analysis" through a Danish law firm (not Bruun & Hjejle).

The results of the root-cause analysis were presented by Promontory to Group Compliance & AML on 7 June 2017 and to the CEO on 9 June 2017. The same presentation was shared with the Executive Board for its meeting on 20 June 2017. The Board of Directors was presented with a shorter version of Promontory's report at its meeting on 31 August 2017.

In a press release of 21 September 2017, Danske Bank informed the public about the findings by Promontory concluding that "several major deficiencies led to the branch not being sufficiently effective in preventing it from potentially being used for money laundering in the period from 2007 to 2015".

#### 9.5.7 *French proceedings, June and October 2017*

On 19 June 2017, Danske Bank was informed by a French investigating judge that he envisaged to place the bank under formal investigation, and the bank later appeared before the High Court of Paris. This was in connection with allegations made by Hermitage Capital Management. On 11 October 2017, Danske Bank was placed under investigation in France in relation to suspicions of money laundering concerning transactions carried out by customers of Danske Bank Estonia from 2008 to 2011. However, in January 2018, the status of Danske Bank was changed to that of an "assisted witness", whereby Danske Bank was no longer under formal investigation.

#### 9.5.8 *“Azerbaijani laundromat”, September 2017*

The minutes of the meeting in the Board of Directors on 31 August 2017 recorded that, when going through the presentation on Promontory’s root-cause analysis, Group Compliance & AML informed the Board of Directors that “a new set of stories relating to the Azerbaijan part of the portfolio was expected to hit the media next week”. The Executive Board had received similar information at its meeting on 29 August 2017.

This scheme was named the “Azerbaijani Laundromat” by the media and was subject to global media attention in the beginning of September 2017. The scheme was, similar to the “Russian Laundromat”, uncovered by the joint investigation, including both the OCCRP and Berlingske, through leaked banking records. The scheme was active in the period from 2012 through to 2014. Allegedly, USD 2.9 billion were laundered by four shell companies which were customers of Danske Bank’s Estonian branch and registered in the UK.

#### 9.5.9 *Communication with the Danish FSA in the second half of 2017*

On 25 September 2017, following renewed interest after media coverage of the “Azerbaijani Laundromat”, the Danish FSA presented Danske Bank with a number of questions. The questions regarded, among other things, Danske Bank’s lack of notification to the Danish FSA, the transactions initiated from Azerbaijan, Danske Bank’s review of the activities and general risk managing. In its reply of 16 October 2017, the bank provided an overview of the course of events throughout 2017, previous correspondence with not least the Estonian FSA and the expanded investigation. The bank also shared Promontory’s presentation from June 2017. The reply contained a section titled “[t]he bank is requested to account for cases currently known or under suspicion that may involve money laundering or other incriminating activities”. Here, the reply mentioned, among other things, “The Russian Laundromat Case and Azerbaijan Matter”. The bond loop was not mentioned. As for the “Azerbaijan Matter”, or the “Azerbaijani Laundromat”, the Danish FSA had not previously been informed. In the reply, it was stated that “[w]e recognise that we should have informed the DFSA of the information in relation to the Azerbaijan Matter earlier, in order to maintain a high degree of transparency and ensure sufficient time for the DFSA to react and respond”.

In early November 2017, Danske Bank was made aware that the bond loop, not least involving the so-called intermediaries, would become subject to media coverage. At this point in time, the memorandum prepared by the Finnish law firm was shared with the CEO and with the Chairman of the Board of Directors and, subsequently, with the Danish FSA, which had not previously been informed about the bond loop.

## 10. Individual accountability

### 10.1 Introduction

In legal terminology, accountability translates into breach of or non-compliance with legal obligations and responsibilities. Our assessments of individual accountability are legal assessments under Danish law and, where relevant, also Estonian law. In consequence, each assessment is based on legal rules and standards and, more specifically, the legal obligations and responsibilities to which the individual in question was subject at the relevant time. Legal assessments in an investigation report are neither judgments rendered by a court of law nor decisions from a financial supervisory authority. Also, they are to be distinguished from discretionary decisions by management, which might involve other and possibly also more elements than is the case for legal assessments.

Generally, employment contracts and employment law form the lowest threshold for accountability in law, and we have used employment contracts and employment law as the basis for our assessment (with the exception of members of the Board of Directors). When in our assessments we find that an employee, including a member of the Executive Board, has not complied with legal obligations, this should be understood, unless otherwise stated, as a reference to the employee's obligations and responsibilities forming part of his or her employment with Danske Bank at the relevant time. Whether such non-compliance may result in employment-related sanctions depends on the specific circumstances of the non-compliance and other relevant circumstances, including any aggravating or mitigating circumstances as well as possible acquiescence.

