REPORT

Beyond Deutsche: U.S. Banks Also Implicated in Dubious Partnerships Abroad

Investigators say big banks in the United States and elsewhere too often fail to do due diligence on investors.

BY CRISTINA MAZA | FEBRUARY 24, 2020, 3:49 PM

Evgeny, a retiree from the Russian city of Vladimir, always believed that the U.S. financial system had integrity. In particular Citibank, to him, was no Deutsche Bank, a bank known for getting in bed with dubious investors. And that belief, Evgeny says, may have led to his financial ruin.

The 63-year-old worked for years as a manager in the construction industry, and eventually he became a member of Russia's minuscule middle class. He planned to retire in 2018 with roughly $100,000 in savings, the product of a lifetime of toil. For almost a decade he deposited his savings in one of Russia's largest and most reputable financial institutions: Promsvyazbank. Evgeny was one of the bank's top-tier clients, and he believed that he was on a path to financial stability for himself and his family.

Then one day in August 2017, he said, a bank manager approached him with an idea. She suggested that he trade his bank deposit for fixed-rate loan notes, and she pledged that the bank's owners, the billionaire brothers Alexei and Dmitry Ananyev, would personally guarantee the notes. The bank manager said the notes were as safe as a bank deposit, but they had the added benefit of earning a high interest rate, around 5.75 percent.

Evgeny (who requested that his last name be withheld) was skeptical, but he was reassured when the deal was presented as a safe bet involving U.S. financial institutions. Evgeny was shown a presentation that named Citibank as a trustee for the notes. The U.S. law firm White & Case drew up all of the legal documents. The involvement of reputable Western institutions gave the scheme a veneer of legitimacy. Convinced that the loan notes were safe, Evgeny jumped at the chance to make some extra money and exchanged his life savings for the fixed-rate notes.

A few months later, all of his money was gone.

Financial experts say the loan notes were part of a scheme to allow the bank's owners to milk Promsvyazbank as much as possible before it went under. The bank's owners allegedly used deposits from their top customers to shore up the failing bank as it was experiencing a liquidity crisis. But eventually Promsvyazbank became insolvent, and the Russian Central Bank took control of it in December 2017. By then, the Ananyev brothers had allegedly used U.S. financial institutions to funnel money out of Russia into various offshore accounts. They fled the country days before the bank collapsed, leaving Evgeny and dozens of other clients with worthless fixed-rate loan notes.

Experts say that the case is emblematic of the way foreign criminals use Western financial institutions to their advantage. In recent years, Germany's Deutsche Bank has been the headlines over a series of questionable dealings. Most famously, Deutsche helped Russian customers funnel their money out of the country by purchasing stocks in rubles and then immediately reselling them in dollars, British pounds, or euros, using a type of transaction known as mirror trading.

Deutsche Bank was charged with failing to do adequate background checks on the individuals carrying out the transactions and continued to earn fees from mirror trading until 2015. The bank has admitted publicly to failing to tackle money laundering adequately. Eventually, the U.S. Justice Department and regulators in Germany and the United Kingdom began investigating whether billions of dollars of potentially dubious origin were filtered out of Russia via Deutsche Bank. The company's then-CEOs were forced to resign, and the bank's Moscow branch was promptly shut down. The United States and the United Kingdom fined Deutsche Bank $630 million for failing to prevent money laundering. Last April, Congress subpoenaed Deutsche Bank for its records related to U.S. President Donald Trump and his family business. Analysts say the bank loaned billions of dollars to Trump when no other financial institution thought he was a safe investment.

But Deutsche Bank is only one example, investigators say. Western banks often lend legitimacy to corrupt schemes and enable the flow of illicit money by failing to do adequate background checks on their customers.

Even the financial crisis that ravaged U.S. and global markets in 2008 has been linked to a lack of due diligence and failure to manage risks, and some investigators and experts say the big banks still haven't learned their lesson. Operating on the assumption that a risky deal was better than no deal at all, government-sponsored enterprises began issuing mortgages to people with low credit ratings by devising complicated payment schemes that allowed them to access loans and inflate housing prices.

Citibank's involvement with the Ananyevs may have involved a similar logic.

"Citibank should have done comprehensive due diligence on the brothers and the personal guarantee, their net worth, any litigation. But often the due diligence level of these big banks on large transactions is lacking," L. Burke Files, the head of an international investigative firm specializing in asset recovery and anti-money laundering, told *Foreign Policy*.

"They have an obligation to do due diligence, but that doesn't mean they do it. Being deficient in your homework is much more common than you might realize," he added.

A Citibank spokesman declined to comment on this story despite multiple requests from *Foreign Policy*, and it is unclear whether or not the bank did due diligence on the Ananyev brothers before acting as a trustee.

