

Danish Financial Supervisory Authority

Århusgade 110

DK-2100 København Ø

Case no.: 21-003065

For the attention of Anne Fenger, Katrine Sauer and Ulla Brøns Petersen

Sent to: Ulla Brøns Petersen (UBP@FTNET.DK), Katrine Sauer (KASA@FTNET.DK) Anne Aarup Fenger (AAF@FTNET.DK), DABA supervisory contact (DABA-tilsynskontakt@FTNET.DK)

Contact: Rob De Ridder

Danske Bank A/S
Holmens Kanal 2-12
DK-1092 København K

Tel. +45 33 44 00 00
www.danskebank.com

20 September 2021

Estate cases – submission of claims

The Danish Financial Supervisory Authority (the "Danish FSA") has by letter of 9 September 2021 (case no. 21-003065) requested Danske Bank to answer seven additional questions related to Danske Bank's submission of claims in 700 decedent estate cases [dødsbosager].

In connection with answering the questions, Danske Bank would like to provide the Danish FSA with more background and information on the situation with the decedent estate cases.

In this letter we define, the submission of claims without prior recalculation, as "the Issue". In order to ease the reading of this letter, we have for each item added a parenthesis with the corresponding number of the question in the letter from the Danish FSA.

The questions are answered in a revised order with the intention to provide a better overview of the background and timeline of Danske Bank's work on the debt collection case in general and the decedent estate cases in particular.

I. Update on period for submission of the cases and number of cases

This section covers the Danish FSA's question:

[1] During which period were the 700 cases submitted to the probate court?

[2] A specification of the largest and the smallest claims proved as well as the average of all claims proved.

Danske Bank stated in the letter of 1 September 2021 that 700 decedent estate cases were handled in an insufficient process which was discovered on 19 August 2021. Since then Danske Bank has investigated the Issue further and the guiding estimated number of affected decedent estate cases is approx. 840 - since the Issue covers from 10 January 2020 - 26 August 2021 instead of from 1 February 2020.

Out of the approx. 840 cases, 72 open cases have been identified and a letter have been sent to the probate courts for withdrawal by 19 September 2021. All identified cases are mortgage cases booked in the PF system - meaning cases in which Realkredit Danmark has a personal claim ("personlig fordring") towards the customer, as Realkredit Danmark has not obtained full coverage of the outstanding debt in connection with a forced sale ("tvangsauktion") or sale of the customer's property. According to an outsourcing agreement between Realkredit Danmark and Danske Bank, Danske Bank is handling the debt collection on behalf of Realkredit Danmark.

Regarding the size of claims for the approx. 840 cases please see the table below, where Danske Bank's highest, lowest, average, and the median for the claims are outlined together with any received dividend. Danske Bank would like to emphasize that the submitted claims are not equivalent to the dividend Danske Bank receives nor the loss that other creditors and third parties may have suffered.

It is not given that Danske Bank will get partial or full cover in cases where we have submitted claims based on potentially incomplete data to the probate court. So while any potential

detriment to the third parties is the result of the submitted claim being based on incomplete data, the total impact is a fraction of the claim.

As the table shows, the majority of the claims in the decedent cases submitted to the probate court end with an appropriation to a beneficiary of all assets of a deceased's estate [boudlæg] and therefore no dividend to Danske Bank. Hence, in these instances there are no detriment to other parties in consequence of the bank's potentially incomplete claim.

Claim size and dividends in accordance to Danske Bank's current estimates as of 19 September 2021:

Claim size based on confirmed claims as of 19 September 2021:

	Submitted Claim	Received Dividend
Highest	DKK 11,100,296	DKK 0.00
Lowest	DKK 3,400	DKK 0.00
Average	DKK 309,200	DKK 10,200
Median	DKK 180,000	DKK 0.00

Dividends:

	Received Dividend
Highest received dividend	DKK 832,000
Lowest received dividend	DKK 79,00
Median of all dividends	DKK 0.00
Total received dividend	DKK 8,500,000

II. Background information regarding submission of claims in the approx. 840 decedent estate cases

This section covers Danish FSA's questions:

(7) An explanatory account of its decision to prove claims against 700 estates of deceased persons when the bank was – and continues to be – in the process of addressing the errors detected and the many derived consequences of the errors in the bank's debt collection systems.