Being a member of the Board of Directors does not constitute an employer/employee relationship. Board members' duties are laid down in statutory law and the internal procedures of the financial institution.

With regard to both the Board of Directors and the Executive Board, we note that in its decision of 3 May 2018 concerning this matter, the Danish FSA wrote (translation):

*"The Board of Directors and the Executive Board have stated that when assessing the Board of Directors' and the Executive Board's work and the volume of written material that the members of the two boards receive, it should be taken into consideration that the branch in Estonia accounts for only a small part of the total business and total risks. They have argued that because of this, management must to a large degree rely on the defence systems in place to function. When information about the business and the effectiveness of defence systems of a worrying nature comes to light, management attention must, however, increase."*

### 10.2 Overview

We have found that a number of former and current employees in leading positions have not complied with their legal obligations under their employment terms and contracts with Danske Bank.

It is clear that AML procedures at the Estonian branch had been manifestly insufficient and inadequate, including, inter alia, lack of identification of “controlling interests” of customers, lack of screening of customers, and lack of independence and possible internal collusion in the Estonian branch. The main responsibility for these shortcomings lies with the first line of defence at the Estonian branch. Accordingly, we have found numerous breaches of legal obligations in the Estonian branch. Elsewhere in Group, we have found breaches of legal obligations with respect to a number of more specific matters as listed below.

In 2007, 2012 and 2013, the Danish FSA requested information from Group about the Non-Resident Portfolio at the Estonian branch. In response, Group provided comforting information also including AML procedures at the Estonian branch. The reply from 2007 in response to information from the Russian Central Bank gives rise to particular criticism as, in its reply in 2007, Danske Bank stated that a recent inspection by the Estonian FSA had not given rise to “any material observations”. It would have been more correct to conclude the opposite. Danske Bank’s replies to the Danish FSA in 2012 and 2013 were based on information from branch management, which in 2014 proved to be incorrect. Both in 2012 and 2013, Group did not question or verify whether the information provided by branch was in fact correct, even though it was clear that the Estonian FSA had its concerns.

In 2011, 2012 and 2013, Group Internal Audit produced positive audit reports on the AML area at the Estonian branch. At the same time, and only partly with reference to the audit reports, different departments at Group level forwarded positive statements regarding the Non-Resident Portfolio. As a whole, there was a complete break-down in all three lines of defence. The lack of involvement from Group meant that the Estonian branch was left on its own, and that Group did not have sufficient oversight of the activities at the branch. This was further impaired by the lack of migration of the Baltics branches onto the Group IT platform.

Following the whistleblower report of 27 December 2013 and Group Internal Audit’s audit letters of 13 January and 7 February 2014, it was clear that actions were needed, and certain initiatives were taken through the working group set up by Group. Many of the action points defined by the working group were sound, but actions taken turned out to be insufficient with a number of processes not brought to an end.

For one thing, the whistleblower allegations were not properly investigated, concluded and reported upon.

Moreover, the Danish FSA was not informed until January 2015 about the fact that information provided to the Danish FSA in 2012 and 2013 (leaving aside 2007) had proven to be incorrect.

Branch management had provided information about “resilient” AML procedures prior to 2014, which turned out to be flatly wrong. Yet, in 2014 no steps were taken against the branch management.

The customer review within the Estonian branch in 2014 was organised in an inadequate and inefficient manner with insufficient oversight from Group, and it did not include the look-back into past customer activity that the situation called for.

The Non-Resident Portfolio was terminated only at the end of 2015 (with the last accounts being closed in early 2016), and, for the first half of 2015, the Estonian branch actually planned to maintain the majority of the customers in the Non-Resident Portfolio.

We note that the presence of a severe AML risk had been acknowledged by one department at Group level, but no appropriate steps were taken to assess and mitigate the risk. We also note that, irrespective of a legal obligation to look back into past customers and their transactions and trading activities, this had neither been explored by Group nor advised upon.

In early 2017, Group was gathering information following media reports on the “Russian Laundromat”, but no reporting was made until later in 2017 on what was subsequently referred to as the “Azerbaijani Laundromat” nor on the bond loop.

