

M E M O R A N D U M

The Danish Financial Supervisory Authority

16 March 2016

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Statement on inspection of Danske Bank (AML area)

Introduction

In 2015, the Danish Financial Supervisory Authority (the FSA) conducted an inspection to establish whether Danske Bank was in compliance with the current rules in the anti-money laundering (AML) area.

Risk assessment

Danske Bank is the largest financial institution in Denmark. Danske Bank Group conducts a large volume of financial business, including transactions in the fields of asset management, investment, pensions, mortgage finance, insurance, real estate brokerage and leasing. The bank has a substantial number of personal, business and institutional customers, and many have a complex group structure. A large number of customers reside or are domiciled outside Denmark, and a large number of physical customers are distance customers.

Transaction volumes, including cross-border funds transfers, are substantial. A great many customer transactions are made online or by means of cash handling in connection with account deposits, foreign exchange and funds transfers. The bank has a significant number of correspondent banks throughout the world. In keeping with international guidelines, cross-border correspondent bank relationships are considered to involve a high risk of money laundering and terrorism financing.

Against the background of the extent and nature of these activities, the FSA considers Danske Bank's inherent risk of being exploited for money laundering or terrorism financing purposes to be high compared with the risk to which the average Danish financial institution is exposed.

Conclusions of the inspection

Danske Bank has implemented a series of initiatives to strengthen its risk-mitigating measures in the AML area since the FSA's previous inspection in 2011-12. The FSA notes in particular that, with effect from October 2014, the bank introduced measures entailing a compulsory pre-check of obtained customer information by a special control unit. This means that new customers cannot carry out transactions until the control unit has approved the proof of identity etc.

Moreover, the bank has generally focused on combating money laundering and terrorism financing. The bank has regularly added resources to comply with the rules set out in the Danish Act on the Prevention of Money Laundering and Financing of Terrorism (the Danish Anti-Money Laundering Act or the Danish AML Act), and, especially since the FSA embarked on its inspection in February 2015, the bank has added resources to meet the requirements of special checks of correspondent banks.

However, the FSA finds that, at the time of the inspection, the bank still faced considerable challenges and, in a number of areas, could not be considered to be in compliance with the requirements of the Danish AML Act. The inspection has therefore resulted in material supervisory reactions in the following areas:

Risk assessment and risk management

The bank was ordered to make adequate assessments of the risk that the individual business units could be exploited for money laundering and terrorism financing purposes.

Know Your Customer (KYC) – business customers classified as high-risk customers

The bank was ordered to ensure adequate knowledge about business customers classified by the bank as customers involving a relatively high risk of money laundering or terrorism financing.

Correspondent banks outside the EU/EEA

In connection with the FSA's inspection in 2012, the bank was ordered to introduce satisfactory procedures with a view to ensuring compliance with the rules on cross-border correspondent bank relationships set out in the Danish AML Act.

The FSA also ordered the bank to ensure that, at the establishment of correspondent bank relationships and in the ongoing monitoring of such relationships, the bank obtains sufficient information about the purpose and expected business volume of the individual business relationship, the quality of the supervision of the institution by the local authority and details to ensure that the individual institution has sufficient and effective control procedures in place in the AML area. This information must form part of the bank's basis for deciding whether or not to approve the establishment of a business relationship with the individual institution. Furthermore, the bank is ordered to ensure adequate monitoring of transactions carried out on behalf of these correspondent banks.

The bank's branch in Estonia

The bank received a reprimand pursuant to the Danish Financial Business Act for having failed in time to identify material money laundering risks at its branch in Estonia and for having failed in time to introduce risk-mitigating measures in this respect. In theory, the supervision of the bank's foreign subsidiaries and branches in the AML area is the responsibility of the local authorities, but the FSA finds that circumstances identified at the branch constitute such a material reputational risk to the bank that the FSA is looking into the matter. The FSA notes that the bank has drawn up a plan to mitigate risks, which the bank is discussing with the Estonian financial supervisory authority.

Police report against Danske Bank

On the basis of the conclusions of the inspection, the FSA has reported the bank to the police for violation of the provisions on correspondent bank relationships of the Danish AML Act, including for non-compliance with the FSA's order issued in the area in 2012.