(3) At the time of proving the respective claims in the 700 cases, did Danske Bank recalculate the individual claims?

When a customer pass away, Danske Bank notifies the probate court of any claims that we may have registered in our systems against the estate of the deceased customer.

Following two internal reports in May and June 2019 regarding errors in the debt collection systems, Danske Bank decided to implement the following in June 2019:

- No new debt collection case will be processed in Danske Bank's collection systems without a prior manual correction,

- No new cases are submitted before the courts without a prior manual calculation and implementation of 4-eyes control in these cases,
- Danske Bank does not close active cases i.e. cases already created in DCS/PF System before June 2019 e.g. in case a customer would like to perform an extraordinary repayment, without making a manual recalculation prior to receiving any payments from the customer.

For cases submitted to court, processes and measures to minimize the risk of over-collection, i.e. recalculation and correction if needed, were implemented before proceeding with these specific cases, and additional standard procedures were amended in order to minimize the risk of over-collection. Danske Bank established a validation control and implemented follow-up processes for claims to be processed in legal proceedings, including bankruptcy cases, debt relief cases, decedent estate cases, reconstruction cases and civil court cases, before these were sent to the court or administrator of the estate. This validation control was implemented as of 17 June 2019. The validation control entails a 4-eye review control meaning that recalculation of the debt was carried out by one team and the claim was reviewed by another team prior to submission to the probate court. By June 2019 the conducted recalculations were based on the knowledge we had regarding the root causes 1-4 at that time.

In addition to the validation control introduced to prevent new cases from being brought before court prior to a recalculation being conducted, Danske Bank decided on 17 December 2019 in relation to Debt Management's legal proceeding cases to withdraw all ongoing cases, which could not be recalculated and corrected before closure of the case by the court.

Regarding submission of claims in the approx. 840 decedent estate cases

Proforma statements are used to provide an overview of potential claims for the courts and estates handlers. In the event that calculations by the court or estate handler show that a dividend will be paid out, the Bank will then have the opportunity to submit an actual claim before the estate is closed by the court.

Proforma statements may be sent out without prior recalculation of the case. Based on the experience and outcome of previously submitted claims, it is assumed that the majority of the claims submitted to the probate court would end with an appropriation to a beneficiary of all assets of a deceased's estate [boudlæg] and therefore no dividend would be paid out to the bank, and recalculations before submitting proforma statements were therefore deemed irrelevant. For decedent estate cases it is further assumed, based on a non-formal general practice in handling of decedent estate cases, that in cases where dividend would be paid out, the bank would have the opportunity to recalculate and re-submit the claims within the 8 weeks' notice period [proklamafrist] as defined by law. Further in some cases additional documentation of the claim would be requested, leaving the bank with an opportunity to conduct a recalculation of the claim.

For PF decedent estate cases an operational team used a wrong letter template due to a misunderstanding when communicating with the courts and estate handlers. In the semi-automated process, a template for actual claims was used due to a mistake and hence a claim was sent instead of a proforma statement.

As explained above the bank may send out proforma statements based on data that has not been recalculated. The use of a wrong letter template resulted in claims being sent to the courts and estate handlers, with the actual claims, and that letter has been used as basis for calculation of dividend, but based on data that was not recalculated. The courts and estate handlers therefore handled the flawed data as actual claims and this was used as basis for claims which was inconsistent with the abovementioned decision by the bank's management to implement validation control and not submit uncorrected claims to the judicial system.

In our analysis of the Issue we have come to the conclusion that the mistake with the wrong letter template used is the root cause for the Issue in relation to the approx. 840 decedent estate cases. Further, we have concluded that the Issue is isolated to the specific letter type with impact on the validation control in relation PF decedent estate cases only - no other case types including bankruptcy cases, debt relief cases, (Non PF) decedent estate cases, reconstruction cases, civil court cases have been affected by this mistake.