The above findings have given rise to criticism of Baltic Banking, Group Legal, Group Compliance & AML, Group Internal Audit, Business Banking and International Banking (established in April 2014). Not all assessments contain criticism, and, for those which do, the criticism varies in degree. At the same time, we note that the individual assessments point out mitigating factors where any such have been found.

We are not in a position to share individual assessments unless requested by the individual in question. We have been requested by the Board of Directors, the Chairman and the CEO to share their assessments.

### 10.3 Board of Directors

The Board of Directors is entrusted with the overall and strategic management of Danske Bank. The Board of Directors must ensure proper governance, which includes determining the bank’s risk profile, laying down policies for how the bank must control its significant activities and risks related thereto and assessing whether the Executive Board performs its duties appropriately, pursuant to sections 70 and 71 of the Financial Business Act and the Executive Order on Management and Control of Banks, etc. Further, the Board of Directors and its Audit Committee have governance and supervisory duties, which include compliance and AML. These duties are also reflected in the Rules of Procedure of Danske Bank’s Board of Directors, which include responsibility for monitoring compliance and risk management. The Board of Directors is dependent on adequate reporting from the Executive Board and others, including Group Compliance & AML and Group Internal Audit, although obviously the Board of Directors may and sometimes must request information. The Board of Directors is expected to scrutinise reporting and to challenge, where appropriate.

Our assessment of the Board of Directors is based on all information available to us taken as a whole.

At its meeting on 7 August 2007, the Board of Directors was informed about the Russian Central Bank's letter of 8 June 2007 to the Danish FSA, which had been forwarded to the bank for comments. According to our information, the Board of Directors did not subsequently receive any update, and the Board of Directors was not given a copy of the bank's reply of 27 August 2007 to the Danish FSA. This took place eleven years ago and must be assessed on the basis of standards then applicable. We do not find any basis for criticising the 2007 Board of Directors for leaving it with the Executive Board and Group Internal Audit to come back if there were any negative findings.

We cannot see that the Board of Directors received information about the inspection reports from the Estonian FSA from 2007 and 2009 or the terminations of correspondent banking relationships with the Estonian branch in 2013 and 2015.

In 2011 to 2013, the Board of Directors received scattered information about the Estonian branch, including, through a presentation given at its meeting on 5 May 2011, information about high profitability, including that the return on equity ("ROE") before loan losses for the Estonian branch had increased from 45 % in 2007 to 58 % in 2010. In 2012, the Board of Directors received information, through Group Compliance & AML's report for 2012, about the Danish FSA's inquiry into the Estonian branch and about the bank's reply in which it was stated that "the due diligence and monitoring procedures are adjusted to mitigate the risk involved". In 2013, the Board of Directors was, through Group Compliance & AML's report on AML for 2013, informed about the Danish FSA's renewed inquiry into the Estonian branch, including that it was stated in the report that "the CDD [Customer Due Diligence] and monitoring procedures have been prepared to mitigate the risk involved" and that "[t]he Estonian FSA has confirmed that the CDD and monitoring procedures are appropriate". Group Compliance & AML gave the Board of Directors the same comfort as it had given the Danish FSA. There were also pieces of information that were not comforting, in particular about lack of monitoring of incoming payments, but Group Compliance & AML was not disturbed. Having regard to the full picture before the Board of Directors and the Audit Committee and also to other AML matters on the agenda, we find no basis for criticism of the Board of Directors in relation to events before 2014.

In 2014, the Board of Directors and notably the Audit Committee were presented with a completely different picture of AML risks in the Estonian branch. It was made clear that previous reporting had been insufficient and incorrect.

The whistleblower reports were not shared with the Board of Directors, but information about the existence of a whistleblower from within the Estonian branch was shared with the Audit Committee and the Board of Directors at meetings on 28 April



and 29 April 2014, respectively. At its meeting on 24 October 2014, the Audit Committee had before it Group Internal Audit's status report for Q3 2014, according to which "the allegations made by the whistleblower have all been investigated".

The Audit Committee received some information about the external consultancy report from April 2014 through reporting from Group Compliance & AML. For its meeting on 28 April 2014, the Audit Committee had received a brief summary in the semi-annual AML report, according to which the Estonian branch did "not have as many low impact issues as some of the peers", but that "the critical gaps ... are greater than is seen in other banks in the region". In the next AML report submitted to the Audit Committee for its meeting on 24 October 2014, it was noted in relation to the external consultancy report that "[t]he recommendations are expected to be closed before the end of 2014".