In September 2019, a court in Moscow ordered that both brothers be arrested in absentia for embezzling around $1.6 billion. But by then it was too late. The brothers are believed to be living in Cyprus. Alexei and Dmitry Ananyev did not respond to requests for comment.

Evgeny, meanwhile, had to go back to work to support his family. He blames U.S. financial institutions for legitimizing a corrupt scheme and for ruining his retirement. “I assumed that Citibank would have done their due diligence, that they would know their customer before they acted as a trustee,” Evgeny told *Foreign Policy*. “That made me calm, and that was why I invested in these loan notes.”

Files argues that there are numerous cases of Western institutions pursuing financial deals instead of doing their due diligence. The Zurich-based investment bank Credit Suisse, for example, allegedly ignored the bank’s own managers when they warned against lending around $2 billion to Mozambique’s government, according to indictments. U.S. prosecutors now allege that the loans were used to enrich corrupt government officials, and the bank is embroiled in lawsuits. Credit Suisse has denied knowledge of the activities perpetrated by the three former employees. Blaming the scandal on three bad apples, a company representative said that Credit Suisse has since upgraded its compliance and control frameworks.

Denmark’s Danske Bank came under scrutiny similar to that of Deutsche for allowing hundreds of billions of euros from Russia to be laundered through its branch in Estonia. Internal correspondence viewed by *Foreign Policy* demonstrates that at least one bank official in charge of anti-money laundering efforts at Danske Bank did not know how to screen customers to ensure they hadn’t been blacklisted for suspicious activities.

Former U.S. Attorney Bud Cummins of Arkansas argues that the U.S. Treasury Department should take a more proactive role in ensuring that financial fraud isn’t perpetrated using U.S. banks, either to launder money or to lend legitimacy to corrupt schemes.

Cummins wrote a letter in January to the director of the Financial Crimes Enforcement Network, Kenneth Blanco, and to the director of the Office of Foreign Assets Control, Andrea Gacki, arguing that the Treasury Department should investigate the alleged global fraud perpetrated by the Ananyev brothers.

“The Ananyev Brothers allegedly lured investors to exchange their deposits in Promsvyaz Bank for fraudulent loan notes and then ran off with the assets in a complicated global scheme that included multiple shell companies in several countries and transactions that flowed through correspondent U.S. banks accounts at JPMorgan Chase Bank, Bank of New York Mellon, and Citibank N.A.,” the letter reads.

The Treasury Department did not respond to requests for comment. JPMorgan Chase Bank and Bank of New York Mellon also declined to comment.

“I am concerned that U.S. authorities may not be paying adequate attention to the case of the Ananyev brothers, who may have been abusing the U.S. financial system for decades,” Cummins told *Foreign Policy*.

“I recognize that movement of money through U.S. bank accounts is not a crime by itself. And, furthermore, that the ability to move large amounts of money in the world’s most valuable currency—the U.S. dollar—is a strength of the U.S. financial system. However, it can certainly be abused, especially when moving money to and from jurisdictions known for corruption, like Cyprus, and by people accused of embezzling billions, like the Ananyev brothers,” he added.

In his first interview with Western media since fleeing Russia, published by the *Guardian* earlier in February, Dmitry Ananyev argued that his bank was seized because the Russian government wanted to use it to lend to the Russian military.

Experts note that it is sometimes unclear how the Treasury Department responds when U.S. banks flag suspicious activities from emerging economies like Russia. “U.S. financial institutions have a responsibility to flag suspicious activity to the U.S. Treasury through the suspicious activity reporting regime. But they file around 55,000 a day collectively, so there’s a huge amount of data flowing into the U.S. Treasury,” said Nate Sibley, a research fellow for the Hudson Institute’s Kleptocracy Initiative. “Some of it is used, but a lot of it isn’t.”

Today, Evgeny’s lawyers are trying to assess Citibank’s role in the scheme. Files, the due diligence expert, argues that the company’s role as a trustee helped establish the authenticity of the loan notes, thus opening it up to potential liability. But that issue will likely be decided in court.

“We continue to investigate how Citibank initially became involved in the loan note venture with the brothers as well as what due diligence, if any, the banks carried out regarding their dealings with the brothers,” Vlad Lender, a lawyer representing several dozen of the aggrieved Promsvyazbank depositors, told *Foreign Policy*.

Back in Russia, the Promsvyazbank depositors are trying to piece their lives back together. Alexander, a 73-year-old retiree from Moscow, said he is struggling to support his family after losing over $400,000. “We had to cut back on spending,” said Alexander, who like Evgeny did not want his last name used. “I’m thankful that we’re not completely bankrupt and we still have something to eat.”

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