When using the proper proforma template the bank deems that there is no risk of over-collection. The fact that an actual claim letter was submitted instead of a proforma statement had the consequence that the bank did not get an opportunity to submit a corrected claim prior to calculation of dividends by the courts and estate handlers, with the result that the processing of some of the decedent estates may have been finalized on incomplete information. See section I for more information about received dividends.

The conclusion so far is that this Issue was due to an unfortunate mistake as described above.

When the Issue was discovered on 19 August 2021, Danske Bank initiated a thorough investigation process that included an analysis of the extent of the Issue.

- An overview of which case types were impacted by this issue was established.
 - a. This led to immediate suspension of submission of claims in decedent estate cases related to the PF System until further notice.
 - b. This suspension was implemented by 26 August 2021 effective immediately, by informing all relevant leaders and employees of the Issue and that all processing of PF decedent estate cases were suspended.
 - c. There has been follow-up control to ensure, that the suspension is effective.
 - d. There will be no further processing and submission of decedent estate cases related to the PF System until a thorough analysis has been completed.
- An overview of the open decedent estate cases and closed decedent estate cases was established.
 - a. A process of withdrawal of all open cases was initiated. By 19 September 2021 letters have been sent to all probate courts informing about Danske Bank's decision to withdraw the claim.
 - b. The closed cases will be handled through our ongoing dialogue with the Danish Court administration (Domstolsstyrelsen),

In addition to the abovementioned analysis, Danske Bank has informed Realkredit Danmark about the Issue and the ongoing investigation.

Status as of 19 September 2021 is as follows:

- 72 cases are still being processed by the probate court and/or by administrator of the estate. For all 72 cases, the bank has by 19 September 2021 sent notification letters to the relevant probate court and/or administrator of estate stating that our claims are withdrawn.
- 767 cases are closed:
 - In 623 cases out of the 767 Danske Bank has not received any dividends and consequently, no loss has been suffered.
 - In 144 cases out of 767 Danske Bank has received dividends. The impacted cases (cases that have not been recalculated and if needed adjusted) will be included in our ongoing dialogue with the Danish Court Administration [Domstolsstyrelsen].

III. Approach to recalculation and applied measures

This section covers Danish FSA's questions:

(4) When was it discovered that the recalculations were not correct anyway?

(5) An explanation of how a previous correction may later turn out to be incorrect.

(6) When did the bank become aware that there may be additional interdependencies that affect the accuracy of the calculations? What has the bank done in this respect?

As mentioned above, none of the approx. 840 decedent estate cases were recalculated prior to submission of the claims to the probate court. The intention was to submit proforma statements and where relevant conduct recalculations prior to submission of the actual claim. However, due to the unfortunate mistake with the letter template this was not the case.

For the Program as whole and as stated in the bank's memo of 28 June 2021; as of 2 June 2021, we have for customers who were manually corrected, applied the same rules regarding an interest rate of 0% to all customers and pausing debt collection where the customers prior to entering late debt collection have repaid above 60% of the debt registered at the time of entering late debt collection. These customers were thought not to be affected, but a detailed analysis indicates that these customers might be at risk of being impacted by one or more of the Additional Issues. This action has been initiated to mitigate any further potential detrimental treatment until the Additional Issues have been fully analysed.

Moreover, legal proceedings will only take place where it would be to detriment of the customer or other stakeholders if Danske Bank does not submit a claim to the court.

Danske Bank regrets that these issues have not been discovered sooner, and Danske Bank regrets the consequences that these issues have had on impacted customers, and other involved parties. Danske Bank is fully committed to resolving the outstanding matters and to compensating affected customers as quickly as possible. Other third parties will be contacted in regards of establishing a solution in which the parties are compensated. Danske Bank will continue to take further initiatives to ensure that operational improvements are implemented on an ongoing basis and as soon as possible.

We are of course available should the Danish FSA have any additional questions or requests for information.

Yours faithfully

Danske Bank A/S

Frans Woelders
Group COO

Rob De Ridder
COO, LC&I