As to the customer review in the Estonian branch initiated in April 2014, the Audit Committee was briefly informed by Group Internal Audit at its meeting on 21 July 2014. Group Internal Audit also made the Audit Committee aware that it was following the review with a view to securing quality.

The Board of Directors and the Audit Committee did not receive the 2014 inspection report from the Estonian FSA, but some information was provided. At its meeting on 24 October 2014, the Audit Committee was briefly informed about the draft inspection report received in September 2014, as it was mentioned in both the FSA Report for Q3 2014 from Group Legal and the annual AML report from Group Compliance & AML. According to Group Legal's FSA report for Q3 2014, the observations had been "thoroughly reviewed by the local compliance and legal teams in Estonia as well as by Group Legal together with external Estonian legal counsel". Also, Group Compliance & AML wrote in its annual Group AML report for 2014 that "[t]he inspection is based on the facts as per 31 December 2013 and therefore do not take into account the work performed in 2014". At its meeting on 23 April 2015, the Audit Committee had before it the semi-annual report from Group Compliance & AML, according to which "[t]he investigation has led to significant criticism from the Estonian FSA", and there was mentioning of "several mitigating activities, including a significant reduction in the non-resident customer portfolio".

In sum, it is clear that problems were reported to the Board of Directors and the Audit Committee, and it is equally clear that such reporting was accompanied by assurances that problems were being dealt with and mitigation was ongoing. This information came from within the bank where the severity of the situation and the risks facing the bank had not been comprehended, and this affected the reporting. In hindsight, the question may be raised whether the Board of Directors or the Audit Committee could reasonably have done more. This, however, would not, in our view, form sufficient basis for legal criticism when taking into account the information available combined with the nature and extent of the responsibilities of the Board of Directors.

The Baltic banking strategy process in the second half of 2014 stands out as an important occasion for the Board of Directors to discuss the Baltic banking activities. The discussions concerned fundamental business issues and were not limited to the Non-Resident Portfolio. The Non-Resident Portfolio made a significant contribution to profits in the Baltics and, although this accounted only for an insignificant part of Danske Bank's earnings, one could have expected this to be of note in a business discussion confined to the Baltics. On the other hand, the discussions were premised on what was referred to as "limited future appetite for non-resident business", and there was no suggestion throughout the strategy process that the Non-Resident Portfolio should stay with the bank. There was a suggestion by management to sell the portfolio, rather than just terminating it, and two specific potential buyers were mentioned; something that confirms that the severity of the situation had not been realised. During the eight months the strategy process lasted, the bank continued reviewing and reducing the Non-Resident Portfolio through implementation of a new branch policy.

Leaving aside supervision, we have considered whether Danske Bank's governance model suffered from defects which constitute a breach of legal obligations on the part of the Board of Directors, also having regard to the Danish FSA's decisions of 15 March 2016 and 3 May 2018. As set out in the Financial Business Act, it is for the Board of Directors to ensure that there is, inter alia, a clear organisational structure with a well-defined, transparent and consistent division of responsibilities, effective procedures to identify, manage, monitor and report risks, and sufficient resources. We find that, in general terms, the responsibilities have been adequately reflected in the Rules of Procedure of the Board of Directors and the Rules of Procedure of the Executive Board (as approved by the Board of Directors). Further, we find that Danske Bank's failings in connection with the Non-Resident Portfolio cannot be attributed to failings in governance at the level of the Board of Directors.

In conclusion, we find that neither the Board of Directors nor the Audit Committee breached any legal obligations due to actions or inactions relating to the Estonian branch. In light of this, we have not found it necessary to make any separate assessments of the members of the Board of Directors other than the Chairman. We further note that we have not become aware of facts which raise questions as to the fitness and propriety of members of Danske Bank's Board of Directors.

#### 10.4 Chairman of the Board of Directors

Given the special role of the Chairman of the Board of Directors, we have separately assessed Ole Andersen, who joined the Board of Directors on 23 March 2010 and was appointed Chairman in December 2011.

Our assessment of Ole Andersen is based on all information available to us taken as a whole.

On 18 and 19 August 2014, Ole Andersen visited the Baltics together with International Banking. They paid visits to both the Lithuanian and the Estonian branches. A presentation of 12 slides prepared by the Estonian branch included a slide providing information about the Non-Resident Portfolio. While the portfolio was described as “highly profitable”, there was no mentioning of AML issues.

Ole Andersen was informed by Thomas Borgen of the “Russian Laundromat” on 15 March 2017, and the Board of Directors was informed on 16 March 2017. According to the bank’s reply to the Danish FSA on 16 October 2017, Ole Andersen was subsequently updated by Thomas Borgen on a weekly basis.

On 25 September 2017, the Danish FSA requested information in connection with the media coverage on the “Azerbaijani Laundromat”. Previously, on 6 April 2017, the Danish FSA had received a timeline from Danske Bank together with a large number of exhibits. The bank replied on 16 October 2017. Ole Andersen had provided comments on a final draft of the reply.

In early November 2017, Ole Andersen became aware that the Board of Directors and the Executive Board had not been informed about the fact that the bank had engaged a Finnish law firm or about the underlying concern in respect of a past scheme in the Estonian branch involving non-resident customers (intermediaries), referred to as the bond loop. Ole Andersen took the initiative to call for an extraordinary meeting of the Audit Committee on 12 November 2017, at which he expressed criticism. At the same meeting, it was decided to initiate the planning of the investigation later referred to as the Accountability Investigation.

In conclusion, and taking into account what has also been stated in our assessment of the Board of Directors, we find that Ole Andersen has not breached his legal obligations as Chairman of Danske Bank’s Board of Directors. Nor have we become aware of facts which raise questions as to his fitness and propriety as Chairman.

#### 10.5 Chief Executive Officer

In September 2009, Thomas Borgen joined Danske Bank’s Executive Board. His areas of responsibility included the Baltic banking activities until June 2012. From June 2012 to September 2013, Thomas Borgen was Head of Corporates & Institutions. On 16 September 2013, Thomas Borgen was appointed CEO, which includes supervisory obligations over day-to-day management at the bank. Each member of the Executive Board is responsible for his or her areas of responsibility, subject to the CEO’s oversight. According to its Rules of Procedure (October 2013 version), the Executive Board shall ensure “that the organizational structure ... is robust and transparent and has effective lines of communication and reporting” and “that Danske Bank complies with all applicable governance requirements and that Danske Bank satisfies all local governance standards, including relevant reporting requirements”. Also, “[t]he Executive Board is responsible for ensuring that Danske Bank has adequate procedures ensuring compliance with applicable anti-money laundering and similar requirements”.

Our assessment of Thomas Borgen is based on all information available to us taken as a whole.

From September 2009 until June 2012, Thomas Borgen had the ultimate executive responsibility for the Estonian branch. We do not have as much information from this period as for later periods. According to an email from February 2010 between other employees with the bank, Thomas Borgen took an interest in the Non-Resident Portfolio and its profitability. According to the email, Thomas Borgen had pointed to the possibility of expanding slowly, but it had also been clear that such expansion should not be at the cost of AML.

In March 2010, concern was raised at a meeting in the Executive Board about the many Russian transactions to which Thomas Borgen said that he had not (translation) “come across anything that could give rise to concern”. We do not have information about Thomas Borgen’s basis for this statement. At the meeting of the Executive Board on 21 September 2010, Thomas Borgen himself brought up the Non-Resident Portfolio again. According to the minutes, other relevant employees replied to Thomas Borgen that they were “comfortable with the situation in Estonia with substantial Russian deposits”.

From September 2009 until June 2012, when ultimate executive responsibility for the Estonian branch was transferred to the Head of Business Banking, discussions at Group level involving Thomas Borgen included both the profitability of the Non-Resident Portfolio and the importance of AML. In this period, there were no red flags shared with Thomas Borgen, and we do not find that Thomas Borgen breached his legal obligations as member of the Executive Board with ultimate responsibility for the Estonian branch.

When Thomas Borgen was appointed CEO, Danske Bank was about to encounter a complex challenge for which it was not sufficiently prepared and staffed, namely the manifestly insufficient and inadequate AML failings surrounding the Estonian branch. We find that there was little Thomas Borgen could have done during his early tenure as CEO to change the bank’s readiness in any way that could have impacted the situation.

In October 2013, another member of the Executive Board provided information about the business review of the Non-Resident Portfolio and said that “the proportion of business needed to be reviewed and potentially reduced”. Thomas Borgen referred to “the need for a middle ground”. Thomas Borgen has explained that he does not recall which “middle ground” he was referring to, and we have found no further information about this. The business review was not concluded before it was overtaken by events arising out of the whistleblower report in late December 2013 and the subsequent findings made by Group Internal Audit. On 5 February 2014, following Group Internal Au-

dit's initial findings, Thomas Borgen recommended an immediate stop of all new business and a controlled close-down of existing transactions. In April 2014, Thomas Borgen asked for an AML action plan for the Baltics, which was later produced and implemented.

It is in line with the division of responsibilities that, as CEO, Thomas Borgen was only to a limited extent directly involved in investigations and discussions about the handling of the whistleblower and the Non-Resident Portfolio. The information provided to Thomas Borgen suggested that Business Banking was gaining control of the Non-Resident Portfolio and that the risks were handled appropriately.

While, in the second half of 2014, the Baltic banking strategy process was ongoing in the Board of Directors, the Executive Board was aware that the process of exiting non-resident business in the Estonian branch continued in accordance with a new policy for serving non-resident customers. Moreover, the whole Baltic banking strategy process was premised on what was referred to as "limited future appetite for non-resident business", and there was no suggestion throughout the strategy process that the Non-Resident Portfolio should stay with the bank. At the meeting of the Board of Directors on 26 June 2014, Thomas Borgen recommended not "to speed up an exit strategy as this might significantly impact any sales price". Context suggests that this was related to the Baltic banking activities in general.

Information sharing with the Board of Directors forms a separate issue of particular interest to the CEO. We have reviewed a number of incidents without finding basis for concluding that insufficient information was shared due to the Board of Directors' conduct. While it is well-documented what the Board of Directors received in written form, we have found that minutes of meetings in the Board of Directors and also the Executive Board do not provide sufficient basis for concluding what additional information was actually shared orally. An incident that stands out is the alarming draft conclusions from Group Internal Audit, which were shared with Thomas Borgen on 5 February 2014. These were not shared verbatim with the Board of Directors. We note that in time for meetings of the Audit Committee on 28 April 2014 and of the Board of Directors on 29 April 2014, Group Internal Audit itself shared a rather detailed written summary of findings. Group Internal Audit reported directly to the Board of Directors and was generally in the best position to assess the relevancy of its own findings.

In our view, Thomas Borgen could have taken a more active role in setting the overall standard and direction by making sure that relevant issues were thoroughly debated, that investigation results were properly documented, that presentations and materials were adequately reflected in minutes, etc. To a large extent, a CEO is entitled to assume that those reporting to him have proper basis for their reporting, and also that they direct him to matters for his attention.

Taken as a whole and for the reasons stated above, we find that Thomas Borgen did not breach the legal obligations forming part of his employment with the bank as CEO from September 2013 until 2017.

We note that when, in 2017, critical information about the Non-Resident Portfolio was made subject to public scrutiny, Thomas Borgen as CEO assumed a leading role. Thomas Borgen was in regular contact with Group Compliance & AML and the internal task force formed in relation to the media reports concerning the Estonian branch. There is little written material about what information Thomas Borgen received from the internal task force reporting directly to him. Ultimately, Thomas Borgen was instrumental in the decision to initiate the full investigations into the Estonian branch and the involvement of people at Group level. In conclusion, we find that Thomas Borgen did not breach the legal obligations forming part of his employment with the bank as CEO in 2017 either.

We do not find that the facts summarised above raise questions as to Thomas Borgen's fitness and propriety as CEO of Danske Bank. In its decision of 3 May 2018, the Danish FSA stated that based on the information available it had not found sufficient basis for launching cases against members of the current management in accordance with the fitness and propriety regulation.

## 11. Definitions and abbreviations

Definition or abbreviation	Meaning
AML	Anti-Money Laundering
Bruun & Hjejle	Bruun & Hjejle Advokatpartnerselskab
CDD	Customer Due Diligence
CERTA	CERTA Intelligence & Security A/S
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CIS	Commonwealth of Independent States
Danske Bank	Danske Bank A/S
FIU	Financial Intelligence Unit
FSA	Financial Supervisory Authority
FX lines	Foreign exchange lines
Group	Danske Bank Group (as distinct from the Estonian branch)
Group Internal Audit	Danske Bank's third line of defence, until 2015 referred to as "Internal Audit"
KYC	Know Your Customer
LLP	Limited Liability Partnership
LP	Limited Partnership
MLTFPA	Money Laundering and Terrorist Financing Prevention Act
OCCRP	Organized Crime and Corruption Reporting Project (an NGO)
Palantir	Palantir Technologies Inc.
Promontory	Promontory Financial Group, LLC
Non-Resident Portfolio	The portfolio of non-resident customers in Danske Bank's Estonian branch
ROE	Return on Equity
SAR	Suspicious activity report
Third AML Directive	EU Directive 2005/60